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## FILER

**MARSHALL FUNDS INC**

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MARSHALL FUNDS, INC.

TAX-FREE FUNDS
COMBINED PROSPECTUS

The shares offered in this prospectus represent interests in two diversified tax-free portfolios of the Marshall Funds, Inc. (the "Corporation"), an open-end management investment company (a mutual fund). The Corporation consists of the following twelve separate investment portfolios, each having a distinct investment objective and policies:

TAX-FREE FUNDS

- Marshall Short-Term Tax-Free Fund
- Marshall Intermediate Tax-Free Fund

EQUITY FUNDS

- Marshall Balanced Fund
- Marshall Equity Income Fund
- Marshall Value Equity Fund
- Marshall Stock Fund
- Marshall Mid-Cap Stock Fund

INCOME FUNDS

- Marshall Short-Term Income Fund
- Marshall Government Income Fund
- Marshall Intermediate Bond Fund

MONEY MARKET FUNDS

- Marshall Money Market Fund
  - Investment Shares
  - Trust Shares
- Marshall Tax-Free Money Market Fund

This Prospectus relates only to the Tax-Free Funds of the Corporation (individually referred to as the "Fund" or collectively as the "Funds") and contains the information you should read and know before you invest in any of the Funds. Keep this Prospectus for future reference.

THE SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF, OR ENDORSED OR GUARANTEED BY, MARSHALL & ILSLEY CORP. OR ANY OF ITS BANKING SUBSIDIARIES ("M&I CORP."), AND THE SHARES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

The Funds have also filed a combined Statement of Additional Information dated January 1, 1994, with the Securities and Exchange Commission. The information contained in the combined Statement of Additional Information is incorporated by reference into this Prospectus. You may request a copy of this combined Statement of Additional Information free of charge, obtain other information, or make inquiries about the Funds by writing or calling Marshall Funds Investor Services at 414-287-8500 or 1-800-236-8560, M&I Brokerage Services, Inc. or any M&I Bank.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Prospectus dated January 1, 1994

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SYNOPSIS

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The Corporation was incorporated under the laws of the State of Wisconsin on July 31, 1992. The Articles of Incorporation permit the Corporation to offer separate series of shares representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes.

This Prospectus relates only to the shares of the Tax-Free Funds of the Corporation. Each Tax-Free Fund is designed as a convenient means of accumulating an interest in a professionally managed, diversified portfolio investing primarily in high-grade municipal securities, the income from which is exempt from federal income tax.

As of the date of this Prospectus, shares are offered in the following two Tax-Free Funds:

- MARSHALL SHORT-TERM TAX-FREE FUND ("Short-Term Fund") -- seeks to provide current income which is exempt from federal income tax by investing in a professionally-managed, diversified portfolio of high-grade municipal securities that generate such income. Under normal circumstances, the Fund will have a dollar-weighted average portfolio maturity of up to three years.

- MARSHALL INTERMEDIATE TAX-FREE FUND ("Intermediate Fund") -- seeks to provide as high a level of income which is exempt from federal income tax, as is consistent with preservation of capital, by investing in a professionally-managed, diversified portfolio of high-grade municipal securities that generate such income. Under normal circumstances, the Fund will have a dollar-weighted average portfolio maturity of between three and ten years.

For information on how to purchase shares of either of these Funds, please refer to "Investing in the Funds." A minimum initial investment of $1,000 is required for each Fund. Subsequent investments must be in amounts of at least $50. See "Minimum Investment Required." Shares of the Funds are sold and redeemed at net asset value without a sales charge. Information on redeeming shares may be found under "Redeeming Shares." Additionally, information regarding the exchange privilege offered with respect to the Corporation may be found under "Exchange Privilege." M&I Investment Management Corp. is the investment adviser to the Funds.

The Funds may make certain investments and employ certain investment techniques that involve risks. These risks are described under "Portfolio Investments and Strategies" and "Investment Risks."

## SUMMARY OF FUND EXPENSES

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<TABLE>
<CAPTION>

SHAREHOLDER TRANSACTION EXPENSES

| <S> | SHORT-TERM FUND <C> | INTERMEDIATE FUND <C> |
|---|---|---|
| Maximum Sales Load Imposed on Purchases (as a percentage of offering price)........................................ | None | None |
| Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)........................................ | None | None |
| Deferred Sales Load (as a percentage of original purchase price or redemption proceeds, as applicable)...................... | None | None |
| Redemption Fee (as a percentage of amount redeemed, if applicable)........... | None | None |
| Exchange Fee............................................................. | None | None |
| ANNUAL FUND OPERATING EXPENSES* (As a percentage of projected average net assets) | | |
| Management Fee (after waiver)(1)............................................ | 0.00% | 0.06% |
| 12b-1 Fee................................................................... | None | None |
| Other Expenses (after waiver)(2)............................................ | 0.50% | 0.54% |
| Shareholder Servicing Fees......................................... 0.02% | | |
| Total Annual Fund Operating Expenses(3)................................. | 0.50% | 0.60% |

</TABLE>

(1) The estimated management fee has been reduced to reflect the anticipated voluntary waiver by the investment adviser. The adviser may terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.50% for the Short-Term Fund and 0.60% for the Intermediate Fund.

(2) Total Other Expenses are estimated to be 0.55% for the Short-Term Fund and 0.60% for the Intermediate Fund, absent the anticipated voluntary waivers by the custodian and administrator. The custodian and administrator may terminate these waivers at any time at their sole discretion.

(3) Total Annual Fund Operating Expenses are estimated to be 1.05% for the Short-Term Fund and 1.20% for the Intermediate Fund, absent the anticipated voluntary waivers described above in notes 1 and 2.

* Annual Fund Operating Expenses in this table are estimated based on average expenses expected to be incurred during the fiscal year ending August 31, 1994. During the course of this period, expenses may be more or less than the average amounts shown.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF THE FUNDS WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "MARSHALL FUNDS, INC. INFORMATION." Wire-transferred redemptions may be subject to an additional fee.

<TABLE>
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| EXAMPLE | 1 year | 3 years |
|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period. As noted in the table above, the Funds charge no redemption fees. | | |
| Short-Term Fund | $ 5 | $ 16 |
| Intermediate Fund | $ 6 | $ 19 |

</TABLE>

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. THE EXAMPLE IS BASED ON ESTIMATED DATA FOR THE FISCAL YEAR ENDING AUGUST 31, 1994.

## OBJECTIVE OF EACH FUND

The investment objective and policies of each Fund appear below. The investment objective of a Fund cannot be changed without the approval of holders of a majority of that Fund's shares. While there is no assurance that a Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus.

Unless indicated otherwise, the investment policies of a Fund may be changed by the Board of Directors ("Directors") without approval of shareholders. Shareholders will be notified before any material change in these policies becomes effective.

For additional information about investment limitations, strategies that one or both of the Funds may employ, and certain investment policies, please refer to the "Portfolio Investments and Strategies" section of this Prospectus and the Funds' combined Statement of Additional Information.

### SHORT-TERM TAX-FREE FUND

The investment objective of the Short-Term Fund is to provide current income which is exempt from federal income tax. The Short-Term Fund pursues this investment objective by investing in a diversified portfolio of high-grade municipal securities. As a matter of investment policy which cannot be changed without shareholder approval, under normal market conditions, at least 80% of the Short-Term Fund's net assets will be invested in municipal securities, the income from which is exempt from federal income tax (including the federal alternative minimum tax). Interest income of the Short-Term Fund that is exempt from federal income tax retains its tax-free status when distributed to the Fund's shareholders. Under normal circumstances, the Short-Term Fund will maintain an average dollar-weighted portfolio maturity of up to three years.

### INTERMEDIATE TAX-FREE FUND

The investment objective of the Intermediate Fund is to provide as high a level of income which is exempt from federal income tax, as is consistent with preservation of capital. The Intermediate Fund pursues its investment objective by investing in a diversified portfolio of high-grade municipal securities. As a matter of investment policy which cannot be changed without the approval of shareholders, under normal market conditions, at least 80% of the Intermediate Fund's net assets will be invested in municipal securities, the income from which is exempt from federal income tax (including the federal alternative minimum tax). Interest income of the Intermediate Fund that is exempt from federal income tax retains its tax-free status when distributed to the Fund's shareholders. Under normal circumstances, the Intermediate Fund will maintain an average dollar-weighted portfolio maturity of between three and ten years.

## PORTFOLIO INVESTMENTS AND STRATEGIES

ACCEPTABLE INVESTMENTS

The Funds invest in debt obligations issued by or on behalf of states, territories and possessions of the United States, including the District of Columbia, and any political subdivision or financing authority of any of these, the income from which is, in the opinion of qualified legal counsel or the Funds' adviser, exempt from federal income tax ("Municipal Securities") (see below).

CHARACTERISTICS. The Municipal Securities in which the Funds invest are:

- rated within the three highest ratings by one or more nationally recognized statistical rating organizations ("NRSROs"), such as Aaa, Aa or A by Moody's Investors Service, Inc. ("Moody's") or AAA, AA or A by Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch");

- guaranteed at the time of purchase by the U.S. government as to the payment of principal and interest;

- fully collateralized by an escrow of U.S. government securities or other securities acceptable to the Funds' adviser;

- rated at the time of purchase within Moody's highest short-term municipal obligation rating (MIG1/VMIG1) or Moody's highest municipal commercial paper rating (P-1) or S&P's highest municipal commercial paper rating (SP-1) or Fitch's highest short-term municipal obligations rating (FIN-1+ or FIN-1) or the highest rating by another NRSRO;

- unrated if, at the time of purchase, other municipal securities of that issuer are rated A or better by Moody's, S&P, or Fitch or another NRSRO; or

- unrated if determined to be of comparable quality to one of the foregoing rating categories by the Funds' adviser.

A description of the ratings categories is contained in the Appendix to the combined Statement of Additional Information. Downgrades will be evaluated on a case-by-case basis by the Funds' adviser. The adviser will determine whether or not the security continues to be an acceptable investment. If not, the security will be sold.

MUNICIPAL SECURITIES. Municipal Securities are generally issued to finance public works such as airports, bridges, highways, housing, hospitals, mass transportation projects, schools, streets, and water and sewer works. They are also issued to repay outstanding obligations, to raise funds for general operating expenses, and to make loans to other public institutions and facilities.

Municipal Securities include industrial development bonds issued by or on behalf of public authorities to provide financing aid to acquire sites or construct and equip facilities for privately or publicly owned corporations. The availability of this financing encourages these corporations to locate within the sponsoring communities and thereby increases local employment.

The two principal classifications of Municipal Securities are "general obligation" and "revenue" bonds. General obligation bonds are secured by the issuer's pledge of its full faith and credit and taxing power for the payment of principal and interest. Interest on and principal of revenue bonds, however, are payable only from the revenue generated by the facility financed by the bond or other specified sources of revenue. Revenue bonds do not represent a pledge of credit or create any debt of or charge against the general revenues of a municipality or public authority. Industrial development bonds are typically classified as revenue bonds.

Diversification of the Funds' investments is obtained geographically by purchasing issues representative of various areas of the U.S. and general obligations of states, cities and school districts as well as some revenue issues which meet the Funds' acceptable quality criteria.

VARIABLE RATE DEMAND NOTES. Variable rate demand notes are long-term Municipal Securities that have variable or floating interest rates and provide a Fund with the right to tender the security for repurchase at its stated principal amount plus accrued interest. Such securities typically bear interest at a rate that is

intended to cause the securities to trade at par. The interest rate may float or be adjusted at regular intervals (ranging from daily to annually), and is normally based on a published interest rate or interest rate index. Most variable rate demand notes allow a Fund to demand the repurchase of the security on not more than seven days' prior notice. Other notes only permit a Fund to tender the security at the time of each interest rate adjustment or at other fixed intervals.

DEMAND FEATURES. The Funds may acquire securities that are subject to puts and standby commitments ("demand features") to purchase the securities at their principal amount (usually with accrued interest) within a fixed period (usually seven days) following a demand by a Fund. The demand feature may be issued by the issuer of the underlying securities, a dealer in the securities or by another third party, and may not be transferred separately from the underlying security. The Funds use these arrangements to provide the Funds with liquidity and not to protect against changes in the market value of the underlying securities. The bankruptcy, receivership or default by the issuer of the demand feature, or a default on the underlying security or other event that terminates the demand feature before its exercise, will adversely affect the liquidity of the underlying security. Demand features that are exercisable even after a payment default on the underlying security may be treated as a form of credit enhancement.

PARTICIPATION INTERESTS. The Funds may purchase interests in Municipal Securities from financial institutions such as commercial and investment banks, savings and loan associations and insurance companies. These interests may take the form of participations, beneficial interests in a trust, partnership interests or any other form of indirect ownership that allows the Funds to treat the income from the investment as exempt from federal income tax. The financial institutions from which the Funds purchase participation interests frequently provide or obtain irrevocable letters of credit or guarantees to attempt to assure that the participation interests are of acceptable quality. The Funds invest in these participation interests in order to obtain credit enhancement or demand features that would not be available through direct ownership of the underlying Municipal Securities.

MUNICIPAL LEASES. Municipal leases are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities and may be considered to be illiquid. They may take the form of a lease, an installment purchase contract, a conditional sales contract, or a participation interest in any of the above.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Funds may purchase portfolio securities on a when-issued or delayed delivery basis. These transactions are arrangements in which a Fund purchases securities with payment and delivery scheduled for a future time, thereby involving a risk that the yield obtained from the investment will be less than that available in the market when delivery takes place. A Fund may engage in when-issued and delayed delivery transactions for the purpose of acquiring portfolio securities consistent with such Fund's investment objective and policies. These transactions are made to secure what is considered to be an advantageous price or yield for the Fund. Settlement days may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices.

CREDIT ENHANCEMENT. Certain of a Fund's acceptable investments may have been credit enhanced by a guaranty, letter of credit or insurance. The Funds typically evaluate the credit quality and ratings of credit enhanced securities based upon the financial condition and ratings of the party providing the credit enhancement (the "credit enhancer"), rather than the issuer. However, credit enhanced securities will not be treated as having been issued by the credit enhancer for diversification purposes, unless the Fund has invested more than 10% of its assets in securities issued, guaranteed or otherwise credit enhanced by the credit enhancer, in which case the securities will be treated as having been issued both by the issuer and the credit enhancer. The bankruptcy, receivership or default of the credit enhancer will adversely affect the quality and marketability of the underlying security.

RESTRICTED AND ILLIQUID SECURITIES. The Funds may invest up to 10% of their respective total assets in restricted securities. Restricted securities are any securities in which the Funds may otherwise invest pursuant to their investment objective and policies but which are subject to restriction on resale under federal securities law. However, the Funds will limit investments in illiquid securities (including certain

restricted securities not determined by the Directors to be liquid and repurchase agreements providing for settlement in more than seven days after notice).

TEMPORARY INVESTMENTS. From time to time, during periods of other than normal market conditions, the Funds may invest in short-term temporary investments, the income from which may or may not be exempt from federal income tax. These temporary investment include: obligations issued by or on behalf of municipal or corporate issuers having the same quality characteristics as Municipal

Securities purchased by the Fund; obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities; instruments (including bankers' acceptances, certificates of deposit, Euro Certificates of Deposit, Yankee Certificates of Deposit and Euro Time Deposits) issued by banks or other depository institutions which have capital, surplus, and undivided profits in excess of $100,000,000 at the time of investment and if their deposits are insured by the Bank Insurance Fund or Savings Association Insurance Fund (which are administered by the Federal Deposit Insurance Corporation); repurchase agreements (arrangements in which the organization is selling the Fund a temporary investment and agrees at the time of sale to repurchase it at a mutually agreed upon time and price); money market mutual funds; commercial paper rated at least A-1 by S&P, Prime-1 by Moody's or F-1 by Fitch; and other highest-quality short-term credit instruments.

The Funds' investments in other investment companies are subject to the limitations under the Investment Company Act of 1940, as detailed in the Statement of Additional Information. In order to comply with certain state restrictions, the Funds will limit their investments in securities of other investment companies to those with sales loads of less than 1.00% of the offering price of such securities. While it is a policy for the adviser to waive its investment advisory fee on Fund assets invested in securities of other open-end investment companies, it should be noted that investment companies incur certain expenses such as custodian and transfer agency fees, and therefore any investment by the Funds in shares of another investment company would be subject to such duplicate expenses.

In addition, each of the Funds reserve the right to purchase, sell or write options on securities that are permissible investments, purchase, sell or write futures contracts, and purchase, sell or write options on futures contracts in order to generate income or to hedge all or a portion of its portfolio against changes in stock prices. However, during the coming year, the Funds do not intend to invest more than 5% of their respective net assets in any of these investments.

Each Fund may purchase Municipal Securities, the interest from which is subject to the federal alternative minimum tax, in an amount not to exceed 20% of the net assets of the Fund.

Although each Fund is permitted to make taxable temporary investments, there is no current intention of generating income subject to federal income tax.

INVESTMENT RISKS

Yields on Municipal Securities depend on a variety of factors, including: the general conditions of the short-term municipal note market and of the municipal bond market; the size of the particular offering; the maturity of the obligations; and the rating of the issue. The ability of the Funds to achieve their respective investment objective also depends on the continuing ability of the issuers of Municipal Securities and demand features, or the credit enhancers of either, to meet their obligations for the payment of interest and principal when due.

In the debt market, prices move inversely to interest rates. A decline in market interest rates results in a rise in the market prices of outstanding debt obligations. Conversely, an increase in market interest rates results in a decline in market prices of outstanding debt obligations. In either case, the amount of change in market prices of debt obligations in response to changes in market interest rates generally depends on the maturity of the debt obligations: the debt obligations with the longest maturities will experience the greatest market price changes.

The market value of debt obligations, and therefore each Fund's net asset value, will fluctuate due to changes in economic conditions and other market factors such as interest rates which are beyond the control of the Funds' investment adviser. The Funds' investment adviser could be incorrect in its expectations about the direction or extent of these market factors. Although debt obligations with longer maturities offer potentially greater returns, they have greater exposure to market price fluctuation. Consequently, to the extent a Fund is significantly invested in debt obligations with longer maturities, there is a greater possibility of fluctuation in the Fund's net asset value.

INVESTMENT LIMITATIONS

The Funds will not:

- borrow money directly or through reverse repurchase agreements (arrangements in which the Funds sell a portfolio instrument for a percentage of its cash value with an agreement to buy it back on a set date) or pledge securities except, under certain circumstances, the Funds may borrow up to one-third of the value of their respective total assets and pledge up to 15% of the value of those assets to secure such borrowings;

- with respect to 75% of the value of their respective total assets, invest more than 5% in securities of any one issuer other than cash, cash items, or securities issued or guaranteed by the government of the United States or its agencies or instrumentalities and repurchase agreements collateralized by such securities, or acquire more than 10% of the voting securities of any one issuer; or

- invest 25% or more of the value of their respective total assets in any one industry, except for temporary defensive purposes, each Fund may invest 25% or more of its total assets in cash, cash items, U.S. government securities, and repurchase agreements collateralized by such securities; and in addition, each Fund may invest more than 25% of the value of its total assets in obligations issued by any state, territory or possession of the United States, the District of Columbia or any of their authorities, agencies or instrumentalities or political subdivisions.

The above investment limitations cannot be changed without shareholder approval. The following limitation, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in this limitation becomes effective.

The Funds will not:

- invest more than 15% of the value of their respective net assets in illiquid securities, including repurchase agreements providing for settlement more than seven days after notice, and certain securities not determined by the Directors to be liquid.

## MARSHALL FUNDS, INC. INFORMATION

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### MANAGEMENT OF MARSHALL FUNDS, INC.

BOARD OF DIRECTORS. The Board of Directors is responsible for managing the business affairs of the Corporation and for exercising all the powers of the Corporation, except those reserved for the shareholders.

INVESTMENT ADVISER. Pursuant to an investment advisory contract with the Corporation, investment decisions for the Funds are made by M&I Investment Management Corp., the Funds' investment adviser (the "Adviser"), subject to direction by the Directors. The Adviser continually conducts investment research and supervision for each Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the assets of each Fund.

ADVISORY FEES. The Adviser is entitled to receive an annual investment advisory fee equal to 0.50 of 1% of the average daily net assets of the Short-Term Fund and 0.60 of 1% of the average daily net assets of the Intermediate Fund. The investment advisory contract allows the voluntary waiver in whole or in part of the investment advisory fees or the reimbursement of expenses by the Adviser from time to time. The Adviser can terminate any voluntary waiver of its fees or reimbursement of expenses at any time in its sole discretion.

Investment decisions for the Funds will be made independently from those of any fiduciary or other accounts that may be managed by the Adviser or its affiliates. If, however, such accounts, a Fund, or

the Adviser for its own account are simultaneously engaged in transactions involving the same securities, the transactions may be combined and allocated to each account. This system may adversely affect the price a Fund pays or receives, or the size of the position it obtains.

ADVISER'S BACKGROUND. M&I Investment Management Corp. is a wholly-owned subsidiary of Marshall & Ilsley Corp., a registered bank holding company headquartered in Milwaukee, Wisconsin. As of December 31, 1992, M&I Investment Management Corp. had approximately $5.4 billion in assets under management and has managed investments for individuals and institutions since its inception in 1973.

The Funds' portfolio manager is John D. Boritzke, who is a Vice President for M&I Investment Management Corp. responsible for tax-exempt fixed income portfolio management. He joined M&I Investment Management Corp. in November 1983. Since 1985, he has been managing tax-exempt fixed income portfolios. In addition, he has managed the M&I Municipal Bond Fund since 1985 and continues to manage the M&I Arizona Municipal Bond Fund, which he has managed since its inception in 1989. Both of these funds are common trust funds of Marshall & Ilsley Trust Company. Mr. Boritzke has been a member of M&I Investment Management Corp.'s Fixed Income Policy Group since 1985. He is a Chartered Financial Analyst and holds M.B.A. and B.S. degrees from Marquette University.

DISTRIBUTION OF FUND SHARES

Federated Securities Corp. is the principal distributor for shares of the Funds. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

ADMINISTRATIVE ARRANGEMENTS. The distributor may select brokers and dealers to provide distribution and administrative services. The distributor may also select administrators (including depository institutions such as commercial banks and savings and loan associations) to provide administrative services. These administrative services include distributing prospectuses and other information, providing account assistance, and communicating or facilitating purchases and redemptions of the Funds' shares.

Brokers, dealers, and administrators will receive fees from the distributor based upon shares owned by their clients or customers. The fees are calculated as a percentage of the average aggregate net asset value of shareholder accounts held during the period for which the brokers, dealers, and administrators provide services. Any fees paid for these services by the distributor will be reimbursed by the Adviser and not the Funds.

ADMINISTRATION OF THE FUNDS

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ADMINISTRATIVE SERVICES. Federated Administrative Services, a subsidiary of Federated Investors, provides the Funds with certain administrative personnel and services necessary to operate the Funds. Such services include certain shareholder servicing, legal and accounting services. Federated Administrative Services provides these services at an annual rate as specified below:

| MAXIMUM ADMINISTRATIVE FEE | AVERAGE AGGREGATE DAILY NET ASSETS OF THE CORPORATION |
|---|---|
| .150 of 1% | on the first $250 million |
| .125 of 1% | on the next $250 million |
| .100 of 1% | on the next $250 million |
| .075 of 1% | on assets in excess of $750 million |

The administrative fee received during any fiscal year shall be at least $50,000 per Fund. Federated Administrative Services may choose voluntarily to reimburse a portion of its fee at any time.

CUSTODIAN. Marshall & Ilsley Trust Company ("M&I Trust Company"), Milwaukee, Wisconsin, a subsidiary of Marshall & Ilsley Corp., is custodian for the securities and cash of the Funds. Under the

Custodian Agreement, M&I Trust Company holds the Funds' portfolio securities in safekeeping and keeps all necessary records and documents relating to its duties. Any fee that would be charged will be reflected in the "Summary of Fund Expenses." M&I Trust Company may voluntarily choose to waive all or a portion of its fees at any time.

TRANSFER AGENT, DIVIDEND DISBURSING AGENT, AND PORTFOLIO ACCOUNTING SERVICES. Federated Services Company, Pittsburgh, Pennsylvania, a subsidiary of Federated Investors, is transfer agent for shares of the Funds and dividend disbursing agent for the Funds. It also provides certain accounting and recordkeeping services with respect to the Funds' portfolio investments.

SHAREHOLDER SERVICING ARRANGEMENTS. Marshall Funds Investor Services ("MFIS"), Milwaukee, Wisconsin, is the shareholder servicing agent for the Funds. As such, MFIS provides shareholder services which include, but are not limited to, distributing prospectuses and other information, providing shareholder assistance, and communicating or facilitating purchases and redemptions of shares. Each Fund may pay MFIS a fee equal to 0.015 of 1% of the average daily net asset value of Fund shares for which MFIS provides shareholder services. MFIS may choose voluntarily to waive all or a portion of its fee at any time.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, Pittsburgh, Pennsylvania, and Dickstein, Shapiro & Morin, Washington, D.C.

INDEPENDENT PUBLIC ACCOUNTANTS. The independent public accountants for the Funds are Arthur Andersen & Co., Pittsburgh, Pennsylvania.

EXPENSES OF THE FUNDS

Each Fund pays all of its own expenses and its allocable share of the Corporation's expenses. These expenses include, but are not limited to, the cost of: organizing the Corporation and continuing its existence; Directors' fees; investment advisory and administrative services; printing prospectuses and other Fund documents for shareholders; registering the Corporation, the Funds, and shares of each Fund with federal and state securities authorities; taxes and commissions; issuing, purchasing, repurchasing, and redeeming shares; fees for custodians, transfer agents, dividend disbursing agents, shareholder servicing agents, and registrars; printing, mailing, auditing, and certain accounting and legal expenses; reports to shareholders; meetings of Directors and shareholders and proxy solicitations therefor; insurance premiums; association membership dues; and such non-recurring and extraordinary items as may arise. However, the Adviser may voluntarily reimburse some expenses and, in addition, has undertaken to reimburse each Fund up to the amount of its advisory fee, the amount by which operating expenses exceed limitations imposed by certain states.

NET ASSET VALUE
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Each Fund's net asset value per share fluctuates. It is determined by dividing the sum of the market value of all securities and other assets, less liabilities, by the number of shares outstanding.

INVESTING IN THE FUNDS
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SHARE PURCHASES

Shares of the Funds are sold on days on which the New York Stock Exchange is open for business. Shares of the Funds may be purchased through M&I Trust Company, M&I Marshall & Ilsley Trust Company of Arizona, Marshall & Ilsley Trust Company of Florida (the above-mentioned companies will be referred to as "M&I Trust Companies"), MFIS, M&I Brokerage Services, Inc. and authorized broker/dealers. Purchase orders must be received by the respective Fund by 3:00 p.m. (Central time) in order for shares to be purchased at that day's net asset value. In connection with the sale of shares of a Fund, the distributor may from time to time offer certain items of nominal value to any shareholder or investor.

Each Fund reserves the right to reject any purchase request. Texas residents must purchase shares through Federated Securities Corp. at 1-800-618-8573.

THROUGH M&I TRUST COMPANIES. Trust customers should contact their account officer in order to make purchase requests.

THROUGH MFIS. An investor may contact MFIS at 1-800-236-8554 by 3:00 p.m. (Central Time) in order to purchase shares of a Fund.

THROUGH M&I BROKERAGE SERVICES, INC. An investor may purchase shares of a Fund through any M&I Bank employing a representative of M&I Brokerage Services, Inc. ("M&I Brokerage Services").

THROUGH AUTHORIZED BROKER/DEALERS. An investor may place an order through authorized brokers and dealers to purchase shares of a Fund.

Payment for orders may be made:

BY MAIL. To purchase shares of a Fund by mail, send a check made payable to the Fund (identify the appropriate Fund) to Marshall Funds Investor Services, P.O. Box 1348, Milwaukee, Wisconsin 53201-1348. Orders received by mail should be accompanied by an account application. If a check for the purchase of shares does not clear, the purchase will be canceled and the investor will be charged a $15 fee.

Orders by mail are considered received after payment by check is converted by MFIS into federal funds. This is generally the next business day after MFIS receives the check.

BY WIRE. To purchase shares by wire, wire funds as follows:

M&I Marshall & Ilsley Bank
ABA Number 075000051
Credit: Boston Financial Data Services Deposit
Account Number 27480
Further credit to: (Identify the appropriate Fund)

Re: (Shareholder name and account number)

Following the wire transfer, you must complete an account application and mail it to the respective Fund. Your bank may charge a fee for wiring funds.

Wire orders will only be accepted on days on which the Funds, M&I Bank, and the Federal Reserve wire system are open for business.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in each Fund is $1,000. Additional purchases of $50 or more may be made at any time. The Funds may waive the initial minimum investment from time to time.

WHAT SHARES COST

Shares of the Funds are sold at their net asset value next determined after an order is received. There is no sales charge imposed by the Funds.

The net asset value is determined at or after the close of the New York Stock Exchange, Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of a Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no shares are tendered for redemption and no orders to purchase shares are received; and (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

SYSTEMATIC INVESTMENT PROGRAM

Once a Fund account has been opened, shareholders may add to their investment on a regular basis in a minimum amount of $50. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking account and invested in Fund shares at the net asset value next determined after an order is received by MFIS. A shareholder may apply for participation in this program through MFIS.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Funds, Federated Services Company maintains a share account for each shareholder. Share certificates are not issued unless requested by contacting the respective Fund.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Monthly confirmations are sent to report dividends paid during the month.

In addition, each Fund will provide, upon request, photocopies of confirmations for transactions affecting your account in prior years. A fee of $5 per year requested will be charged to cover the cost of obtaining this information.

## DIVIDENDS AND CAPITAL GAINS

Dividends are declared daily and paid monthly to all shareholders invested in the Funds on the record date. Capital gains, if realized by a Fund, will be distributed at least once every 12 months. Unless shareholders request cash payments by writing to one of these Funds, dividends and capital gains are automatically reinvested in additional shares of the respective Fund on payment dates at the ex-dividend date net asset value.

## EXCHANGE PRIVILEGE

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All shareholders of a Fund are shareholders of Marshall Funds, Inc. Marshall Funds, Inc. currently consists of: Marshall Short-Term Income Fund, Marshall Government Income Fund, Marshall Intermediate Bond Fund, Marshall Balanced Fund, Marshall Equity Income Fund, Marshall Value Equity Fund, Marshall Stock Fund, Marshall Mid-Cap Stock Fund, Marshall Short-Term Tax-Free Fund, Marshall Intermediate Tax-Free Fund, Marshall Money Market Fund (Investment Shares and Trust Shares), and Marshall Tax-Free Money Market Fund. Shareholders have easy access to each of the Corporation's portfolios, as well as the Institutional Service Shares of the Max-Cap Fund (a portfolio of Federated Index Trust), through a telephone exchange program. Marshall Funds, Inc. are advised by M&I Investment Management Corp. and distributed by Federated Securities Corp.

EXCHANGING SHARES. Shareholders of a Fund may exchange shares of that Fund for shares of other funds advised by the Adviser at net asset value without a sales charge. In addition, shareholders of Marshall Funds, Inc. may exchange shares of a fund for the Institutional Service Shares of Max-Cap Fund at net asset value without a sales charge.

Shareholders who exercise this exchange privilege must exchange shares having a net asset value of at least $1,000, except for exchanges into Marshall Short-Term Income Fund and Institutional Service Shares of the Max-Cap Fund, which require a $25,000 minimum investment. Prior to any exchange, the shareholder must receive a copy of the current prospectus of the fund into which an exchange is to be effected. Subsequent exchanges may be made for $50 or more.

The exchange privilege is available to shareholders residing in any state in which the fund shares being acquired may legally be sold. Upon receipt of proper instructions and all necessary supporting documents, shares submitted for exchange will be redeemed at the next-determined net asset value. Written exchange instructions may require a signature guarantee. Exercise of this privilege is treated as a sale for federal income tax purposes and, depending on the circumstances, a short or long-term capital gain or loss may be realized. The exchange privilege may be terminated at any time. Shareholders will be notified of the termination of the exchange privilege. A shareholder may obtain further information on the exchange privilege by calling MFIS.

EXCHANGE-BY-TELEPHONE. Instructions for exchanges between funds which are part of Marshall Funds, Inc. may be given by telephone to MFIS. Trust customers should contact their account officer. Shares may be exchanged by telephone only between fund accounts having identical shareholder registrations.

Shareholders requesting the telephone exchange service authorize a Fund and its agents to act upon their telephonic instructions to exchange shares from any account for which they have authorized such services.

Telephone exchange instructions may be recorded. If reasonable procedures are not followed by the Funds, they may be liable for losses due to unauthorized or fraudulent telephone instructions.

Any shares held in certificate form cannot be exchanged by telephone but must be forwarded to the transfer agent by MFIS and deposited to the shareholder's mutual fund account before being exchanged.

Telephone exchange instructions must be received before 3:00 p.m. (Central time) for shares to be exchanged the same day. The telephone exchange privilege may be modified or terminated at any time. Shareholders will be notified of such modification or termination. Shareholders may have difficulty in making exchanges by telephone through banks, brokers, and other financial institutions during times of drastic economic or market changes. If a shareholder cannot contact his or her bank, broker, or financial institution by telephone, it is recommended that an exchange request be made in writing and sent by overnight mail.

REDEEMING SHARES

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Each Fund redeems shares at their net asset value next determined after the Fund receives the redemption request. Redemptions will be made on days on which a Fund computes its net asset value. Telephone or written requests for redemptions must be received in proper form as described below and can be made through MFIS or M&I Brokerage Services. Trust customers should contact their account officer in order to make redemption requests. Redemption proceeds will normally be mailed, or wired if by written request, the following business day, but in no event more than seven days after the request is received.

BY MAIL. Shareholders may redeem shares of a Fund by sending a written request to the Marshall Funds Investor Services, P.O. Box 1348, Milwaukee, Wisconsin 53201-1348. The written request should include the shareholder's name, the Fund name, the account number, and the number of shares or dollar amount requested. If share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail. Additional documentation may be required from corporations, executors, administrators, trustees, or guardians. Shareholders should call 1-800-236-8554 for assistance in redeeming by mail.

BY TELEPHONE. A shareholder may redeem shares of a Fund by calling MFIS (1-800-236-8554) to request the redemption. Customers of M&I Brokerage Services may call their account representative or MFIS for information regarding redemption requests. Telephone redemptions, however, are not available for retirement accounts. Shares will be redeemed at the net asset value next determined after a Fund receives the redemption request. It is the responsibility of MFIS to promptly submit redemption requests to a Fund. Redemption requests must be received by 3:00 p.m. (Central time) in order for shares to be redeemed at that day's net asset value.

An authorization form permitting a Fund to accept telephone redemption requests must first be completed. It is recommended that investors request this privilege at the time of their initial application. If not completed at the time of the initial application, authorization forms and information on this service can be obtained through MFIS or M&I Brokerage Services.

A shareholder may have the redemption proceeds directly deposited by Electronic Funds Transfer or wired directly to a domestic commercial bank previously designated by the shareholder. Wire redemption orders will only be accepted on days on which the Funds, M&I Bank, and the Federal Reserve wire system are open for business. Wire-transferred redemptions may be subject to an additional fee.

Shareholders requesting the telephone redemption service authorize a Fund and its agents to act upon their telephonic instructions to redeem shares from any account for which they have authorized such services. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Funds, they may be liable for losses due to unauthorized or fraudulent telephone instructions.

SIGNATURES. Shareholders requesting a redemption of $50,000 or more, a redemption of any amount to be sent to an address other than that on record with a Fund, or a redemption payable other than to the shareholder of record must have signatures on written redemption requests guaranteed by:

- a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund ("BIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC");

- a member of the New York, American, Boston, Midwest, or Pacific Stock Exchange;

- a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC; or

- any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Funds do not accept signatures guaranteed by a notary public.

The Corporation and its transfer agent have adopted standards for accepting signature guarantees from the above institutions. The Corporation may elect in the future to limit eligible signature guarantors to institutions that are members of a signature guarantee program. The Corporation and its transfer agent reserve the right to amend these standards at any time without notice.

SYSTEMATIC WITHDRAWAL PROGRAM

Shareholders who desire to receive payments of a predetermined amount may take advantage of the Systematic Withdrawal Program. Under this program, shares are redeemed to provide for monthly or quarterly withdrawal payments in an amount directed by the shareholder. Shareholders may redeem by periodic withdrawal payments in a minimum amount of $100. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to shares, and the fluctuation of net asset value of shares redeemed under this program, redemptions may reduce, and eventually deplete, the shareholder's investment in a Fund. For this reason, payments under this program should not be considered as yield or income on the shareholder' s investment in a Fund. To be eligible to participate in this program, a shareholder must have an account value of at least $10,000. A shareholder may apply for participation in this program through MFIS or M&I Brokerage Services.

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, a Fund may redeem shares in any account and pay the proceeds to the shareholder if the account balance falls below the required minimum value of $1,000 for a Fund. This requirement does not apply, however, if the balance falls below $1,000 because of changes in the Fund's net asset value.

Before shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional shares to meet the minimum requirement.

SHAREHOLDER INFORMATION

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VOTING RIGHTS AND COMMON STOCK

The Corporation's authorized capital consists of 50,000,000,000 shares of Common Stock with a par value of $.0001 per share, of which each Fund's authorized capital consists of 1,000,000,000 shares of Common Stock. Shareholders are entitled: (i) to one vote per full share of Common Stock; (ii) to such distributions as may be declared by the Corporation's Board of Directors out of funds legally available; and (iii) upon liquidation of the Corporation, to participate ratably in the assets of the Fund available for distribution. Each share of a Fund gives the shareholder one vote in the election of Directors and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Corporation have equal voting rights, except that only shares of a particular portfolio or class are entitled to vote on matters affecting that portfolio or class. There are no conversion or sinking fund provisions applicable to the shares, and the holders have no preemptive rights and may not cumulate their votes in the election of Directors. Consequently, the holders of more than 50% of the Corporation's shares of Common Stock voting for the election of Directors can elect the entire Board of Directors, and, in such event, the holders of the

Corporation's remaining shares voting for the election of Directors will not be able to elect any person or persons to the Board of Directors.

The Wisconsin Business Corporation Law (the "WBCL") permits registered investment companies, such as the Corporation, to operate without an annual meeting of shareholders under specified circumstances if an annual meeting is not required by the Investment Company Act of 1940 (the "Act"). The Corporation has adopted the appropriate provisions in its By-laws and does not anticipate holding an annual meeting of shareholders to elect Directors unless otherwise required by the Act. Directors may be removed by the shareholders at a special meeting. A special meeting of the shareholders may be called by the Board of Directors upon written request of shareholders owning at least 10% of the Corporation's outstanding voting shares.

The shares are redeemable and are transferable. All shares issued and sold by the Corporation will be fully paid and nonassessable except as provided in WBCL Section 180.0622(2)(b). Fractional shares of Common Stock entitle the holder to the same rights as whole shares of Common Stock, except the right to receive a certificate evidencing such fractional shares.

The Corporation will not issue certificates evidencing shares of Common Stock purchased unless so requested in writing. Where certificates are not issued, the shareholder's account will be credited with the number of shares purchased, relieving shareholders of responsibility for safekeeping of certificates and the need to deliver them upon redemption. Written confirmations are issued for all purchases of shares of Common Stock. Any shareholder may deliver certificates to the transfer agent and direct that the shareholder's account be credited with the shares. A shareholder may direct the transfer agent at any time to issue a certificate for the shareholder's shares of Common Stock without charge.

The definitions of the terms "series" and "class" in the WBCL differ from the meanings assigned to those terms in this Prospectus and the Funds' combined Statement of Additional Information. The Articles of Incorporation of the Corporation reconcile this inconsistency in terminology and provide that the Funds' Prospectus and combined Statement of Additional Information may define these terms consistently with the use of those terms under the Act and the Internal Revenue Code.

## EFFECT OF BANKING LAWS

Banking laws and regulations presently prohibit a bank holding company registered under the federal Bank Holding Company Act of 1956 or any bank or non-bank affiliate thereof from sponsoring, organizing, controlling or distributing the shares of a registered, open-end management investment company continuously engaged in the issuance of its shares, and prohibit banks generally from issuing, underwriting, or distributing securities. However, such banking laws and regulations do not prohibit such a holding company, affiliate, or banks generally from acting as investment adviser, transfer agent or custodian to such an investment company or from purchasing shares of such a company as agent for and upon the order of such a customer. M&I Corp. is subject to such banking laws and regulations.

M&I Corp. believes, based on the advice of its counsel, that M&I Investment Management Corp. may perform the services contemplated by the investment advisory agreement with the Corporation without violation of the Glass-Steagall Act or other applicable banking laws or regulations. Changes in either federal or state statutes and regulations relating to the permissible activities of banks and their subsidiaries or affiliates, as well as further judicial or administrative decisions or interpretations of such present or future statutes and regulations, could prevent M&I Investment Management Corp. or M&I Corp. from continuing to perform all or a part of the above services for its customers and/or a Fund. If M&I Investment Management Corp. and M&I Corp. were prohibited from engaging in these activities, the Directors would consider alternative advisers and means of continuing available investment services. In such event, changes in the operation of a Fund may occur, including possible termination of any automatic or other Fund share investment and redemption services then being provided by M&I Investment Management Corp. and M&I Brokerage Services or MFIS. It is not expected that existing shareholders would suffer any adverse financial consequences if another adviser with equivalent abilities to M&I Investment Management Corp. is found as a result of any of these occurrences.

State securities laws governing the ability of depository institutions to act as underwriters or distributors of securities may differ from interpretations given to the Glass-Steagall Act and, therefore, banks and financial institutions may be required to register as dealers pursuant to state law.

## TAX INFORMATION

### FEDERAL INCOME TAX

Each Fund will pay no federal income tax because it expects to meet requirements of the Internal Revenue Code applicable to regulated investment companies and to receive the special tax treatment afforded to such companies.

Each Fund will be treated as a single, separate entity for federal income tax purposes so that income (including capital gains) and losses realized by the other portfolios of Marshall Funds, Inc., if any, will not be combined for tax purposes with those realized by any of the other Funds.

Shareholders are not required to pay the federal regular income tax on any dividends received from the Fund that represent net interest on tax-exempt municipal bonds. However, under the Tax Reform Act of 1986, dividends representing net interest earned on some municipal bonds may be included in calculating the federal individual alternative minimum tax or the federal alternative minimum tax for corporations.

The alternative minimum tax, equal to up to 28% of alternative minimum taxable income for individuals and 20% for corporations, applies when it exceeds the regular tax for the taxable year. Alternative minimum taxable income is equal to the regular taxable income of the taxpayer increased by certain "tax preference" items not included in regular taxable income and reduced by only a portion of the deductions allowed in the calculation of the regular tax.

The Tax Reform Act of 1986 treats interest on certain "private activity" bonds issued after August 7, 1986, as a tax preference item for both individuals and corporations. Unlike traditional governmental purpose municipal bonds, which finance roads, schools, libraries, prisons and other public facilities, private activity bonds provide benefits to private parties. Each Fund may purchase all types of municipal bonds, including "private activity" bonds. Thus, while each Fund has no present intention of purchasing any private activity bonds, should it purchase any such bonds, a portion of the Fund's dividends may be treated as a tax preference item.

In addition, in the case of a corporate shareholder, dividends of a Fund which represent interest on municipal bonds will be subject to the 20% corporate alternative minimum tax because the dividends are included in corporation's "adjusted current earnings." The corporate minimum tax treats 75% of the excess of a taxpayer's pre-tax "adjusted current earnings" over the taxpayer's alternative minimum taxable income as a tax preference item. "Adjusted current earnings" is based upon the concept of a corporation's "earnings and profits." Since "earnings and profits" generally includes the full amount of any Fund dividend, and alternative minimum taxable income does not include the portion of a Fund's dividend attributable to municipal bonds which are not private activity bonds, the 75% difference will be included in the calculation of the corporation's alternative minimum tax.

Dividends of each Fund representing net interest income earned on some temporary investments and any realized net short-term gains are taxed as ordinary income.

These tax consequences apply whether dividends are received in cash or as additional shares. Information on the tax status of dividends and distributions is provided annually.

STATE AND LOCAL TAXES

Distributions representing net interest received on tax-exempt municipal securities are not necessarily free from income taxes of any state or local taxing authority. State laws differ on this issue, and shareholders are urged to consult their own tax advisers.

PERFORMANCE INFORMATION

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From time to time, the Funds may advertise total return, yield and tax-equivalent yield.

Total return represents the change, over a specified period of time, in the value of an investment in a Fund after reinvesting all income and capital gains distributions. It is calculated by dividing that change by the initial investment and is expressed as a percentage.

The yield of each Fund is calculated by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by the Fund over a thirty-day period by the offering price per share of the Fund on the last day of the period. This number is then annualized using semi-annual compounding. The tax-equivalent yield of each Fund is calculated similarly to the yield, but is adjusted to reflect the taxable yield that the Fund would have had to earn to equal its actual yield, assuming a specific tax rate. The yield and the tax-equivalent yield do not necessarily reflect income actually earned by the Fund and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

From time to time, the Funds may advertise their performance using certain reporting services and/or compare their performance to certain indices.

ADDRESSES

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<TABLE>

| <S> | <C> | <C> |
| --- | --- | --- |
| Marshall Short-Term Tax-Free Fund<br>Marshall Intermediate Tax-Free Fund | | Federated Investors Tower<br>Pittsburgh, Pennsylvania 15222-3779 |
| Distributor | Federated Securities Corp. | Federated Investors Tower<br>Pittsburgh, Pennsylvania 15222-3779 |
| Adviser | M&I Investment Management Corp. | 1000 North Water Street |

| | | |
|---|---|---|
| | | Milwaukee, Wisconsin 53202 |
| Custodian | Marshall & Ilsley Trust Company | 1000 North Water Street<br>Milwaukee, Wisconsin 53202 |
| Transfer Agent, Dividend Disbursing Agent, and Portfolio Accounting Services | Federated Services Company | Federated Investors Tower<br>Pittsburgh, Pennsylvania 15222-3779 |
| Shareholder Servicing Agent | Marshall Funds Investor Services | P.O. Box 1348<br>Milwaukee, Wisconsin 53201<br>or<br>1000 North Water Street<br>Milwaukee, Wisconsin 53202 |
| Legal Counsel | Houston, Houston & Donnelly | 2510 Centre City Tower<br>Pittsburgh, Pennsylvania 15222 |
| Legal Counsel | Dickstein, Shapiro & Morin | 2101 L Street, N.W.<br>Washington, D.C. 20037 |
| Independent Public Accountants | Arthur Andersen & Co. | 2100 One PPG Place<br>Pittsburgh, Pennsylvania 15222 |

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MARSHALL FUNDS, INC.
TAX-FREE FUNDS

- MARSHALL SHORT-TERM TAX-FREE FUND
- MARSHALL INTERMEDIATE TAX-FREE FUND

COMBINED PROSPECTUS
Dated January 1, 1994

MARSHALL FUNDS INVESTOR SERVICES

1000 North Water Street
P.O. Box 1348

Milwaukee, Wisconsin 53201-9482

414-287-8500 or 800-236-8560

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER

PITTSBURGH, PA 15222-3779

3110112A (12/93)

MARSHALL SHORT-TERM TAX-FREE FUND
MARSHALL INTERMEDIATE TAX-FREE FUND
(PORTFOLIOS OF MARSHALL FUNDS, INC.)

COMBINED STATEMENT OF ADDITIONAL INFORMATION

This Combined Statement of Additional Information should be read with the combined Prospectus for Marshall Short-Term Tax-Free Fund ("Short-Term Fund") and Marshall Intermediate Tax-Free Fund ("Intermediate Fund") (individually referred to as a "Fund" or collectively as the "Funds") dated January 1, 1994. This combined Statement is not a prospectus itself. To receive a copy of a Fund's combined Prospectus, write or call Marshall Funds Investor Services at (414) 287-8500 or 1-800-236-8560, M&I Brokerage Services, Inc. or any M&I Bank.

FEDERATED INVESTORS TOWER

PITTSBURGH, PENNSYLVANIA 15222-3779

Statement dated January 1, 1994

FEDERATED SECURITIES CORP.
(LOGO)

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Distributor

A subsidiary of FEDERATED INVESTORS

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GENERAL INFORMATION ABOUT THE FUNDS
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The Funds are portfolios of Marshall Funds, Inc. (the "Corporation") which was incorporated under the laws of the State of Wisconsin on July 30, 1992.

The portfolios of Marshall Funds are: Marshall Short-Term Tax-Free Fund, Marshall Intermediate Tax-Free Fund, Marshall Balanced Fund, Marshall Equity Income Fund, Marshall Government Income Fund, Marshall Intermediate Bond Fund, Marshall Mid-Cap Stock Fund, Marshall Money Market Fund (Trust Shares and Investment Shares), Marshall Short-Term Income Fund, Marshall Stock Fund, Marshall Tax-Free Money Market Fund, and Marshall Value Equity Fund.

INVESTMENT OBJECTIVES AND POLICIES OF THE FUNDS
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The combined Prospectus for the Funds discusses each Fund's investment objective and the policies that each Fund employs to achieve its objective. The following discussion supplements the description of each Fund's investment policies in the combined Prospectus. The investment objective of each Fund cannot be changed without approval of shareholders. Unless indicated otherwise, the investment policies described in the combined Prospectus may be changed by the Board of Directors ("Directors") without the approval of the Fund's shareholders. Shareholders will be notified before any material changes in these policies become effective.

ACCEPTABLE INVESTMENTS

The Funds invest primarily in debt obligations issued by or on behalf of states, territories, and possessions of the United States, including the District of Columbia, and any political subdivisions or financing authority of any of these, the income from which is, in the opinion of qualified legal counsel or the Funds' adviser, exempt from federal income tax ("Municipal Securities").

Examples of Municipal Securities include, but are not limited to:

- - tax and revenue anticipation notes ("TRANs") issued to finance working capital needs in anticipation of receiving taxes or other revenues;

- - tax anticipation notes ("TANs") issued to finance working capital needs in anticipation of receiving taxes;

- - revenue anticipation notes ("RANs") issued to finance working capital needs in anticipation of receiving revenues;

- - bond anticipation notes ("BANs") that are intended to be refinanced through a later issuance of longer-term bonds;

- - municipal commercial paper and other short-term notes;

- - variable rate demand notes;

- - municipal bonds (including bonds having serial maturities and pre-refunded bonds) and leases;

- - construction loan notes insured by the Federal Housing Administration and financed by the Federal or Government National Mortgage Associations; and

- - participation, trust and partnership interests in any of the foregoing obligations.

VARIABLE RATE MUNICIPAL SECURITIES

Variable interest rates generally reduce changes in the market value of municipal securities from their original purchase prices. Accordingly, as interest rates decrease or increase, the potential for capital appreciation or depreciation is less for variable rate municipal securities than for fixed income obligations.

Many municipal securities with variable interest rates purchased by the Funds are subject to repayment of principal (usually within seven days) on the Fund's demand. The terms of these variable rate demand instruments require payment of principal and accrued interest from the issuer of the municipal obligations, the issuer of the participation interest, or a guarantor of either issuer.

MUNICIPAL LEASES

The Funds may purchase Municipal Securities in the form of participation interests that represent an undivided proportional interest in lease payments by a governmental or nonprofit entity. The lease payments and other rights under the lease provide for and secure payments on the certificates. Lease obligations may be limited by municipal charter or the nature of the appropriation for the lease. In particular, lease obligations may be subject to periodic appropriation. If the entity does not appropriate funds for future lease payments, the entity cannot be compelled to make such payments. Furthermore, a lease may provide that the participants cannot accelerate lease obligations upon default. The participants would only be able to enforce lease payments as they became due. In the event of a default or failure of appropriation, unless the participation interests are credit enhanced, it is unlikely that the participants would be able to obtain an acceptable substitute source of payment.

Under the criteria currently established by the Directors, the Funds' investment adviser must consider the following factors in determining the liquidity of municipal lease securities: (1) the frequency of trades and quotes for the security; (2) the volatility of quotations and trade prices for the security; (3) the number of dealers

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willing to purchase or sell the security and the number of potential purchasers; (4) dealer undertakings to make a market in the security; (5) the nature of the security and the nature of the marketplace trades; (6) the rating of the security and the financial condition and prospects of the issuer of the security; (7) such other factors as may be relevant to the Funds' ability to dispose of the security; (8) whether the lease can be terminated by the lessee; (9) the potential recovery, if any, from a sale of the leased property upon termination of the lease; (10) the lessee's general credit strength; (11) the likelihood that the lessee will discontinue appropriating funding for the leased property because the property is no longer deemed essential to its operations; and (12) any credit enhancement or legal recourse provided upon an event of nonappropriation or other termination of the lease.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

The Funds may engage in when-issued and delayed delivery transactions for the purpose of acquiring portfolio securities consistent with each Fund's investment objective and policies. These transactions are made to secure what is considered to be an advantageous price or yield for the Funds. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices.

No fees or other expenses, other than normal transaction costs, are incurred. Liquid assets of the Fund sufficient to make payment for the securities to be purchased are segregated on the trade date. These securities are marked to market daily and maintained until the transaction is settled. As a matter of policy, the Funds do not intend to engage in when-issued and delayed delivery transactions to an extent that would cause the segregation of more than 20% of the total value of their assets.

REVERSE REPURCHASE AGREEMENTS

The Funds may also enter into reverse repurchase agreements. This transaction is similar to borrowing cash. In a reverse repurchase agreement a Fund transfers possession of a portfolio instrument to another person, such as a financial institution, broker, or dealer, in return for a percentage of the instrument's market value in cash, and agrees that on a stipulated date in the future the Fund will repurchase the portfolio instrument by remitting the original consideration plus interest at an agreed upon rate. The use of reverse repurchase agreements may enable a Fund to avoid selling portfolio instruments at a time when a sale may be deemed to be disadvantageous, but the ability to enter into reverse repurchase agreements does not ensure that a Fund will be able to avoid selling portfolio instruments at a disadvantageous time.

When effecting reverse repurchase agreements, liquid assets of a Fund, in a dollar amount sufficient to make payment for the obligations to be purchased, are segregated at the trade date. These securities are marked to market daily and are maintained until the transaction is settled.

REPURCHASE AGREEMENTS

The Funds require their custodian to take possession of the securities subject to repurchase agreements and these securities are marked to market daily. To the extent that the original seller does not repurchase the securities from a Fund, the Fund could receive less than the repurchase price on any sale of such securities. In the event that such a defaulting seller filed for bankruptcy or became insolvent, disposition of such securities by a Fund might be delayed pending court action. The Funds believe that under the regular procedures normally in effect for custody of a Fund's portfolio securities subject to repurchase agreements, a court of competent jurisdiction would rule in favor of a Fund and allow retention or disposition of such securities. The Funds will only enter into repurchase agreements with banks and other recognized financial institutions such as broker/dealers which are deemed by the Funds' adviser to be creditworthy pursuant to guidelines established by the Directors.

SECURITIES OF FOREIGN ISSUERS

The Funds may invest in the securities of foreign issuers, which include Euro Certificates of Deposit, Euro Time Deposits, and Yankee Certificates of Deposit. There may be certain risks associated with investing in foreign securities. These include risks of adverse political and economic developments (including possible governmental seizure or nationalization of assets), the possible imposition of exchange controls or other governmental restrictions, less uniformity in accounting and reporting requirements, higher transaction costs, and the possibility that there will be less information on such securities and their issuers available to the public. In addition, there are restrictions on foreign investments in other jurisdictions and there tends to be difficulty in obtaining judgments from abroad and effecting repatriation of capital invested abroad. Delays could occur in settlement of foreign transactions, which could adversely affect shareholder equity. Foreign securities may be subject to foreign taxes, which reduce yield, and may be less marketable than comparable United States securities. Different risks may also exist for obligations of foreign banks, domestic branches of foreign banks or foreign branches of domestic banks since they may not be subject to the same regulatory requirements, loan limitations, examinations, accounting, auditing and recordkeeping. As a matter of practice, the Funds will not

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invest in the securities of a foreign issuer if any risk identified above appears to the Funds' investment adviser to be substantial.

FUTURES AND OPTIONS TRANSACTIONS

As a means of reducing fluctuations in the net asset value of shares of the Funds, the Funds may attempt to hedge all or a portion of their portfolio by buying and selling financial futures contracts, buying put options on portfolio securities and put options on financial futures contracts, and writing call options on futures contracts. The Funds may also write covered call options on portfolio securities to attempt to increase their current income. The Funds will maintain their positions in securities, option rights, and segregated cash subject to puts and calls until the options are exercised, closed, or have expired. An option position on financial futures contracts may be closed out over-the-counter or on a nationally recognized exchange which provides a secondary market for options of the same series.

FUTURE CONTRACTS

The Funds may purchase and sell financial futures contracts to hedge against the effects of changes in the value of portfolio securities due to anticipated changes in interest rates and market conditions without necessarily buying or selling the securities. The Funds also may purchase and sell stock index futures to hedge against changes in prices. The Funds will not engage in futures transactions for speculative purposes.

A futures contract is a firm commitment by two parties: the seller who agrees to make delivery of the specific type of security called for in the contract ("going short") and the buyer who agrees to take delivery of the security ("going long") at a certain time in the future. For example, in the fixed income securities market, prices move inversely to interest rates. A rise in rates means a drop in price. Conversely, a drop in rates means a rise in price. In order to hedge its holdings of fixed income securities against a rise in market interest rates, the Funds could enter into contracts to deliver securities at a predetermined price (i.e., "go short") to protect themselves against the possibility that the prices of their fixed income securities may decline during the Funds' anticipated holding period. The Funds would "go long" (agree to purchase securities in the future at a predetermined price) to hedge against a decline in market interest rates.

Stock index futures contracts are based on indices that reflect the market value of common stock of the firms included in the indices. An index futures contract is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the differences between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written.

"MARGIN" IN FUTURES TRANSACTIONS

Unlike the purchase or sale of a security, the Funds do not pay or receive money upon the purchase or sale of a futures contract. Rather, the Funds are required to deposit an amount of "initial margin" in cash or U.S. Treasury bills with their custodian (or the broker, if legally permitted). The nature of initial margin in futures transactions is different from that of margin in securities transactions in that initial margin in futures transactions does not involve the borrowing of funds by a Fund to finance the transactions. Initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to a Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied.

A futures contract held by either Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day a Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by a Fund but is instead settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing its daily net asset value, a Fund will mark to market its open futures positions.

Each Fund is also required to deposit and maintain margin when it writes call options on futures contracts. The Funds will comply with the following restrictions when purchasing and selling futures contracts. First, each Fund will not participate in futures transactions if the sum of its initial margin deposits on open contracts will exceed 5% of the market value of the Fund's total assets, after taking into account the unrealized profits and losses on those contracts it has entered into. Second, the Funds will not enter into these contracts for speculative purposes. Third, since the Funds do not constitute a commodity pool, they will not market themselves as such, nor serve as a vehicle for trading in the commodities futures or commodity options markets. Connected with this, each Fund will disclose to all prospective investors the limitations on its futures and options transactions, and make clear that these transactions are entered into only for bona fide hedging purposes, or other permissible purposes pursuant to regulations promulgated by the Commodity Futures Trading Commission ("CFTC"). Finally, because each Fund will submit to the CFTC special calls for information, the Funds will not register as a commodities pool operator.

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PUT OPTIONS ON FINANCIAL FUTURES CONTRACTS

Each Fund may purchase listed put options on financial futures contracts to protect portfolio securities against decreases in value resulting from market factors, such as an anticipated increase in interest rates. Unlike entering directly into a futures contract, which requires the purchaser to buy a financial instrument on a set date at a specified price, the purchase of a put option on a futures contract entitles (but does not obligate) its purchaser to decide on or before a future date whether to assume a short position at the specified price.

Generally, if the hedged portfolio securities decrease in value during the term of an option, the related futures contracts will also decrease in value and the option will increase in value. In such an event, a Fund will normally close out its option by selling an identical option. If the hedge is successful, the proceeds received by the Fund upon the sale of the second option will be large enough to offset both the premium paid by the Fund for the original option plus the decrease in value of the hedged securities.

Alternatively, each Fund may exercise its put option to close out the position. To do so, it would simultaneously enter into a futures contract of the type underlying the option (for a price less than the strike price of the option) and exercise the option. The Fund would then deliver the futures contract in return for payment of the strike price. If the Fund neither closes out nor exercises an option, the option will expire on the date provided in the option contract, and only the premium paid for the contract will be lost.

CALL OPTIONS ON FINANCIAL FUTURES CONTRACTS

In addition to purchasing put options on futures, each Fund may write listed and over-the-counter call options on financial futures contracts to hedge its portfolio. When a Fund writes a call option on a futures contract, it is undertaking the obligation of assuming a short futures position (selling a futures contract) at the fixed strike price at any time during the life of the option if the option is exercised. As stock prices fall or market interest rates rise, causing the prices of futures to go down, the Fund's obligation under a call option on a future (to sell a futures contract) costs less to fulfill, causing the value of the Fund's call option position to increase.

In other words, as the underlying futures price goes down below the strike price, the buyer of the option has no reason to exercise the call, so that the Fund keeps the premium received for the option. This premium can substantially offset the drop in value of the Fund's portfolio securities.

Prior to the expiration of a call written by a Fund, or exercise of it by the buyer, the Fund may close out the option by buying an identical option. If the hedge is successful, the cost of the second option will be less than the premium received by the Fund for the initial option. The net premium income of the Fund will then substantially offset the decrease in value of the hedged securities.

Neither Fund will maintain open positions in futures contracts it has sold or call options it has written on futures contracts if, in the aggregate, the value of the open positions (marked to market) exceeds the current market value of its securities portfolio plus or minus the unrealized gain or loss on those open positions, adjusted for the correlation of volatility between the hedged securities and the futures contracts. If this limitation is exceeded at any time, the Fund will take prompt action to close out a sufficient number of open contracts to bring its open futures and options positions within this limitation.

PURCHASING PUT OPTIONS ON PORTFOLIO SECURITIES

Each Fund may purchase put options on portfolio securities to protect against price movements in particular securities in its portfolio. A put option gives the Fund, in return for a premium, the right to sell the underlying security to the writer (seller) at a specified price during the term of the option.

WRITING COVERED CALL OPTIONS ON PORTFOLIO SECURITIES

Each Fund may also write covered call options to generate income and thereby protect against price movements in particular securities in the Fund's portfolios. As writer of a call option, a Fund has the obligation upon exercise of the option during the option period to deliver the underlying security upon payment of the exercise price. The Fund may only sell call options either on securities held in its portfolio or on securities which it has the right to obtain without payment of further consideration (or has segregated cash in the amount of any additional consideration).

STOCK INDEX OPTIONS

Each Fund may purchase put options on stock indices listed on national securities exchanges or traded in the over-the-counter market. A stock index fluctuates with changes in the market values of the stocks included in the index.

The effectiveness of purchasing stock index options will depend upon the extent to which price movements in the Fund's portfolio correlate with price movements of the stock index selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether

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the Fund will realize a gain or loss from the purchase of options on an index depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of a particular stock. Accordingly, successful use by the Funds of options on stock indices will be subject to the ability of the Funds' adviser to predict correctly movements in the directions of the stock market generally or of a particular industry. This requires different skills and techniques than predicting changes in the price of individual stocks.

OVER-THE-COUNTER OPTIONS

The Funds may purchase and write over-the-counter options on portfolio securities in negotiated transactions with the buyers or writers of the options when options on the portfolio securities held by the Funds are not traded on an exchange. The Funds purchase and write options only with investment dealers and other financial institutions (such as commercial banks or savings and loan association) deemed creditworthy by the Funds' adviser.

Over-the-counter options are two party contracts with price and terms negotiated between buyer and seller. In contrast, exchange-traded options are third party contracts with standardized strike prices and expiration dates and are purchased from a clearing corporation. Exchange-traded options have a continuous liquid market while over-the-counter options may not.

RISKS

When the Funds use futures and options on futures as hedging devices, there is a risk that the prices of the securities subject to the futures contracts may not correlate perfectly with the prices of the securities in the Funds' portfolio. This may cause the futures contract and any related options to react differently than the portfolio securities to market changes. In addition, the Funds' adviser could be incorrect in its expectations about the direction or extent of market factors such as stock price movements. In these events, the Funds may lose money on the futures contract or option.

It is not certain that a secondary market for positions in futures contracts or for options will exist at all times. Although the Funds' adviser will consider liquidity before entering into these transactions, there is no assurance that a liquid secondary market on an exchange or otherwise will exist for any particular futures contract or option at any particular time. The Funds' ability to establish and close out futures and options positions depends on this secondary market. The inability to close out these positions could have an adverse effect on the Funds' ability to effectively hedge their portfolio.

To minimize risks, the Funds may not purchase or sell futures contracts or related options if immediately thereafter the sum of the amount of margin deposits on the Funds' existing futures positions and premiums paid for related options would exceed 5% of the market value of the Funds' total assets. When the Funds purchase futures contracts, an amount of cash and cash equivalents, equal to the underlying commodity value of the futures contracts (less any related margin deposits), will be deposited in a segregated account with the Funds' custodian (or the broker, if legally permitted) to collateralize the position and thereby insure that the use of such futures contract is unleveraged. When a Fund sells futures contracts, it will either own or have the right to receive the underlying future or security, or will make deposits to collateralize the position as discussed above.

AVERAGE MATURITY

For purposes of determining the dollar-weighted average maturity of each Fund's portfolio, the maturity of a Municipal Security will be its ultimate maturity. If it is probable that the issuer of the security will take advantage of maturity-shortening devices such as a call, refunding, or redemption provision, the maturity date will be the date on which it is probable that the security will be called, refunded, or redeemed. If the Municipal Security includes the right to demand payment, the maturity of the security for purposes of determining each Fund's dollar-weighted average portfolio maturity will be the period remaining until the principal amount of the security can be recovered by exercising the right to demand payment.

PORTFOLIO TURNOVER

Although the Funds do not intend to invest for the purpose of seeking short-term profits, securities in the portfolio will be sold whenever the investment adviser believes it is appropriate to do so in light of the Funds' investment objective without regard to the length of time a particular security may have been held. The investment adviser does not anticipate that either Fund's portfolio turnover will generally exceed 100%.

INVESTMENT LIMITATIONS

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ISSUING SENIOR SECURITIES AND BORROWING MONEY

The Funds will not issue senior securities except that each Fund may borrow money directly or through reverse repurchase agreements in amounts up to one-third of the value of its total assets including the amounts borrowed. The Funds will not borrow money or engage in reverse repurchase agreements for investment leverage, but rather as a temporary, extraordinary, or emergency measure or to facilitate management of the portfolio by enabling the Funds to meet redemption requests when the liquidation of portfolio securities is deemed to be inconvenient or disadvantageous. The Funds will not purchase any securities while any borrowings in excess of 5% of their total assets are outstanding.

SELLING SHORT AND BUYING ON MARGIN

The Funds will not sell any securities short or purchase any securities on margin but may obtain such short-term credits as are necessary for clearance of transactions.

CONCENTRATION OF INVESTMENTS

Neither Fund will invest 25% or more of the value of its total assets in any one industry, except for temporary defensive purposes, each Fund may invest 25% or more of the value of its total assets in cash or cash items (including instruments issued by a U.S. branch of a domestic bank or savings and loan association and bankers' acceptances), securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities, and repurchase agreements collateralized by such securities. (For purposes of this limitation, the Funds consider instruments issued by a U.S. branch of a domestic bank having capital, surplus, and undivided profits in excess of $100,000,000 at the time of investment to be "cash items.")

In addition, each Fund may invest more than 25% of the value of its total assets in obligations issued by any state, territory, or possession of the United States, the District of Columbia or any of their authorities, agencies, instrumentalities or political subdivisions, including tax-exempt project notes guaranteed by the U.S. government, regardless of the location of the issuing municipality. This policy applies to securities which are related in such a way that an economic, business, or political development affecting one security would also affect the other securities (such as securities paid from revenues from selected projects in transportation, public works, education, or housing).

PLEDGING ASSETS

The Funds will not mortgage, pledge, or hypothecate any assets, except to secure permitted borrowings. In those cases they may pledge assets having a market value not exceeding the lesser of the dollar amounts borrowed or 15% of the value of total assets of the Fund at the time of the pledge. The following are not deemed to be pledges: margin deposits for the purchase and sale of futures contracts and related options; and segregation of collateral arrangements made in connection with options activities or the purchase of securities on a when-issued basis.

LENDING CASH OR SECURITIES

The Funds will not lend any of their respective assets except portfolio securities up to one-third of the value of their respective total assets. This shall not prevent the Funds from purchasing or holding U.S. government obligations, money market instruments, variable rate demand notes, bonds, debentures, notes, certificates of indebtedness, or other debt securities, entering into repurchase agreements or engaging in other transactions where permitted by their investment objective, policies, and limitations.

INVESTING IN COMMODITIES

The Funds will not purchase or sell commodities, commodity contracts, or commodity futures contracts except that the Funds may purchase and sell financial or stock index futures contracts and related options.

INVESTING IN REAL ESTATE

The Funds will not purchase or sell real estate including limited partnership interests although they may invest in securities of issuers whose business involves the purchase or sale of real estate or in securities which are secured by real estate or which represent interests in real estate.

DIVERSIFICATION OF INVESTMENTS

With respect to securities comprising 75% of the value of their total assets, the Funds will not purchase securities issued by any one issuer (other than cash, cash items, or securities issued or guaranteed by the government of the United States or its agencies or instrumentalities and repurchase agreements collateralized by such securities) if as a result more than 5% of the value of their total assets would be invested in the securities of that issuer or if they would own more than 10% of the outstanding voting securities of such issuer. (For purposes of

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this limitation the Funds consider instruments issued by a U.S. branch of a domestic bank having capital, surplus, and undivided profits in excess of $100,000,000 at the time of investment to be "cash items.")

Under this limitation, each governmental subdivision, including states and the District of Columbia, territories, possessions of the United States, or their political subdivisions, agencies, authorities, instrumentalities, or similar entities, will be considered a separate issuer if its assets and revenues are separate from those of the governmental body creating it and the security is backed only by its own assets and revenues.

Industrial development bonds backed only by the assets and revenues of a nongovernmental user are considered to be issued solely by that user. If in the case of an industrial development bond or government-issued security, a governmental or some other entity guarantees the security, such guarantee would be considered a separate security issued by the guarantor, subject to a limit on investments in the guarantor of 10% of total assets.

UNDERWRITING

The Funds will not underwrite any issue of securities, except as they may be deemed to be an underwriter under the Securities Act of 1933 in connection with the sale of securities in accordance with their investment objective, policies, and limitations.

The above limitations cannot be changed without shareholder approval. The following limitations, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in these limitations becomes effective.

INVESTING IN ILLIQUID SECURITIES

The Funds will not invest more than 15% of the value of their respective net assets in illiquid securities, including repurchase agreements providing for settlement in more than seven days after notice, non-negotiable fixed time deposits with maturities over seven days, over-the-counter options, and certain securities not determined by the Directors to be liquid (including certain municipal leases).

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES

The Funds will limit their investments in other investment companies to no more than 3% of the total outstanding voting stock of any investment company, will invest no more than 5% of their respective total assets in any one investment company, and will invest no more than 10% of their respective total assets in investment companies in general. In order to comply with certain state restrictions, the Funds will limit their investments in securities of other investment companies to those with sales loads of less than 1.00% of the offering price of such securities. The Funds will purchase securities of closed-end investment companies only in open market transactions involving only customary broker's commissions. While it is a policy for the adviser to waive its investment advisory fee on Fund assets invested in securities of other open-end investment companies, it should be noted that investment companies incur certain expenses such as custodian and transfer agency fees, and therefore any investment by the Funds in shares of another investment company would be subject to such duplicate expenses. These limitations are not applicable if the securities are acquired in a merger, consolidation, reorganization, or acquisition of assets.

INVESTING IN NEW ISSUERS

The Funds will not invest more than 5% of the value of their respective total assets in securities of issuers which have records of less than three years of continuous operations, including the operation of any predecessor.

INVESTING IN ISSUERS WHOSE SECURITIES ARE OWNED BY OFFICERS AND DIRECTORS OF THE CORPORATION

The Funds will not purchase or retain the securities of any issuer if the Officers and Directors of the Corporation or its investment adviser, owning individually more than 1/2 of 1% of the issuer's securities, together own more than 5% of the issuer's securities.

INVESTING IN MINERALS

The Funds will not purchase interests in oil, gas, or other mineral exploration or development programs or leases except they may purchase the securities of issuers which invest in or sponsor such programs.

PURCHASING SECURITIES TO EXERCISE CONTROL

The Funds will not purchase securities of a company for purposes of exercising control or management.

INVESTING IN PUT OPTIONS

The Funds will not purchase put options on securities unless the securities are held in the Fund's portfolio and not more than 5% of the value of the Fund's total assets would be invested in premiums on open put options.

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WRITING COVERED CALL OPTIONS

The Funds will not write call options on securities unless the securities are held in a Fund's portfolio or unless the Fund is entitled to them in deliverable form without further payment or after segregating cash in the amount of any further payment. The Funds will not write call options in excess of 25% of the value of their respective net assets.

INVESTING IN WARRANTS

The Funds will not invest more than 5% of their respective net assets in warrants, including those acquired in units or attached to other securities. For purposes of this investment restriction, warrants will be valued at the lower of cost or market, except that warrants acquired by the Funds in units with or attached to securities may be deemed to be without value.

Neither Fund intends to borrow money in excess of 5% of the value of its net assets during the coming fiscal year. Neither Fund intends to invest more than 5% of its total assets in investment companies during the coming fiscal year. Neither Fund intends to lend its portfolio securities in excess of 5% of its net assets during the coming year. In order to permit the sale of a Fund's shares in certain states, a Fund may make commitments more restrictive than the investment limitations described above. In this regard, to comply with certain state restrictions, each Fund will limit its investment in warrants not listed on the New York or American Stock Exchanges to 2% of its net assets, and the Funds will not invest more than 10% of their respective total assets in securities subject to restrictions on resale under the Securities Act of 1933, except for commercial paper issued under Section 4(2) of the Securities Act of 1933 and certain other restricted securities which meet the criteria for liquidity as established by the Directors. (If state restrictions change, these restrictions may be revised without shareholder approval or notification.)

MARSHALL FUNDS, INC. MANAGEMENT

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OFFICERS AND DIRECTORS

Officers and Directors are listed with their addresses, principal occupations, and present positions, including any affiliation with Marshall and Ilsley Corporation, Federated Investors, Federated Securities Corp., Federated Services Company, and Federated Administrative Services.

<TABLE>
<CAPTION>

| NAME AND ADDRESS | POSITIONS WITH THE CORPORATION | PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS |
|---|---|---|
| <S> <C> | <C> | <C> |

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|---|---|---|
| Edward C. Gonzales* Federated Investors Tower Pittsburgh, PA | Chairman, Director Treasurer | Director, Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Chairman, Treasurer, and Trustee, Federated Administrative Services; Trustee, Director, Vice President and/or Treasurer of certain investment companies advised or distributed by affiliates of Federated Investors. |
| John DeVincentis 4700 21st Street Racine, WI | Director | Independent Financial Consultant; retired, Senior Vice President of Finance, In-Sink-Erator Division of Emerson Electric. |
| Ody J. Fish 247 Progress Drive Hartland, WI | Director | Formerly, Director, Newton Income Fund, Inc. and Newton Growth Fund, Inc.; Private Investor; formerly President, Pal-O-Pak Insulation Company. |
| Paul E. Hassett 1630 Capital Avenue Madison, WI | Director | Formerly, Director, Newton Income Fund, Inc. and Newton Growth Fund, Inc.; Retired; formerly President, Wisconsin Manufacturers and Commerce. |
| James F. Duca, II 1000 N. Water Street Milwaukee, WI | President | Vice President, Marshall & Ilsley Trust Company; Vice President, Marshall & Ilsley Trust Company of Florida; formerly Secretary, Marshall & Ilsley Trust Company and Marshall & Ilsley Trust Company of Florida. |

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|---|---|---|
| <S> <C> | <C> | <C> |
| Joseph S. Machi Federated Investors Tower Pittsburgh, PA | Vice President and Assistant Treasurer | Vice President, Federated Administrative Services; Director, Private Label Management, Federated Investors; Vice President and Assistant Treasurer of certain funds for which Federated Securities Corp. is the principal distributor. |
| Peter J. Germain Federated Investors Tower Pittsburgh, PA | Secretary | Corporate Counsel, Federated Investors. |

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* This Director is deemed to be an "interested person" of the Fund or the Corporation as defined in the Investment Company Act of 1940.

FUND OWNERSHIP

Officers and Directors of the Corporation own less than 1% of the outstanding shares of each Fund.

INVESTMENT ADVISORY SERVICES

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ADVISER TO THE FUNDS

The Funds' investment adviser is M&I Investment Management Corp. ("Adviser"). The Adviser shall not be liable to the Corporation, the Funds or any shareholder of the Funds for any losses that may be sustained in the purchase, holding, or sale of any security or for anything done or omitted by it, except acts or omissions involving willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties imposed upon it by its contract with the Corporation.

ADVISORY FEES

For its advisory services, the Adviser receives an annual investment advisory fee as described in the prospectus.

STATE EXPENSE LIMITATIONS

The Adviser has undertaken to comply with the expense limitation established by certain states for investment companies whose shares are registered for sale in those states. If the Funds' normal operating expenses (including the investment advisory fee, but not including brokerage commissions, interest, taxes, and extraordinary expenses) exceed 2 1/2% per year of the first $30 million of average net assets, 2% per year of the next $70 million of average net assets, and 1 1/2% per year of the remaining average net assets, the Adviser will reimburse the Funds for their expenses over the limitation. If the Funds' monthly projected operating expenses exceed this limitation, the investment advisory fee paid will be reduced by the amount of the excess, subject to an annual adjustment. If the expense limitation is exceeded, the amount to be reimbursed by the Adviser will be limited, in any single fiscal year, by the amount of the investment advisory fee.

This arrangement is not part of the advisory contract and may be amended or rescinded in the future.

ADMINISTRATIVE SERVICES
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Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services to the Funds for the fee set forth in the combined prospectus.

CUSTODIAN
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For its services as custodian, Marshall & Ilsley Trust Company ("M&I Trust Company") receives an annual fee, payable monthly, of 0.02% of the first $250 million of each Fund's average aggregate daily net assets and 0.01% on such assets over $250 million.

BROKERAGE TRANSACTIONS
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When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the Adviser looks for prompt execution of the order at a favorable price. In working with dealers, the Adviser will generally use those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be

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obtained elsewhere. The Adviser makes decisions on portfolio transactions and selects brokers and dealers subject to guidelines established by the Board of Directors.

The Adviser may select brokers and dealers who offer brokerage and research services. These services may be furnished directly to the Funds or to the Adviser and may include:

- - advice as to the advisability of investing in securities;

- - security analysis and reports;

- - economic studies;

- - industry studies;

- - receipt of quotations for portfolio evaluations; and

- - similar services.

The Adviser and its affiliates exercise reasonable business judgment in selecting brokers who offer brokerage and research services to execute securities transactions. They determine in good faith that commissions charged by such persons are reasonable in relationship to the value of the brokerage and research services provided.

Research services provided by brokers may be used by the Adviser in advising the Funds and other accounts. To the extent that receipt of these services may supplant services for which the Adviser or its affiliates might otherwise have paid, it would tend to reduce their expenses.

PURCHASING SHARES
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Shares are sold at their net asset value without a sales charge on days the New York Stock Exchange and the Federal Reserve Wire System are open for business. The procedure for purchasing shares is explained in Funds' prospectus under "Investing in the Funds."

EXCHANGING SECURITIES FOR FUND SHARES

A Fund may accept securities in exchange for Fund shares. The Fund will allow such exchanges only upon the prior approval of the Fund and a determination by the Fund and the Adviser that the securities to be exchanged are acceptable.

Any securities exchanged must meet the investment objective and policies of the Fund, must have a readily ascertainable market value, and must be liquid. The market value of any securities exchanged in an initial investment, plus any cash, must be at least equal to the minimum investment in the Fund. The Fund acquires the exchanged securities for investment and not for resale.

Securities accepted by the Fund will be valued in the same manner as the Fund values its assets. The basis of the exchange will depend on the net asset value of Fund shares on the day the securities are valued. One share of the Fund will be issued for the equivalent amount of securities accepted.

Any interest earned on the securities prior to the exchange will be considered in valuing the securities. All interest, dividends, subscription or other rights attached to the securities become the property of the Fund, along with the securities.

If an exchange is permitted, it will be treated as a sale for federal income tax purposes. Depending upon the cost basis of the securities exchanged for Fund shares, a gain or loss may be realized by the investor.

DETERMINING NET ASSET VALUE
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The net asset value generally changes every day. The days on which the net asset value is calculated by the Fund are described in the combined prospectus.

DETERMINING MARKET VALUE OF SECURITIES

Market values of the Funds' portfolio securities are determined as follows:

- - for bonds and other fixed income securities, at the last sale price on a national securities exchange if available, otherwise as determined by an independent pricing service;

- - for short-term obligations, according to the mean between bid and asked prices as furnished by an independent pricing service, or for short-term obligations with maturities of less than 60 days, at amortized cost; or

- - for all other securities, at fair value as determined in good faith by the Directors.

Prices provided by independent pricing services may be determined without relying exclusively on quoted prices and may reflect: institutional trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data.

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The Funds will value futures contracts, options on stock and stock indices and put options on stock index futures and financial futures at their market values established by the exchanges at the close of option trading on such exchanges unless the Directors determine in good faith that another method of valuing these positions is necessary.

## REDEEMING SHARES

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The Funds redeem shares at the next computed net asset value after the redemption requests are received. Redemption procedures are explained in the Funds' combined prospectus under "Redeeming Shares."

### REDEMPTION IN KIND

Although the Funds intend to redeem shares in cash, they reserve the right under certain circumstances to pay the redemption price in whole or in part by a distribution of securities from a Fund's portfolio. To the extent available, such securities will be readily marketable.

Redemption in kind will be made in conformity with applicable Securities and Exchange Commission rules, taking such securities at the same value employed in determining net asset value and selecting the securities in a manner the Directors determine to be fair and equitable.

Redemption in kind is not as liquid as a cash redemption. If redemption is made in kind, shareholders receiving their securities and selling them before their maturity could receive less than the redemption value of their securities and could incur transactions costs.

The Corporation has elected to be governed by Rule 18f-1 under the Investment Company Act of 1940 which obligates the Corporation to redeem shares for any one shareholder in cash only up to the lesser of $250,000 or 1% of the Fund's net asset value during any 90-day period.

## EXCHANGE PRIVILEGE

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### REQUIREMENTS FOR EXCHANGE

Shareholders using the exchange privilege must exchange shares having a net asset value of at least $1,000, except for exchanges into Marshall Short-Term Income Fund and Institutional Service Shares of Max-Cap Fund, which require a $25,000 minimum investment. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

Further information on the exchange privilege and prospectuses may be obtained by calling Marshall Funds Investor Services, M&I Brokerage Services or any M&I Bank.

### MAKING AN EXCHANGE

Instructions for exchanges may be given in writing or by telephone. Written instructions may require a signature guarantee.

## TAX STATUS

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### THE FUNDS' TAX STATUS

The Funds will pay no federal income tax because the Funds expect to meet the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to receive the special tax treatment afforded to such companies. To qualify for this treatment, the Funds must, among other requirements:

- - derive at least 90% of their gross income from dividends, interest, and gains from the sale of securities;

- - derive less than 30% of their gross income from the sale of securities held less than three months;

- - invest in securities within certain statutory limits; and

- - distribute to their shareholders at least 90% of their net income earned during the year.

TOTAL RETURN

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The average annual total return for the Fund is the average compounded rate of return for a given period that would equate a $1,000 initial investment to the ending redeemable value of that investment. The ending redeemable value is computed by multiplying the number of shares owned at the end of the period by the offering price per share at the end of the period. The number of shares owned at the end of the period is based on the number of shares purchased at the beginning of the period with $1,000, adjusted over the period by any additional shares, assuming the quarterly reinvestment of all dividends and distributions.

YIELD
- ------------------------------------------------------------------------------

The yield for the Funds is determined by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by each Fund over a thirty-day period by the offering price per share of the Funds on the last day of the period. This value is annualized using semi-annual compounding. This means that the amount of income generated during the thirty-day period is assumed to be generated each month over a twelve-month period and is reinvested every six months. The yield does not necessarily reflect income actually earned by the Funds because of certain adjustments required by the Securities and Exchange Commission and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

To the extent that financial institutions and broker/dealers charge fees in connection with services provided in conjunction with an investment in the Funds, the performance will be reduced for those shareholders paying those fees.

TAX-EQUIVALENT YIELD
- ------------------------------------------------------------------------------

The tax-equivalent yield of the Funds is calculated similarly to the yield, but is adjusted to reflect the taxable yield that the Funds would have had to earn to equal its actual yield, assuming a 39.6% tax rate (the maximum marginal federal rate for individuals) and assuming that income is 100% tax-exempt.

TAX-EQUIVALENCY TABLE

The Funds may also use a tax-equivalency table in advertising and sales literature. The interest earned by the municipal bonds in the Funds' portfolio generally remains free from federal income tax* and is often free from state and local taxes as well. As the table below indicates, a "tax-free" investment is an attractive choice for investors, particularly in times of narrow spreads between tax-free and taxable yields.

<TABLE>

TAX-FREE YIELD VS. TAXABLE YIELD

| <S> | <C> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|---|
| 1994 FEDERAL INCOME TAX BRACKET: | | | | | |
| | 15.00% | 28.00% | 31.00% | 36.00% | 39.60% |

| JOINT RETURN: | $1-36,900 | $36,901-89,150 | $89,151-140,000 | $140,001-250,000 | OVER $250,000 |
|---|---|---|---|---|---|
| SINGLE RETURN: | $1-22,000 | $22,101-53,500 | $53,501-115,000 | $115,001-250,000 | OVER $250,000 |
| TAX-FREE YIELD | TAXABLE YIELD EQUIVALENT | | | | |
| 2.50% | 2.94% | 3.47% | 3.62% | 3.91% | 4.14% |
| 3.00 | 3.53 | 4.17 | 4.35 | 4.69% | 4.97% |
| 3.50 | 4.12 | 4.86 | 5.07 | 5.47% | 5.79% |
| 4.00 | 4.71 | 5.56 | 5.80 | 6.25% | 6.62% |
| 4.50 | 5.29 | 6.25 | 6.52 | 7.03% | 7.45% |
| 5.00 | 5.88 | 6.94 | 7.25 | 7.81% | 8.28% |
| 5.50 | 6.47 | 7.64 | 7.97 | 8.59% | 9.11% |
| 6.00 | 7.06 | 8.33 | 8.70 | 9.38% | 9.93% |
| 6.50 | 7.65 | 9.03 | 9.42 | 10.16% | 10.76% |

</TABLE>

The chart above is for illustrative purposes only. It is not an indicator of past or future performance of the Funds.

* Some portion of the Funds' income may be subject to the federal alternative minimum tax and state and local taxes.

PERFORMANCE COMPARISONS

The Funds' performance depends upon such variables as:

- - portfolio quality;

- - average portfolio maturity;

- - type of instruments in which the portfolio is invested;

- - changes in interest rates on money market instruments;

- - changes in Fund expenses; and

- - the relative amount of Fund cash flow.

From time to time the Funds may advertise their performance compared to similar funds or portfolios using certain indices, reporting services, and financial publications. These may include the following:

- - DONOGHUE'S MONEY FUND REPORT publishes annualized yields of hundreds of taxable and tax-exempt money market funds on a weekly basis and through its Money Market Insight publication reports monthly and year-to-date investment results for the same money funds.

- - LIPPER ANALYTICAL SERVICES, INC., ranks funds in various fund categories by making comparative calculations using total return. Total return assumes the reinvestment of all capital gains distributions and income dividends, if any. From time to time, the Funds will quote their Lipper ranking in advertising and sales literature.

- - MORNINGSTAR INC., an independent rating service is the publisher of the bi-weekly Mutual Fund Values. Mutual Fund Values rates more than 1,000 NASDAQ-listed mutual funds of all types, according to their risk-adjusted returns. The maximum rating is five stars, and rating are effective for two weeks.

- - SHEARSON LEHMAN FIVE-YEAR STATE GENERAL OBLIGATIONS BONDS is an index comprised of all state general obligation debt issues with maturities between four and six years. These bonds are rated A or better and represent a variety of coupon ranges. Index figures are total returns calculated for one, three, and twelve month periods as well as year-to-date. Total returns are also calculated as of the index inception, December 31, 1979.

- - SHEARSON LEHMAN THREE-YEAR STATE GENERAL OBLIGATIONS BONDS is an index comprised of the same issues noted above except that the maturities range between two and four years. Index figures are total returns calculated for the same periods as listed above.

Investors may use such indices or reporting service in addition to the Funds' combined prospectus to obtain a more complete view of a Fund's performance before investing. Of course, when comparing the performance of a Fund's shares to any index, conditions such as composition of the index and prevailing market conditions should be considered in assessing the significance of such comparisons. When comparing funds using reporting services, or total return and yield, investors should take into consideration any relevant differences in funds such as permitted portfolio compositions and methods used to value portfolio securities and compute offering price.

Advertisements and other sales literature for a Fund's shares may quote total returns which are calculated on non-standardized base periods. These total returns also represent the historic change in the value of an investment in a Fund's shares based on monthly reinvestment of dividends over a specified period of time.

## APPENDIX

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STANDARD AND POOR'S ("S&P") CORPORATION MUNICIPAL BOND RATINGS

AAA -- Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA -- Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A -- Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

NR -- NR indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.

Plus (+) or minus (-): The ratings "AA" and "A" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

MOODY'S INVESTORS SERVICE, INC. ("MOODY'S") MUNICIPAL BOND RATINGS

Aaa -- Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa -- Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities.

A -- Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.

NR -- Not rated by Moody's.

Moody's applies numerical modifiers, 1, 2 and 3 in the generic rating classification of "Aa" and "A" in its corporate or municipal bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

FITCH INVESTORS SERVICE, INC. ("FITCH") LONG-TERM DEBT RATINGS

AAA -- Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA -- Bonds considered to be investment grade and of very high quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA." Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+."

A -- Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

NR -- NR indicates that Fitch does not rate the specific issue.

Plus (+) or Minus (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "AAA" category.

STANDARD AND POOR'S CORPORATION MUNICIPAL NOTE RATINGS

SP-1 -- Very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.

SP-2 -- Satisfactory capacity to pay principal and interest.

MOODY'S INVESTORS SERVICE, INC. SHORT-TERM DEBT RATINGS

MIG1/VMIG1 -- This designation denotes best quality. There is a present strong protection by established cash flows, superior liquidity support or demonstrated broadbased access to the market for refinancing.

MIG2/VMIG2 -- This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group.

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FITCH INVESTORS SERVICE, INC. SHORT-TERM DEBT RATINGS

F-1+ -- Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

F-1 -- Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+."

F-2 -- Good Credit Quality. Issues carrying this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as the "F-1" and "F-1+ " categories.

STANDARD AND POOR'S CORPORATION COMMERCIAL PAPER RATINGS

A-1 -- This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.

A-2 -- Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated "A-1."

MOODY'S INVESTORS SERVICE, INC. COMMERCIAL PAPER RATINGS

P-1 -- Issuers rated PRIME-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. PRIME-1 repayment capacity will normally be evidenced by the following characteristics: conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; well established access to a range of financial markets and assured sources of alternate liquidity.

P-2 -- Issuers rated PRIME-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

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