FORM 486BPOS

Post-effective amendments to filing filed pursuant to Securities Act Rule 486(b)

Filing Date: **1998-01-05**
SEC Accession No. 0000903112-98-000002

FILER

AVALON CAPITAL INC

CIK:**942600**| IRS No.: **000000000** | State of Incorp.:**MD** | Fiscal Year End: **0831**
Type: **486BPOS** | Act: **33** | File No.: **033-90522** | Film No.: **98500972**

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Reg. ICA No. 811-9004
File No. 33-90522

As filed with the Securities and Exchange Commission on January 5, 1998

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
/X/ Post-Effective Amendment No. 1

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
|X| Post-Effective Amendment No. 1

AVALON CAPITAL, INC.

Exact Name of Registrant as Specified in Charter

34 Chambers Street, Suite 200, Princeton, New Jersey 08542

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(609) 683-3916

Registrant's Telephone Number, including Area Code

Thomas R. Westle, Esq. — Battle Fowler LLP, 75 East 55th Street, New York, NY 10022

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

As soon as practicable after the effective date of this registration statement
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Approximate Date of Proposed Public Offering

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. /X/

It is proposed that this filing will become effective (check appropriate box)

/_/ when declared effective pursuant to section 8(c)

/X/ immediately upon filing pursuant to paragraph (b)

/_/ on (date) pursuant to paragraph (b)

/_/ 60 days after filing pursuant to paragraph (a)

/_/ on (date) pursuant to paragraph (a) in accordance with Rule 486 under the Securities Act of 1933.

If appropriate, check the following box:

/_/ this [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

272564.3

CROSS-REFERENCE SHEET

(Pursuant to Rule 404 showing location in the form of Prospectus of the responses to the Items in Part A and location in the form of Prospectus and the Statement of Additional Information of the responses to the Items in Part B of Form N-2).

Item Number Form N-2, Part A	Prospectus Caption
1	Front Cover Page
2	Inside Front and Outside Back Cover Page
3	Prospectus Summary; Summary of the Company's Expenses
4	Not Applicable
5	Plan of Distribution
6	Not Applicable
7	The Company and its Objectives, Policies and Risks
8	The Company and its Objectives, Policies and Risks
9	Management of the Company
10	Capital Stock of the Company; Automatic Dividend Reinvestment and Cash Purchase Plan; Taxes
11	Not Applicable
12	Not Applicable
13	Table of Contents of the Statement of Additional Information

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<TABLE>
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Item Number Form N-2, Part B	Prospectus Caption		Statement of Additional Information Caption
<S> <C>	<C>		<C>
14		*	Cover Page
15		*	Cover Page
16		*	Not Applicable
17	The Company and its Objectives, Policies and Risks		*
18		*	Management
19		*	General Information
20		*	Investment Adviser and Investment Advisory Agreement
21		*	Portfolio Transactions and Brokerage; Allocation of Investments
22		*	Tax Matters
23		*	Financial Statements

</TABLE>

Part C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

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PROSPECTUS

Avalon Capital, Inc.

Avalon Capital, Inc. (the "Company") is a non-diversified closed-end management investment company. The Company's primary investment objective is long-term capital appreciation. The Company will seek to achieve its objective by investing in a portfolio of securities that possess fundamental investment value and may be purchased at a reasonable cost. There is no assurance that the Company will achieve its objectives. See "The Company and its Objectives, Policies, and Risks."

Hutner Capital Management, Inc. ("Hutner Capital Management") is the Company's investment adviser. The address of the Company and Hutner Capital Management is 34 Chambers Street, Suite 200, Princeton, New Jersey 08542, and its telephone number is (609) 683-3916. American Data Services, Inc. ("ADS") is the Company's administrator. The address of ADS is The Hauppauge Corporate Center, 150 Motor Parkway, Hauppauge, New York 11788, and its telephone number is (516) 951-0500.

The Company has listed 3 million shares of its common stock on the Nasdaq Small Cap Market. The Company's symbol for its common stock is "MIST." The Company's market value per share of common stock on December 26, 1997 was $12.00 per share.

To provide additional shareholder liquidity, the Company has adopted a fundamental policy that requires it to make an annual repurchase offer to purchase a specified percentage of the company's outstanding shares at the then-current net asset value. The annual repurchase offer will occur in February of each year. The Company may also, at its sole discretion, offer to sell additional shares of its common stock on a quarterly basis. See "Repurchase Offers."

The Prospectus sets forth concisely information about the Company that a prospective investor ought to know before investing. Investors are advised to read this Prospectus carefully and retain it for future reference. A Statement of Additional Information about the Company has been filed with the Securities and Exchange Commission and is available, without charge, upon writing or calling ADS at the above location. The Statement of Additional Information has been incorporated by reference into this Prospectus. The table of contents of the Statement of Additional Information appears on page __ of this Prospectus.

Investors should be aware that shares of a closed-end equity fund frequently tend to trade at a discount. Accordingly, an investor who purchases the common stock of the Company may experience a risk of loss to capital.

The date of this Prospectus and the Statement of Additional Information is January 6, 1998.

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

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information included elsewhere in this Prospectus.

The Company	Avalon Capital, Inc. (the "Company") is a non-diversified closed-end management investment company. See "The Company and its Objectives, Policies and Risks."
Investment Objectives	The Company will seek to achieve its objectives by investing in a portfolio of securities that possess fundamental investment value and may be purchased at a reasonable cost (the "Business Valuation Approach"). In applying the Business Valuation Approach, the investment adviser will: (1) view each investment as a business; (2) think independently; (3) emphasize high returns; (4) seek sustained business excellence; (5) seek businesses that consider shareholder interests; (6) seek to pay a reasonable price; and (7) invest for the long term. See "The Company and its Objectives, Policies and Risks."
Investment Adviser	Hutner Capital Management, Inc. ("Hutner Capital Management" or the "investment adviser") will act as the Company's investment adviser. The Company will pay Hutner Capital Management a monthly fee at an annual rate of 1% of the average weekly net assets of the Company. This fee is higher than that paid by many other investment companies. Hutner Capital Management was founded in 1995.
Administrator	American Data Services, Inc. ("ADS") serves as the Company's administrator. The Company pays ADS a monthly fee equal to the greater of an annual rate of .10% of the average weekly net assets of the Company or $44,400 per year. See "Management of the Company."
Distributions	The Company's policy is to distribute to its shareholders all of its net investment income and net realized capital gains, if any, for each year. All distributions to shareholders whose shares are registered in their own names or whose shares are held in the name of a broker or nominee are automatically reinvested in additional shares of the Company, unless they elect to receive cash. See "Taxes" and "Automatic Dividend Reinvestment Plan."

Repurchase of Shares	Beginning as of February, 1996 and each February thereafter, the Company makes an annual repurchase offer to purchase a specified percentage on a quarterly basis of the Company's outstanding shares at the

	then-current net asset value. As of the date of this prospectus, all such annual repurchase offers have been set at 5% of the Company's outstanding shares at the then-current net asset value per share; however, the Company, in its sole discretion, repurchased an additional 2% of the shares outstanding in 1996 pursuant to the terms of the repurchase offer.. The percentage is established annually at the sole discretion of the Board of Directors. The Company may also, at its sole discretion, offer to sell additional shares on a quarterly basis. See "Repurchase Offers."
Listing.....	The Company has listed its shares of common stock on the Nasdaq Small Cap Market. The Company's symbol is "MIST."

SPECIAL RISK CONSIDERATIONS

An investment in the Company's common stock cannot be considered a complete investment program. Because the Company's investment portfolio will be non-diversified, the shares may be subject to greater risk than the shares of a closed-end investment company whose portfolio is diversified.

Shares of a closed-end equity fund frequently tend to trade at a discount. Accordingly, an investor who purchases the common stock of the Company may have a risk of loss to capital.

The Articles of Incorporation of the Company include certain "anti-takeover" provisions requiring the approval of three-quarters of the outstanding voting stock for certain transactions. In addition, the Articles of Incorporation provide that the Board of Directors is to consist of three classes of directors, one class to be elected each year. These provisions and others in the Articles of Incorporation could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to gain control in a tender offer, proxy contest or similar transaction. See "The Company and its Objectives, Policies and Risks" and "Capital Stock of the Company."

SUMMARY OF THE COMPANY'S EXPENSES

The expense summary below was developed to help you make your investment decisions. You should consider this expense information along with other important information in this Prospectus, including the Company's investment objective.

A. Shareholder Transaction Expenses

Sales Load (as a percentage of offering price)	None
Dividend Reinvestment Fee	None
Cash Purchase Plan Fee (as a percentage of amount reinvested)*	5%

B. Annual Expenses (as a percentage of net assets attributable to common stock)

Advisory Fees.....	1.00%

Administration Fees	.34%
Other Expenses	.88%
Total Annual Expenses	2.22%

C. Example:

The purpose of the following table is to assist you in understanding the various costs and expenses that an investor in the Company would bear directly or indirectly. You would pay the following expenses on a $1,000 investment in the Company, assuming a 5% annual return:

1 Year	3 Years	5 Years	10 Years
$23	$69	$119	$255

A. Shareholder Transaction Expenses represent charges paid when you purchase shares of the Company.

B. Annual Expenses are based on the Company's expenses for the fiscal year ended August 31, 1997.

C. The Example of Expenses is a hypothetical example that illustrates the expenses associated with a $1,000 investment in the Company over periods of one and three years, based on the estimated expenses in the above table and an assumed annual rate of return of 5%. The 5% return and expenses should not be considered a representation of future expenses. Actual expenses may be greater or lesser than those shown.

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* The Cash Purchase Plan Fee has a $3.00 maximum with a $1.00 termination fee.

FINANCIAL HIGHLIGHTS

The following table presents per share financial information which has been derived from the Fund's financial statements audited and reported on by Deloitte & Touche, LLP, the Fund's independent accountants. The "Report of Independent Accountants" and financial statements included in the Fund's Annual Report to Shareholders for the fiscal year ended August 31, 1997 are incorporated by reference in this Prospectus. The Fund's Annual Report, which contains additional unaudited performance information, is available without charge upon request.

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Selected Data for a Share Outstanding During the Period

	For the year ended August 31, 1997	November 20, 1995* through August 31, 1996
<S>	<C>	<C>
Beginning net asset value per share	$10.51	$10.00
Net investment loss	(0.09)	-
Net realized and unrealized gain on securities	2.93	0.60
Distribution from net investment income	-	(0.04)
Offering cost	-	(0.05)
Ending net asset value per share	$13.35	$10.51
Ending market value per share	$13.75	$10.88

Ratios to average net assets:		
Expenses	2.22%	3.14%**
Total return:		
Based upon net asset value	27.02%	5.48%
Based upon market value	26.38%	9.18%
Portfolio turnover rate	8.89%	0.00%
Average Brokerage commission rate+	$0.0612	$.0450
Net assets at end of period (000's omitted)	$12,269	$10,180

</TABLE>

* Commencement of operations
** Annualized
\+ Amount represents average commission per share, paid to brokers, on the purchase and sale of portfolio securities.

THE COMPANY AND ITS OBJECTIVES, POLICIES AND RISKS

The Company

The Company is registered as a closed-end, non-diversified management investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and was incorporated on March 14, 1995 under the laws of the State of Maryland. The Company's primary investment objective is to provide investors with long-term capital appreciation by investing in a portfolio of securities that possess fundamental investment value and may be purchased at reasonable cost. No assurance can be given that the Company's investment objective will be achieved.

Investment Objectives and Policies

The Company's primary investment objective is long-term capital appreciation. The Company will seek to achieve its objectives by investing in a portfolio of securities that possess fundamental investment value and may be purchased at a reasonable cost (the "Business Valuation Approach").

In applying the Business Valuation Approach, the investment adviser will follow these investment principles:

o View each investment as a business. In selecting securities, the investment adviser views common stock and other equity securities as units of ownership of a business as a going concern. Consistent with this view, the investment adviser will focus on businesses which he believes will generate high returns. In evaluating the potential future returns of a business, the investment adviser will, in general, give little weight to current market perceptions. Rather the investment adviser will consider such factors relating to a company as financial statements, profitability, return on equity, cash flow, asset values and the investment adviser's perception of management's expertise.

o Think independently. The investment adviser is wary of the irrational emotions and actions that periodically sweep through Wall Street and thus will generally avoid popular investment ideas. The investment adviser will base his investment decisions on the quality of a business, not its popularity. He will attempt to identify companies that he believes have, for one reason or another, been misappraised by the market.

o Emphasis on high returns. Whether buying publicly traded stock or securities of a private company, the investment adviser will be always conscious of the Company's role as a business owner. Investment gains over the long run are determined by the return that a business earns on its owners' capital and the price paid to become an owner. The investment adviser considers a good measure of earning power to be a high return on equity (net profits divided by

common equity) sustained over a period of time. Thus, the investment adviser will look for companies that consistently post a return on equity of 15-50% or more. Another measure of profitability the investment adviser will use is the cash generated by the business. The investment adviser will focus on businesses that do not require significant capital expenditures.

o Look for sustained business excellence. Sustained business excellence is often due to some competitive advantage that allows a business to earn an unusually high rate of return consistently over long periods of time. The investment adviser will focus on companies with a clear business franchise, or competitive advantage in their market, due to factors such as industry structure, government regulations, superior management, and favorable reputation of services or products. In addition, these companies normally must display a proven record of healthy earnings growth.

o Interest in businesses that are run with the shareholders in mind. The investment adviser favors companies where management treats shareholders as partners by, for example, providing excellent communications with owners, employing reasonable compensation packages that don't compromise shareholders' earnings, refraining from engaging in insider transactions to the shareholders' detriment, maximizing shareholders' earnings through such methods as share repurchases and generally taking consistent action to maximize the value of the business for its owners.

o Seek to pay a reasonable price. The Company will invest in companies where the investment adviser believes the return on the investment will be significantly greater than the risk-free rate of return, such as that on long-term U.S. Government bonds. The investment adviser will consider such measures of return as the earnings yield and estimated growth rate of earnings.

o Invest for the long term. The objective of the investment adviser in managing the Company will be to increase wealth in a manner that reduces as much as possible the risk of permanent -- as opposed to quotational -- loss. The investment adviser will attempt to achieve very large long-term gains through the creation of business value. The Company will, in general, hold most investments for at least 5 years, unless changed circumstances dictate the disposition of the investment. However, the Company may also take shorter-term positions in stocks of companies in special situations such as mergers, acquisitions, legal proceedings, spin-offs, liquidations, bankruptcies, recapitalizations, or the like.

While there is no general limit as to types of securities which can be purchased, most of the Company's investments are in marketable common stocks or marketable securities convertible into common stocks. Such securities may be traded on an exchange or in the over-the-counter market. The Company may also purchase Restricted Securities. As used herein, the term "Restricted Securities" means securities the transfer of which is limited by legal or contractual restrictions. See "Restricted Securities" below, for information regarding the Company's policies as to such purchases.

Temporary or Defensive Investments. Securities other than common stock or securities convertible into common stock may be held from time to time, but the Company will not normally invest in fixed income securities except for defensive purposes or to temporarily employ uncommitted cash balances. Such action for defensive purposes would be taken in the belief that future growth may be at an unacceptable rate or that there is an undue risk of market decline. While investment for defensive purposes could reduce the risk of market declines, such a policy cannot eliminate risk or completely protect against fluctuations in the value of the Company's assets. The amount invested for defensive purposes and the length of time which such investments may be maintained will depend primarily upon the investment adviser's judgment as to market and other conditions and will not be subject to limitations. The kinds of securities in which the Company may invest for defensive purposes would include investment grade corporate debt securities, preferred stocks and U.S. Government securities, or funds may be retained in cash or cash equivalents. Investment grade corporate debt securities that are rated in the lowest category of investment grade may have speculative characteristics, and changes in economic conditions or other circumstances are more likely to lead to a weakened capacity

to make principal and interest payments than is the case for higher grade debt securities. The Company does not have a policy as to whether it will retain or dispose of a debt security whose rating drops below investment grade. Temporary investments of uncommitted cash balances will be made in U.S. Government securities and investment grade short-term money market instruments, and short-term securities issued or guaranteed by banks.

Foreign Securities. The investment adviser believes that the Company's investment in foreign securities will be made primarily through the purchase of the common stock of foreign companies that are traded in the United States or the purchase of American Depository Receipts ("ADR's"), which are certificates issued by U.S. banks representing the right to receive securities of a foreign issuer deposited with that bank or a correspondent bank. Investments by the Company in the common stock of foreign companies which are traded in the United States or in ADR's may involve considerations and risks that are different in certain respects from an investment in securities of U.S. companies. Such risks concerning the direct investment in foreign securities by the Company are similar to a lesser degree to those described below. The Company also may invest in selected foreign securities that, in the Adviser's opinion, will enable the Company to take advantage of additional opportunities that are consistent with its investment objective of long-term capital appreciation. No more than 20% of the total assets of the Company may be invested in foreign securities, and the Company anticipates that under normal circumstances its investments in foreign securities will range between 5 and 10% of the Company's total assets. Investing in foreign securities involves certain risks including those set forth below, which are not typically associated with investing in domestically traded securities.

In general, the Company will only invest in foreign securities that can be purchased and sold on foreign stock exchanges or over-the-counter markets. Fixed commissions and other transaction costs on foreign stock exchanges are generally higher than negotiated commissions and other such costs on United States exchanges. There is generally less governmental supervision and regulation of foreign stock exchanges, brokers and issuers than in the United

States. In addition, foreign stock markets, with certain exceptions, are not as developed or efficient as those in the United States. Foreign securities often trade with less frequency and volume than domestic securities and, therefore, tend to be less liquid and exhibit greater price volatility.

Certain of the foreign securities in which the Company may invest will not be registered with, nor will the issuers thereof be subject to the reporting requirements of, the Securities and Exchange Commission. As a result, there may be less publicly available information about a foreign company or a foreign security than about a domestic company or a domestically traded security. In general, foreign companies are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to domestic companies.

The custody of foreign securities is generally maintained abroad, and the costs and risks involved are generally higher than the costs and risks of maintaining custody of securities in the United States. With respect to some foreign countries, there may exist the possibility of expropriation or confiscatory taxation, limitations on the removal of funds or other assets, political or social instability, or diplomatic developments which could affect United States investments in those countries. Moreover, individual foreign economies may differ favorably or unfavorably from the United States economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position.

Dividends and interest payable on foreign securities may be subject to foreign withholding taxes, thereby reducing the net amount of income available for distribution to stockholders. Certain countries have entered into tax treaties with the U.S. that reduce the tax on U.S. taxpayers. There is no assurance, however, that the Company will be able to take advantage of any such tax treaties or that the Company or its stockholders will ever be able to claim any foreign tax credit, for U.S. income tax purposes, on account of any such foreign income taxes. In addition, the dividends received deduction generally will not be available to either the Company or its shareholders with respect to dividends received from foreign corporations.

Investments in foreign securities frequently involve currencies of foreign countries, and because the Company may hold funds in foreign currencies pending

completion of investment programs, the Company, therefore, may be affected favorably or unfavorably by changes in currency rates and in exchange control regulations including, but not limited to, action by a foreign government to devalue its currency. There is no guarantee that the Company or the Adviser will correctly anticipate currency fluctuations. Accordingly, if the Company's funds are maintained in investments denominated in foreign currencies during periods when the value of the U.S. dollar is appreciating relative to those foreign currencies, the Company will experience losses. The Company will also incur service charges in connection with each currency conversion.

As a non-diversified investment company, the Company has no specific policy on diversification of assets nor is it intended that the Company will have any such policy in the future. However, the Company has elected to be treated as, and intends to qualify for tax treatment as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"). The Company will diversify its assets so that, at the close of each quarter of its taxable year: (a) at least 50% of the total value of its assets are represented by cash and cash items, government securities and other securities with respect to which the Company will not invest more than 5% of its total assets, at market value, in the securities of any one issuer or own more than 10% of the outstanding voting securities of any one issuer and (b) not more than 25% of the total value of its assets are invested in securities of any one issuer or of any two or more issuers controlled by the Company which, pursuant to the regulations under the Code, may be deemed to be engaged in the same, similar or related trades or businesses. Changes in the market value of securities in the Company's portfolio generally will not cause the Company to cease to qualify as a regulated investment company unless any failure to satisfy these restrictions exists immediately after the acquisition of any security or other property and is wholly or partly the result of such acquisition.

The Company will observe a non-fundamental policy of not investing for the purpose of exercising control or management, even though it may take substantial positions in securities of small companies and in certain circumstances this may result in the acquisition of such control. Such circumstances could arise, for example, when existing controlling persons of an issuer dispose of their holdings to larger groups or to the public or where an issuer defaults to the Company on its obligations pursuant to the provisions of a purchase agreement or instrument governing the rights of a senior security held by the Company.

Non-Fundamental Investment Practices and Risks

In order to achieve its investment objectives, the Company may engage in the following non-fundamental investment practices.

Purchasing Put and Call Options on Securities. The Company may purchase covered put options to protect its portfolio holdings in an underlying security against a decline in market value. Such hedge protection is provided during the life of the put option since the Company, as holder of the put option, is able to sell the underlying security at the put exercise price regardless of any decline in the underlying security's market price. In order for a put option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price to cover the premium and transaction costs. By using put options in this manner, the Company will reduce any profit it might otherwise have realized in its underlying security by the premium paid for the put option and by transaction costs, but it will retain the ability to benefit from future increases in market value.

The Company may also purchase covered call options to hedge against an increase in prices of securities it wants ultimately to buy. Such hedge protection is provided during the life

of the call option since the Company, as holder of the call option, is able to buy the underlying security at the exercise price regardless of any increase in

the underlying security's market price. In order for a call option to be profitable, the market price of the underlying security must rise sufficiently above the exercise price to cover the premium and transaction costs. By using call options in this manner, the Company will reduce any profit it might have realized had it bought the underlying security at the time it purchased the call option by the premium paid for the call option and by transaction costs, but it limits the loss it will suffer if the security declines in value to such premium and transaction costs.

Writing Covered Call Options on Securities. The Company may write covered call options on optionable securities of the types in which they are permitted to invest from time to time as determined appropriate in seeking to attain its objective. Call options written by the Company give the holder the right to buy the underlying securities from the Company at a stated exercise price.

The Company will receive a premium for writing a covered call option, which increases the Company's return in the event the option expires unexercised or is closed out at a profit. The amount of the premium will reflect, among other things, the relationship of the market price of the underlying security to the exercise price of the option, the term of the option and the volatility of the market price of the underlying security. By writing a covered call option, the Company limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option.

The Company may terminate an option that it has written prior to the option's expiration by entering into a closing purchase transaction in which an option is purchased having the same terms as the option written. The Company will realize a profit or loss from such transaction if the cost of such transaction is less or more than the premium received from the writing of the option. Because increases in the market price of a call option will generally reflect increases in the market price of the underlying security, any loss resulting from the repurchase of a call option is likely to be offset in whole or in part by unrealized appreciation of the underlying security owned by the Company.

The writing and purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The successful use of protective puts for hedging purposes depends in part on the Adviser's ability to predict future price fluctuations and the degree of correlation between the options and securities markets.

Lending of Portfolio Securities. In order to generate additional income, the Company may lend its portfolio securities in an amount up to 33 1/3% of its total assets to broker-dealers, major banks, or other recognized domestic institutional borrowers of securities. No lending may be made to any companies affiliated with the Company. The borrower at all times during the loan must maintain with the lending Company cash or cash equivalent collateral equal in value at

all times to at least 100% of the value of the securities loaned. During the time portfolio securities are on loan, the borrower pays the Company any dividends or interest paid on such securities, and the Company may invest the cash collateral and earn additional income, or it may receive an agreed-upon amount of interest income from the borrower who has delivered equivalent collateral. The Company will have the right to regain record ownership of loaned securities to exercise beneficial rights, such as voting rights and subscription rights. There is the risk of failure by the borrower to return the securities involved in such transaction.

Illiquid Securities. The Company has adopted the following non-fundamental investment policy, which may be changed by the vote of the Board of Directors. The Company will not invest in illiquid securities (including restricted securities) if immediately after such investment more than 15% of the Company's total assets (taken at market value) would be invested in such securities. This limitation may be subject to additional restrictions imposed by jurisdictions in which the Company's shares are offered for sale. For this purpose, illiquid securities include (a) securities that are illiquid by virtue of the absence of a readily available market or legal or contractual restrictions on resale, (b) participation interests in loans that are not subject to puts, and (c) repurchase agreements not terminable within seven days.

Restricted Securities. Historically, illiquid securities have included

securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act of 1933, as amended ("Securities Act"). Securities that have not been registered under the Securities Act are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market.

In recent years, a large institutional market has developed for certain securities that are not registered under the Securities Act including repurchase agreements, commercial paper, foreign securities, municipal securities and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer's ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments.

The Securities and Exchange Commission has adopted Rule 144A, which allows a broader institutional trading market for securities otherwise subject to restriction on resale to the general public. Rule 144A establishes a "safe harbor" from the registration requirements of the Securities Act applicable to resales of certain securities to qualified institutional buyers.

As stated above under "Illiquid Securities," the Company may invest up to 15% of its total assets in restricted securities issued under Section 4(2) of the Securities Act, which exempts from registration "transactions by an issuer not involving any public offering." Section 4(2) instruments are restricted in the sense that they can only be resold through the issuing dealer and only to institutional investors; they cannot be resold to the general public without registration.

Certain Risks associated with Illiquid and Restricted Securities. The sale of illiquid and restricted securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. The Company may not be able to sell certain restricted or illiquid securities in a timely manner or the price obtainable upon resale may not be the anticipated price, especially if adverse market conditions occur during the interim period.

Fundamental and Non-Fundamental Investment Restrictions

In pursuing its investment objective, the Company's investment activity is limited by certain policies and investment restrictions. The following fundamental policies and investment restrictions have been adopted by the Company and cannot be changed without approval by the vote of a majority of the outstanding voting securities of the Company, as defined in the Investment Company Act.

The Company may not:

1. Issue senior securities, except as provided in restriction number 2 below.

2. Borrow money, except that the Company may borrow from banks (including the Company's custodian bank) and enter into reverse repurchase agreements as a temporary defensive measure for extraordinary or emergency purposes, and then only in amounts not exceeding 10% of its total assets, taken at market value, and may pledge amounts of up to 20% of its total assets, taken at market value, to secure such borrowings. For purposes of this restriction, collateral arrangements with respect to the writing of options, futures contracts, options on futures contracts and collateral arrangements with respect to initial and variation margin are not deemed to be a pledge of assets, and neither such arrangements nor the purchase and sale of options, futures or related options shall be deemed to be the issuance of a senior security. Whenever bank borrowings and the value of the Company's reverse repurchase agreements exceed 5% of the value of the Company's total assets, the Company will not make any additional purchases of securities for investment purposes.

3. Purchase the securities of any issuer if, as a result, more than 25% of the value of the Company's total assets, taken at market value, would be invested in the securities of issuers having their principal business activities in the same industry. This restriction does not apply to obligations issued or

guaranteed by the U.S. Government or by any of its agencies or instrumentalities but will apply to foreign government obligations unless the SEC permits their exclusion.

4. Make loans, although the Company may (a) purchase money market securities and enter into repurchase agreements, (b) acquire bonds, debentures, notes and other debt securities, governmental obligations and certificates of deposit, and (c) lend portfolio securities.

5. Purchase a security if, as a result, with respect to 50% of the value of the Company's total assets, taken at market value, (i) more than 5% of the Company's total assets, taken at market value, would be invested in the securities of any one issuer (including repurchase agreements with any one entity), except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities and (ii) more than 10% of the outstanding voting securities of any issuer would be held by the Company.

6. Underwrite securities of other persons, except to the extent that the Company may be deemed to be an underwriter within the meaning of the Securities Act, in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program.

7. Purchase or sell real estate or interests in real estate (except that this restriction does not preclude investments in marketable securities of companies engaged in real estate activities).

8. Purchase or sell commodities or commodity contracts, except that the Company may purchase and sell stock index and currency options, stock index futures, financial futures and currency futures contracts and related options on such futures.

The following non-fundamental policies and investment restrictions have been adopted by the Company and cannot be changed without approval by the vote of a majority of the Board of Directors. The Company may not:

1. Purchase any security on margin, except that the Company may obtain such short-term credits as may be necessary for the clearance of purchases and sales of portfolio securities. The payment by the Company of initial or variation margin in connection with futures or related options transactions shall not be considered the purchase of a security on margin.

2. Purchase or sell interests in oil, gas or other mineral exploration or development programs.

Repurchase Offers

Repurchase Offer Policies. The Company has adopted certain repurchase policies as fundamental policies which may not be changed without the vote of the holders of a majority of the Company's outstanding voting securities (as determined under the 1940 Act). The Company offers to repurchase shares at annual intervals in February of each year. The Company will establish a maximum of fourteen days prior to the deadline for repurchase requests and the

applicable repurchase date such that repurchases of shares may occur on the last business day of February of each year. The Board of Directors is authorized to establish other policies relating to repurchases of shares that are consistent with the 1940 Act.

Repurchase Procedures. Shareholders are entitled to redeem shares through the Company's annual offer to repurchase shares. Additional dates for repurchases of shares may be established by the Board of Directors in its sole discretion, not more frequently than once every two years. Shares rendered by

shareholders on any repurchase date will be repurchased, subject to the aggregate repurchase amounts established for any such dates, at the then current net asset value per share. Repurchase proceeds will be repaid, in cash, within seven days after each of the Company's repurchase dates (a "Repurchase Payment Deadline"). The Company may deduct a repurchase fee from the repurchase proceeds equal to no more than 2% of the proceeds which is intended to compensate the Company for expenses related to the repurchase offer.

Repurchase Amounts. The number of shares that the Company will offer to repurchase on any repurchase date (the "Repurchase Offer Amount") will be determined by the Board of Directors, in its sole discretion, but will be at least 5% and no greater than 25%, of the total number of shares outstanding on any such date. The Board has, as of the date of this prospectus, set the percentage for prior repurchase offers at 5%; however, this may change prior to the date of any subsequent repurchase offer at the sole discretion of the Board of Directors. In 1996, the Company, at its sole discretion, repurchased an additional 2% of the shares pursuant to the terms of the offering.

Additional Sales of Shares. The Board of Directors has the right, but not the obligation, to cause the Company to sell additional shares of its common stock on a quarterly basis. Sales of additional shares may be made to current shareholders and to qualified investors who are not currently shareholders. Proceeds from the offering of additional shares may be used to finance the Company's repurchase offer, to purchase additional portfolio securities or to reduce the amount of borrowing or indebtedness incurred by the Company. The purchase price for any such shares shall be the then-current net asset value per share.

Notices. Notice of a discretionary repurchase offer at net asset value will be given to each shareholder of record between twenty-one (21) and forty- two (42) days before each repurchase request deadline. Such notice will state the repurchase offer amount and any fees applicable to such repurchase, the dates of the repurchase request deadline, repurchase pricing date, and repurchase payment deadline. Shareholders will be advised of the risk of fluctuation in the net asset value between the repurchase request deadline and the repurchase pricing date, and the possibility that the Company may use an earlier repurchase pricing date under certain circumstances. Procedures by which shareholders may tender their shares, the procedures by which the Company may repurchase such shares on a pro rata basis, and the circumstances in which the Company may suspend or postpone a repurchase offer will be set forth in the notice to shareholders. Procedures by which shareholders may withdraw or modify their tenders until the repurchase request deadline will also be set forth in the notice. Finally, the notice will set forth

the net asset value of the shares to be repurchased no more than seven days before the date of notification, and the means by which shareholders may ascertain the net asset value thereafter, as well as the market price of the shares, if any, on the date on which the net asset value was computed, and the means to determine the market price thereafter.

If shareholders tender more than the repurchase offer amount, the Company may repurchase an additional amount of stock, not to exceed two percent (2%) of the shares outstanding on the repurchase request deadline. The Company will repurchase the shares tendered on a pro rata basis. The Company may, however, accept all tender offers of shareholders who own less than one hundred shares and who tender all their shares, before prorating other tender offers, and may accept stock by lot when tendered by shareholders who tender all their shares and who elect to have either all or none or at least a minimum amount or none accepted, if the Company first accepts all shares tendered by shareholders who do not so elect.

The current net asset value of the Company's shares will be computed daily on the five business days before a repurchase request deadline, at such times to be determined by the Board of Directors. During the period from notification to shareholders of a repurchase pricing date, the Company will maintain liquid assets in an amount to 100 percent of the repurchase offer amount.

The Company will not suspend or postpone a repurchase offer except pursuant to a vote of a majority of the directors, including a majority of the directors who are not "interested persons" of the Company, as defined in the Investment Company Act. Further, the Company will suspend or postpone a repurchase offer only if certain regulatory requirements are met. The Company will give

shareholders notice of any such suspension or postponement, and likewise will give notice of a renewed repurchase offer.

In compliance with the Investment Company Act requirements for periodic repurchase offers, a majority of the Company's directors are directors who are not interested persons of the Company and the selection and nomination of such directors is within the discretion of those directors.

The Company may borrow to fund repurchases of shares. If the Company must liquidate portfolio securities to purchase shares, the Company may be required to sell portfolio securities for other than investment purposes and may realize gains and losses.

The Company may also make offers to repurchase shares of which it is the issuer pursuant to any other applicable rules of the SEC, in effect at the time of the offer.

MANAGEMENT OF THE COMPANY

Board of Directors

The overall management of the business and affairs of the Company is vested in the Board of Directors. The Board of Directors approves all significant agreements between the Company and persons or companies furnishing services to the Company, including the Company's Advisory Agreement with Hutner Capital Management, the agreement with Star Bank, N.A. as the custodian, the agreement with American Stock Transfer & Trust Company as the transfer and dividend disbursing agent and the agreements with American Data Services, Inc., as administrator and fund accounting agent. The day-to-day operations of the Company are delegated to the officers, subject always to the objective and policies of the Company and to the general supervision of the Board of Directors.

Investment Adviser

Hutner Capital Management ("Hutner Capital"), an investment adviser registered with the Securities and Exchange Commission, was initially incorporated in the State of New York on February 7, 1995 and was reincorporated in New Jersey in 1996. Hutner Capital manages private accounts for individuals, trusts, estates, institutions and pension and profit-sharing plans totaling approximately $60 million. Hutner Capital is located at 34 Chambers Street, Suite 200, Princeton, New Jersey 08542. Daniel Hutner is the sole stockholder of Hutner Capital and serves as the Chairman of the Board and President. Mr. Hutner also serves as the General Partner of each of Avalon Partners, L.P. and Hutner Special Situations Fund, L.P.

Pursuant to the Advisory Agreement, Hutner Capital provides to the Company investment management and financial advisory services, including causing the purchase and sale of securities in the Company's portfolio subject at all times to the policies set forth by the Board of Directors. Under the terms of the Advisory Agreement, Hutner Capital Management supervises all aspects of the Company's investment operations.

Hutner Capital is paid, pursuant to the Advisory Agreement, a monthly fee from the Company calculated at an annual rate of 1.0% of its average weekly net assets. This fee is higher than those charged by most investment companies. Hutner Capital may however, from time to time, voluntarily agree to defer or waive fees or absorb some or all of the expense of the Company. To the extent that they should do so, they may seek repayment of such deferred fees and absorbed expenses after this practice is discontinued. The Board of Directors has determined that it is reasonably possible that the Company will become large enough to permit such repayments.

The Company's portfolio investment decisions will be provided by Daniel Hutner. At Hutner Capital, Mr. Hutner manages both individual and institutional

portfolios specializing in common stock investments. From 1990 to 1996, Mr. Hutner served as President of Pulsifer and

Hutner Incorporated, an investment adviser registered with the Securities and Exchange Commission, having joined such firm in 1981. Prior to joining Pulsifer & Hutner, Mr. Hutner was engaged in writing and editing on a wide variety of subjects including business, economics and science for the National Geographic Society, the Smithsonian Institution, Charles Owens and Associates, Inc. (publisher of the Monday Morning Report) and others. In addition, Mr. Hutner provided research and consulting services with respect to various business and economic issues for National Economic Research Associates, Data Resources, Inc., and the Joint Economic Committee of Congress. Mr. Hutner graduated from Middlebury College in 1970 with a B.A. in Economics. He also received his M.A. in English from the University of Virginia in 1973 and his M.B.A. from New York University in 1984.

Administrator, Distributor, Transfer Agent and Dividend Paying Agent

American Data Services, Inc. ("ADS") serves as the administrator for the Company pursuant to an Administration Agreement with the Company. ADS also provides fund accounting services to the Company pursuant to the Administration Agreement for which it receives no additional compensation. As of the date of this prospectus, ADS acted as administrator for numerous registered investment companies with aggregate assets of approximately $ 6 billion. The address of ADS is The Hauppauge Corporate Center, 150 Motor Parkway, Hauppauge, New York 11788.

Under the Administration Agreement, ADS supervises the administration of all aspects of the Company's operations, including the Company's receipt of services for which the Company is obligated to pay, provides the Company with general office facilities and provides, at the Company's expense, the services of persons necessary to perform such administrative and clerical functions as are needed to effectively operate the Company. Those persons, as well as certain employees and Directors of the Company, may be directors, officers or employees of ADS and its affiliates. For these services and facilities, ADS receives a fee computed and paid monthly equal to the greater of an annual rate of .10% of the average weekly net assets of the Company or $44,400 per year.

American Stock Transfer & Trust Co. ("AST"), a registered transfer agent, serves as the Company's transfer agent and dividend disbursing agent. AST maintains an account for each shareholder of the Company (unless such accounts are maintained by sub-transfer agents or processing agents) and performs other transfer agency and related functions. For these services, AST will receive an annual fee of $6,000 plus certain shareholder account fees. The Company will also reimburse AST for certain expenses incurred on behalf of the Company.

The services provided by AST include answering customer inquiries regarding account matters; assisting shareholders in designating and changing various account options; aggregating and processing purchase orders and transmitting and receiving funds for shareholder orders; transmitting, on behalf of the Company, proxy statements, prospectuses and shareholder reports

to shareholders and tabulating proxies; processing dividend payments and providing sub-accounting services for Company shares held beneficially; and providing such other services as the Company or a shareholder may request.

Custodian

Star Bank, N.A., whose address is 425 Walnut Street, Cincinnati, OH 45201, is custodian for the securities and cash of the Company.

Expenses

The Company was responsible for the expenses associated with its offering, which were approximately $98,000, including legal and accounting fees relating to its organization and the costs of preparing solicitation materials. Organizational expenses are capitalized and amortized over a period of five years. In addition to the expenses to be paid to the investment adviser, administrator, transfer agent, dividend paying agent and custodian discussed within this prospectus, the Company will pay all other ongoing expenses, including but not limited to legal fees, accounting fees for preparation of financial statements and tax returns, annual audits, brokerage commissions, transfer taxes and other clearing, settlement and transactional charges.

PLAN OF DISTRIBUTION

As described herein under "Repurchase Offers -- Additional Sales of Shares," the Company, at the discretion of the Board of Directors, may, on a quarterly basis, offer to sell shares of its common stock to the public at the then current net asset value per share.

AUTOMATIC DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Automatic Dividend Reinvestment Plan. All shareholders of the Company will automatically become participants in the Company's Automatic Dividend Reinvestment and Cash Purchase Plan (the "Plan") upon purchasing shares of the Company's common stock and will be asked to complete an authorization form. The authorization form must be signed by the registered shareholders of an account. Participation is automatic unless a shareholder elects to receive Company dividends and distributions in cash. Participation may be terminated or resumed at any time upon written notice from the participant received by AST, the Plan Agent, prior to the record date of the next dividend. Additional information regarding the Plan may be obtained from the Company.

Dividend payments and other distributions to be made by the Company to participants in the Plan either will be paid to the Plan Agent in cash (which then must be used to purchase shares in the open market) or will be represented by the delivery of shares depending upon which of the two options would be the most favorable to participants, as hereafter determined. On each

date on which the Company determines the net asset value of the shares (a "Valuation Date"), and which occurs not more than five business days prior to a date fixed for payment of a dividend or other distribution from the Company, the Plan Agent will compare the determined net asset value per share with the market price per share. For all purposes of the Plan, "market price" shall be deemed to be the highest price bid at the close of the market by any market maker on the date which coincides with the relevant Valuation Date, or, if no bids were made on such date, the next preceding day on which a bid was made. If the net asset value in any such comparison is found to be lower than said market price, the Plan Agent will demand that the Company satisfy its obligation with respect to any such dividend or other distribution by issuing additional shares to the Participants in the Plan at a price per share equal to the greater of the determined net asset value per share or ninety-five percent (95%) of the market price per share determined as of the close of business on the relevant Valuation Date. However, if the net asset value per share (as determined above) is higher than the market price per share, then the Plan Agent will demand that the Company satisfy its obligation with respect to any such dividend or other distribution by a cash payment to the Plan Agent for the account of Plan Participants and the Plan Agent then shall use such cash payment to buy additional shares in the "open market" for the account of the Plan participants, provided, however, that the Plan Agent shall not purchase shares in the "open market" at a price in excess of the net asset value as of the relevant Valuation Date. In the event the Plan Agent is unable to complete its acquisition of shares to be purchased in the "open market" by the end of the first trading day following receipt of the cash payment from the Company, any remaining funds

shall be used by the Plan Agent to purchase newly issued shares of the Company's common stock from the Company at the greater of the determined net asset value per share or ninety-five (95%) percent of the market price per share as of the date coinciding with or next preceding the date of the relevant Valuation Date.

Cash Purchase Plan. Participants in the Plan will also have the option of making additional cash payments to the Plan Agent, on a monthly basis, for investment in the Company's shares. Such payments may be made in any amount from a minimum of $50.00 to a maximum of $1,000.00 per month. The Company may, in its discretion, waive the maximum monthly limit with respect to any participant. At the end of each calendar month, the Plan Agent will determine the amount of funds accumulated. Purchases made from the accumulation of payments during any one calendar month will be made on or about the first business day of the following month ("Investment Date"). The funds will be used to purchase shares of the Company's common stock from the Company. If the net asset value of the shares is lower than the market price as of the Valuation Date which occurs not more than five business days prior to the relevant Investment Date, such shares will be newly issued shares and will be issued at a price per share equal to the greater of the determined net asset value per share or ninety-five percent (95%) of the market price per share. If the net asset value per share is higher than the market price per share, then the Plan Agent shall use such cash payments to buy additional shares in the "open market" for the account of the Plan Participants, provided, however, that the Plan Agent shall not purchase shares in the "open market" at a price in excess of the net asset value as of the relevant Valuation Date. In the event that the Plan Agent is unable to complete its acquisition of shares to be purchased in the "open market" by the end of the Investment Date, any

remaining cash payments shall be used by the Plan Agent to purchase newly issued shares of the Company's common stock from the Company at the greater of the determined net asset value per share or ninety-five (95%) percent of the market price per share as of the relevant Valuation Date. All cash payments received by the Plan Agent in connection with the Plan will be held without earning interest. To avoid unnecessary cash accumulations, and also to allow ample time for receipt and processing by the Plan Agent, participants that wish to make voluntary cash payments should send such payments to the Plan Agent in such a manner that assures that the Plan Agent will receive and collect Federal funds by the end of the month. This procedure will avoid unnecessary accumulations of cash and will enable participants to realize lower brokerage commissions and to avoid additional transaction charges. If a voluntary cash payment is not received in time to purchase shares in any calendar month, such payment shall be invested on the next Investment Date. A participant may withdraw a voluntary cash payment by written notice to the Plan Agent if the notice is received by the Plan Agent at least forty-eight hours before such payment is to be invested by the Plan Agent.

AST will perform bookkeeping and other administrative functions, such as maintaining all shareholder accounts in the Plan and furnishing written confirmation of all transactions in the account, including information needed by shareholders for personal and tax records. Shares in the account of each Plan participant will be held by the Plan Agent in noncertificated form in the name of the participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan and of record as of the record date for determining those shareholders who are entitled to vote on any matter involving the Company. In case of shareholders such as banks, brokers or nominees, which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by such shareholders as representing and limited to the total number of shares registered in the shareholder's name and held for the account of beneficial owners who have elected to participant in the Plan.

There are no special fees or charges to participants other than reasonable transactions fees, which shall not exceed the lesser of five percent (5%) of the amount reinvested or three ($3.00) dollars and a termination fee of up to one ($1.00) dollar.

With respect to purchases from voluntary cash payments, the Plan Agent will charge three ($3.00) dollars, plus a pro rata share of the brokerage commissions, if any. Brokerage charges for purchasing small blocks of stock for

individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing shares for all participants in larger blocks and prorating the lower commission rate thus applied.

The automatic reinvestment of dividends and distributions will not relieve participants of any income tax liability associated therewith.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Company reserves the right to amend or terminate the Plan as applied to any voluntary cash payment received and any dividend or distribution to be paid subsequent to a date specified in a notice of the change sent to all shareholders at least ninety days before such specified date. The Plan may also be terminated on at least ninety days' written notice to all shareholders in the Plan.

RETIREMENT PLANS

The Fund, in conjunction with ADS, its administrator, has available a form of Individual Retirement Account ("IRA") for investment. Self-employed investors may purchase shares of the Company through tax-deductible contributions to existing retirement plans for self-employed persons, known as Keogh or H.R. 10 plans. Company shares may also be a suitable investment for other types of qualified pension or profit-sharing plans which are employer-sponsored, including deferred compensation or salary reduction plans known as "401(k) Plans" which give participants the right to defer portions of their compensation for investment on a tax-deferred basis until distributions are made from the plans.

The minimum initial investment for all such retirement plans is $1,000. The minimum for all subsequent investments is $100.

Under the Code, individuals may make wholly or partly tax deductible IRA contributions of up to $2,000 annually, depending on whether they are active participants in an employer-sponsored retirement plan and on their income level. However, dividends and distributions held in the account are not taxed until withdrawn in accordance with the provisions of the Code. An individual with a non-working spouse may establish a separate IRA for the spouse under the same conditions and contribute a combined maximum of $4,000 annually to either or both IRA's provided that no more than $2,000 may be contributed to the IRA of either spouse.

Investors should be aware that they may be subject to penalties or additional tax on contributions or withdrawals from IRAs or other retirement plans which are not permitted by the applicable provisions of the Code, and, prior to a withdrawal, shareholders may be required to certify their age and awareness of such restrictions in writing. Persons desiring information concerning investments through IRAs or other retirement plans or an application form for an IRA should telephone the Company at (609) 683-3916 or ADS at (516) 951-0500.

NET ASSET VALUE

The net asset value per share is determined as of the close of the last business day of the NYSE in each week, by dividing the value of the Company's portfolio securities plus all cash and other assets (including dividends accrued but not collected) less all liabilities (including accrued

expenses but excluding capital and surplus) by the number of shares outstanding. In accordance with generally accepted accounting principles for investment

companies, dividend income is accrued on the ex-dividend date. The net asset value per share will be made available for publication.

Each security will be valued on the basis of the last sale price on the valuation date on the principal exchange on which the security is traded or the National Association of Securities Dealers Automated Quotation National Market System. With respect to those securities for which no trades have taken place that day and unlisted securities for which market quotations are readily available, the value shall be determined by taking the mean between the latest "bid" and "asked" prices. Securities for which quotations are not readily available and other assets will be valued at fair value as determined in good faith by the Board of Directors. Notwithstanding the above, any short-term debt securities with maturities of 60 days or less are valued at amortized cost.

CAPITAL STOCK OF THE COMPANY

The Company is authorized to issue 100 million shares of capital stock, par value $.001 per share ("Capital Stock"). Each share of Capital Stock has equal voting, dividend, distribution and liquidation rights. The shares of Capital Stock offered hereby, when issued and paid for pursuant to the terms of this Offer, will be fully paid and non-assessable. The shares of Capital Stock are not redeemable and have no preemptive, conversion or cumulative voting rights.

The Company's Articles of Incorporation provide that under certain conditions the affirmative vote of at least three-quarters of the outstanding voting stock is required: (i) to convert the Company into an open-end company; (ii) to approve any proposal to dissolve, merge or consolidate the Company; (iii) to sell its assets or (iv) to effect any amendment to the Articles of Incorporation to make the Capital Stock a redeemable security (as well as to amend any of the foregoing provisions). In addition, the Articles of Incorporation provide that the Board of Directors is to consist of three classes of directors. During a three year cycle, two directors will be elected in the first year, another two directors will be elected in the second year, and one director will be elected in the third year. These provisions and others in the Articles of Incorporation make it more difficult for a third party to obtain control of the Company. A copy of the Articles of Incorporation may be obtained from the Securities and Exchange Commission.

The Company, on a quarterly basis, may offer additional shares in accordance with its Repurchase Offers and additional shares may be issued under the Plan. See "Repurchase Offers" and "Automatic Dividend Reinvestment and Cash Purchase Plan." Other offerings of shares, if made, will require approval of the Company's Board of Directors. Any additional offering will be subject to the requirement of the 1940 Act that shares not be sold at a price below the then current net asset value (exclusive of underwriting discounts and commissions) except in

connection with an offering to existing shareholders or with the consent of a majority of the Company's outstanding shares.

Special Voting Provisions

The Company has provisions in its Articles of Incorporation and Bylaws that could have the effect of limiting the ability of other entities or persons to acquire control of the Company, to cause it to engage in certain transactions or to modify its structure. Commencing with the first annual meeting of stockholders, the Board of Directors will be divided into three classes having initial terms of one, two and three years, respectively. At the annual meeting of stockholders in each year thereafter, the term of one class will expire and directors will be elected to serve in that class for terms of three years. This provision could delay for up to two years the replacement of a majority of the Board of Directors. A director may be removed from office only by a vote of the holders of at least 75% of the shares of the Company entitled to be voted on the matter.

In addition, conversion of the Company from a closed-end to an open-end investment company requires the affirmative vote of at least 75% of the directors and of the holders of 75% of the shares of the Company unless approved by at least 75% of the Continuing Directors, as defined below, in which case a

majority of the votes entitled to be cast by shareholders of the Company will be required to approve such conversion. If the Company were to be converted into an open-end investment company, it could be restricted in its ability to redeem its shares (otherwise than in kind) because, in light of the limited depth of the markets for certain securities in which the Company may invest, there can be no assurance that the Company could realize the then market value of the portfolio securities the Company would be required to liquidate to meet redemption requests.

The affirmative votes of at least 75% of the directors and the holders of at least 75% of the shares of the Company are required to authorize any of the following transactions:

(i) merger, consolidation or share exchange of the Company with or into any other person;

(ii) issuance or transfer by the Company (in one or a series of transactions in any 12-month period) of any securities of the Company to any other person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of $1,000,000 or more, excluding sales of securities of the Company in connection with a public offering, issuances of securities of the Company pursuant to a dividend reinvestment plan adopted by the Company or pursuant to a stock dividend and issuances of securities of the Company upon the exercise of any stock subscription rights distributed by the Company;

(iii) sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Company (in one or a series of transactions in any 12-month period) to or with any person of any assets of the Company having an aggregate fair market value of $1,000,000 or more, except for

portfolio transactions effected by the Company in the ordinary course of its business and except with respect to repurchases or redemptions of shares of the Corporation (transactions within clauses (i) and (ii) and this clause (iii) each being known individually as a "Business Combination");

(iv) any proposal as to the voluntary liquidation or dissolution of the Company or any amendment to the Company's Articles of Incorporation to terminate its existence; and

(v) any shareholder proposal as to specific investment decisions made or to be made with respect to the Company's assets.

However, in the case of a Business Combination described in (i) and (iii) above, a 75% shareholder vote will not be required if the transaction is approved by a vote of at least 75% of the Continuing Directors (as defined below). In such case, a majority of the votes entitled to be cast by shareholders of the Company will be required to approve such transaction. In addition, a 75% shareholder vote will not be required with respect to a transaction described in clause (iv) above if it is approved by a vote of at least 75% of the Continuing Directors (as defined below), in which case a majority of the votes entitled to be cast by shareholders of the Company will be required to approve such transaction. The Company's By-laws contain provisions the effect of which is to prevent matters, including nominations of directors, from being considered at shareholders' meetings where the Company has not received sufficient prior notice of the matters.

Reference is made to the Articles of Incorporation and By-laws of the Company, on file with the Securities and Exchange Commission, for the full text of these provisions. See "Further Information." These provisions could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Company in a tender offer or similar transaction. In the opinion of the Board of Directors, however, these provisions offer several possible advantages. They may require persons seeking control of the Company to negotiate with its management regarding the price to be paid for the shares required to obtain such control, they promote continuity and stability and they enhance the Company's ability to pursue long-term strategies that are consistent with its investment objectives. The Board of Directors has determined that the foregoing voting requirements, which are generally greater than the minimum requirements under Maryland law and the 1940 Act, are in the best interests of shareholders generally.

A "Continuing Director" is any member of the Board of Directors of the Company (i) who is not a person or affiliate of a person who enters or proposes to enter into a Business Combination with the Company (such person or affiliate, being an "Interested Party") and (ii) who has been a member of the Board of Directors of the Company for a period of at least 12 months (or since the commencement of the Company's operations, if less than 12 months), or is a successor of a Continuing Director who is unaffiliated with an Interested Party and is

recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of Directors of the Company.

TAXES

The Company has elected to be treated as and intends to qualify annually as a regulated investment company pursuant to the provisions of the Code. The Company did so qualify for its previous taxable year and intends to continue so to qualify. By so qualifying, the Company generally will not be subject to Federal income tax to the extent that it distributes its investment company taxable income and net capital gains in the manner required under the Code. In addition, the Code subjects regulated investment companies to a non-deductible 4% excise tax in each calender year to the extent that they do not distribute substantially all of their taxable investment income and capital gain, generally determined on a calender year basis and the one year period ending October 31, of each calender year, respectively. In order to be taxed as a regulated investment company, the Company must meet a number of requirements, including the requirements with respect to diversification of assets, sources of income and distribution of income. If the Company fails to qualify as a regulated investment company, it will be taxed at regular corporate tax rates on all its taxable income (including capital gains) without any deduction for distributions to shareholders, and distributions to shareholders will be taxable as ordinary dividends (even if derived from the Company's net long-term capital gains) to the extent of the Company's current and accumulated earnings and profits.

It is the Company's policy to distribute to shareholders all of its investment company taxable income (net of expenses) and any net capital gains (the excess of net long-term capital gains over net short-term capital losses) in accordance with the requirements imposed by the Code. Distributions by the Company of its net investment income, and the excess, if any, of its net short-term capital gain over its net long-term capital loss will be taxable to shareholders as ordinary income. Distributions by the Company of the excess, if any, of its net long-term capital gain over its net short-term capital loss will be designated as capital gain dividends and will be taxable to shareholders as mid-term or long-term capital gains, regardless of the length of time shareholders have held their shares. Shareholders will be advised as to what portion of capital gains dividends are to be treated as "mid-term" (eligible for a 28% maximum tax rate) or "long-term" (eligible for a 20% maximum tax rate) with respect to the maximum tax rate for such gains. The Company may, however, subject to the review of the Board of Directors, retain the net realized long-term capital gains of the Company. In such event, the taxes thereon would be paid by the Company and appropriate credit allowed to the shareholders of the Company, pursuant to section 852(b)(3)(D) of the Code, for taxes paid by the Company with respect to undistributed capital gains designated by the Company to be includible in the income of its shareholders.

Dividends from net investment income and distributions of net realized short-term gains to shareholders generally are taxable as ordinary income, and distributions from net realized

long-term gains are taxable as long-term or mid-term capital gains, whether received in cash or reinvested in additional shares.

The Company may be required to withhold for Federal income tax ("backup withholding) 31% of the distributions and the proceeds of redemptions payable to shareholders who fail to provide a correct taxpayer identification number or to make required certifications, or where the Company or shareholder has been notified by the Internal Revenue Service that it is subject to backup withholding. Corporate shareholders and certain other shareholders specified in the Code are exempt from backup withholding.

The Company may invest in securities of foreign issuers may be subject to withholding and other similar income taxes imposed by a foreign country. Dividends and distributions may be subject to state and local taxes. Dividends paid or credited to accounts maintained by non-resident shareholders may also be subject to U.S. non-resident withholding taxes. You should consult your tax advisor regarding specific questions as to Federal, state and local income and withholding taxes.

A statement setting forth the Federal income tax status of all distributions made (or deemed made) during the year will be sent to shareholders promptly after the end of each year.

Offers to Repurchase Shares. A shareholder who, pursuant to a repurchase offer, tenders all shares owned or considered owned by such shareholder will realize a taxable gain or loss depending upon the shareholder's basis in the shares. Such gain or loss will be treated as capital gain or loss if the shares are capital assets in the shareholder's hands and will be long-term, mid-term or short- term depending upon the shareholder's holding period for the shares. If a tendering shareholder tenders less than all shares owned by and attributed to such shareholder (or if the Company purchases only some of the shares tendered by a shareholder), and if the distribution to such shareholder does not otherwise qualify as an exchange, the proceeds received will be treated as a dividend, return of capital or capital gain depending on the Company's earnings and profits and the shareholder's basis in the tendered shares. There is a risk that shareholders may be considered to have received a deemed distribution as a result of the repurchase by the Company of tendered shares and that such distribution may be taxable as a dividend in whole or in part.

TABLE OF CONTENTS OF THE STATEMENT OF ADDITIONAL INFORMATION

No dealer, salesperson or any other person has been authorized to give information or make any representation not contained in this Prospectus in connection with the offer made by this Prospectus, and if given or made, such information or representation must not be relied upon as having been authorized by the Company or the selling agents. This Prospectus does not constitute an offer to sell, or a solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

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<TABLE>
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Investor Information: (516) 951-0500

INVESTMENT ADVISER
Hutner Capital Management, Inc.
34 Chambers Street, Suite 200
Princeton, New Jersey 08542

ADMINISTRATOR
American Data Services, Inc.
The Hauppauge Corporate Center
150 Motor Parkway
Hauppauge, New York 11788

CUSTODIAN
Star Bank, N.A.
425 Walnut Street
Cincinnati, Ohio 45201

LEGAL COUNSEL
Battle Fowler LLP
75 East 55th Street
New York, New York 10022

INDEPENDENT ACCOUNTANTS
Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281-1414

AVALON CAPITAL, INC.

Common Stock

PROSPECTUS

January 5, 1998

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STATEMENT OF ADDITIONAL INFORMATION - January 5, 1998

AVALON CAPITAL, INC.

Avalon Capital, Inc. (the "Company") is a closed-end, non-diversified management investment company. The Company's primary investment objective is long-term capital appreciation. The Company will seek to achieve its objectives by investing in a portfolio of securities that possess fundamental investment value and may be purchased at a reasonable cost.

This Statement of Additional Information is not a prospectus. It should be read in conjunction with the Company's current Prospectus, copies of which may be obtained by writing American Data Services, Inc. at The Hauppauge Corporate Center, 150 Motor Parkway, Hauppauge, New York 11788 or calling (516) 951-0500.

This Statement of Additional Information relates to the Company's Prospectus which is dated January 5, 1998.

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MANAGEMENT

The overall management of the business and affairs of the Company is vested with the Board of Directors. The Board of Directors approves all significant agreements between the Company and persons or companies furnishing services to the Company, including agreements with the investment adviser,

administrator, custodian and transfer and dividend disbursing agent. The day-to-day operations of the Company are delegated to its officers subject always to the investment objectives and policies of each Company and to general supervision by the Company's Board of Directors.

DIRECTORS AND OFFICERS

The directors and officers of the Company, and their principal occupations during the past five years, are set forth below. Directors who are "interested persons", as defined in the 1940 Act, are denoted by an asterisk. Daniel Hutner and Nancy Hutner are related by marriage. As of December 31, 1997, the Directors and Officers of the Company as a group owned beneficially 6.3%of its outstanding shares.

*Daniel E. Hutner Hutner Capital Management, Inc. 34 Chambers Street, Suite 200 Princeton, NJ 08542 (48)	Chairman of the Board of Directors, Chief Executive Officer and President of the Company; President, Hutner Capital Management since February 1995; Consultant, National Association of Investors Corp. 1995 to 1997; President, Pulsifer and Hutner, Inc., 1990 to 1996; General Partner, Avalon Partners, L.P. since 1990; General Partner, Hutner Special Situations Fund since 1994.
*Nancy W. Hutner Hutner Capital Management, Inc. 34 Chambers Street, Suite 200 Princeton, NJ 08542 (43)	Director of the Company; Vice President and Treasurer of the Company; Administrator, Avalon Partners, L.P. since 1990; Vice President, Hutner Capital Management since 1995; Consultant, Pulsifer and Hutner, Inc. 1983 to 1996; Assistant to Director, Development Administration, Princeton University, 1980-1983; Researcher, National Geographic Society, 1976-1980.
William Endicott 6537 Broad St. Bethesda, MD 20816 (51)	Director of the Company; Senior Advisor to the Associate Administrator for Communications and Public Liaison, Small Business Administration, September 1997 to present; Director, Speakers Bureau, Democratic National Committee, 1996 to 1997, Consultant, 1994 to 1996; Director, U.S. Canoe & Kayak Team; Director, NAIC Growth Fund, 1995 to 1997; Consultant for organizing the 1996 Olympic Games, American Canoe Association, 1994 to 1996; Olympic Coach, U.S. National Whitewater Canoe and Kayak Team, 1992; Head Coach 1977 to 1992; Congressional Aide, U.S. House of Representatives, 1970 to 1982.

Edward Rosen Star Children 100 West 33rd St. Suite 10005 New York, NY 10001 (46)	Director of the Company; President, Star Children's Dress Company, Inc. since 1985; Vice-President 1983-1985.
Donald Smith Don Smith Realty 81 North Maple Avenue	Director of the Company; President, Don Smith Realty since 1971.

Ridgewood, NJ 07450
(51)

Michele Scheddin Hutner Capital Management, Inc. 34 Chambers Street, Suite 200 Princeton, NJ 08542	Secretary of the Company; Vice President, Hutner Capital Management since 1996; Assistant Portfolio Manager, Pulsifer and Hutner, Incorporated, 1989-1996. (29)

The Company pays each director who is not an "interested person" as defined in the 1940 Act, an annual fee of $1,000 per year, together with such Director's actual out-of-pocket expenses related to attendance at such meetings.

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COMPENSATION TABLE
(Estimated for the year ended July 31, 1996)

Name of Person Position	Aggregate Compensation from Company	Pension or Retirement Benefits Accrued as Part of Company Expenses	Estimated Annual Benefits upon Retirement	Total Compensation from Company and Complex Paid to Directors
<S>	<C>	<C>	<C>	<C>
DANIEL E. HUTNER Director	None	None	None	None
NANCY W. HUTNER Director	None	None	None	None
WILLIAM ENDICOTT Director	$1,000	None	None	$1,000
EDWARD ROSEN Director	$1,000	None	None	$1,000
DONALD SMITH Director	$1,000	None	None	$1,000

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INVESTMENT ADVISER AND INVESTMENT ADVISORY AGREEMENT

Hutner Capital Management, Inc. (the "Investment Adviser"), 34 Chambers Street, Suite 200, Princeton, NJ 08542, acts as the Investment Adviser to the Company under an investment advisory agreement (the "Advisory Agreement"). Daniel Hutner owns 100% of the common stock of the Investment Adviser and therefore is a "controlling person" as defined by the Investment Company Act of 1940, as amended.

The Advisory Agreement provides that the Investment Adviser identify and analyze possible investments for the Company, determine the amount and timing of such investments, and the form of investment. The Investment Adviser has the responsibility of monitoring and reviewing the Company's portfolio, and, on a regular basis, to recommend the ultimate disposition of such investments. It is the Investment Adviser's responsibility to cause the purchase and sale of securities in the Company's portfolio, subject at all times to the policies set forth by the Company's Board of Directors.

The Investment Adviser receives a fee from the Company, payable monthly, for the performance of its services at an annual rate of 1.0% of its average weekly net assets. The advisory fees are higher than that paid by most investment companies but the Board of Directors believes it to be reasonable in

light of the services the Company receives thereunder.

Under the terms of the Advisory Agreement, the Company pays all of its expenses (other than those expenses specifically assumed by the Investment Adviser) including the costs incurred in connection with the maintenance of its registration under the Securities Act of 1933, as amended, and the 1940 Act, printing of prospectuses distributed to shareholders, taxes or governmental fees, brokerage commissions, custodial, transfer and shareholder servicing agents, expenses of outside counsel and independent accountants, preparation of shareholder reports, and expenses of directors and shareholder meetings.

The Company's Advisory Agreement between the Investment Adviser and the Company was approved initially by the Board of Directors (including the affirmative vote of all the directors who were not parties to the Agreement or interested persons of any such party) on August 9, 1995 and its continuance was most recently approved on October 24, 1997. The Advisory Agreement may be terminated without penalty on 60 days' written notice by a vote of the majority of the Company's Board of Directors or by the Investment Adviser, or by holders of a majority of the Company's outstanding shares. The Company's Advisory Agreement will continue from year-to-year provided it is approved, at least annually, in the manner stipulated in the 1940 Act. This requires that the Advisory Agreement and any renewal thereof be approved by a vote of the majority of the Company's directors who are not parties thereto or interested persons of any such party, cast in person at a meeting specifically called for the purpose of voting on such approval.

REPURCHASE OFFERS

Policy

The Company has adopted a fundamental policy of making a "Repurchase Offer" once each year of not less than 5% nor more than 25% of the Company's outstanding shares at net asset value. Before each Repurchase Offer, the "Repurchase Offer Amount", currently 5% of the Company's outstanding shares, shall be determined by the Board of Directors. The Board has set the current "Repurchase Offer Amount" at 5% of the Company's shares outstanding. The Repurchase Offer is open for a period of at least 21 days from the date a "Notification" is sent to shareholders, during which the Company's net asset value is calculated daily and may be obtained by

contacting the Administrator at (516) 951-0500. A shareholder may withdraw or modify the number of shares tendered at any time up to the "Repurchase Request Deadline", which it is the intention of the Company to set as the close of business on the last business day of February each calendar year. If the scheduled day for the Repurchase Request Deadline falls on a Friday or the weekend, then the last business day prior to the intended date will be set as the Repurchase Request Deadline. The "Repurchase Pricing Date" is set on the day following the Repurchase Request Deadline.

Purpose of the Repurchase Offer

The Company has adopted a fundamental policy that periodic repurchase offers are in the best interests of shareholders as a means of providing liquidity to shareholders. As a result of the development of a secondary market for the Company's common stock, the market price of the shares may vary from net asset value from time to time. Such variance may be affected by, among other factors, relative demand and supply of shares and the performance of the Company, especially as it affects the yield on and net asset value of the common stock.

A Repurchase Offer for shares of common stock of the Company is designed to reduce any spread between net asset value and market price that may otherwise develop. However, there can be no assurance that such action would result in the Company's common stock trading at a price which equals or approximates net asset value.

Although the Board of Directors believes that Repurchase Offers generally would be beneficial to holders of the Company's common stock, the acquisition of shares of common stock by the Company will decrease the total assets of the Company and therefore have the likely effect of increasing the Company's expense ratio (assuming such acquisition is not offset by the issuance of additional shares of common stock).

Notification

Shareholders of record and each beneficial owner of the Company's stock will receive notification containing specified information at least twenty-one days, and no more than forty-two days, before the repurchase request deadline. The information provided will include the repurchase offer amount, the dates of the repurchase request deadline, repurchase pricing date and repurchase payment deadline. Notification will also include the procedures under which the Company may repurchase such shares on a pro rata basis, and the circumstances under which the Company may suspend or postpone the repurchase offer. The Company will provide the net asset value of the common stock, which will be computed no more than seven days before the date of Notification and the means by which shareholders may ascertain the net asset value thereafter.

Source of Funds

The Company anticipates using cash on hand to purchase shares acquired pursuant to the Repurchase Offers. However, if there is insufficient cash available to consummate a Repurchase Offer, the Company may be required to liquidate portfolio securities. In this regard, the Company will maintain liquid assets during the notification period in an amount equal to at least 100% of the Repurchase Offer Amount. As a result of liquidating portfolio securities, the Company may realize gains or losses, at a time when the Adviser would otherwise consider it disadvantageous to do so. Furthermore, if the Company borrows to finance the making of Repurchase Offers, interest on such borrowing will reduce the Company's net investment income.

Repurchase Offers could also significantly reduce the asset coverage of any borrowings below the asset coverage requirement set forth in the 1940 Act. Accordingly, in order to purchase all shares of common stock tendered, the Company may have to repay all or part of any then outstanding borrowings to maintain the required asset coverage. Also, the amount of shares of common stock for which the Company makes any particular

Repurchase Offer may be affected for the reasons set forth above or in respect of other concerns related to liquidity of the Company's portfolio.

Withdrawal Rights

Tenders made pursuant to the Repurchase Offer will be irrevocable after the Repurchase Request Deadline. However, shareholders may modify the number of shares being tendered or withdraw shares tendered at any time up to the Repurchase Request Deadline. All shares purchased by the Company pursuant to the Repurchase Offer will be retired by the Company.

Tax Consequences

The following discussion is a general summary of the Federal Income Tax consequences of a tender of shares pursuant to a Repurchase Offer. You should consult your own tax advisor regarding the specific tax consequences, including state and local tax consequences, of such a tender by you.

A tender of shares pursuant to a Repurchase Offer will be a taxable transaction for Federal income tax purposes. In general, the transaction should be treated as a sale or exchange of the shares under Section 302 of the Internal Revenue Code of 1986 as amended (the "Code"), if the tender (i) completely terminates the shareholder's interest in the Company, (ii) is "substantially disproportionate" or (iii) is treated as a distribution that is "not essentially equivalent to a dividend." A complete termination of the shareholder's interest

generally requires that the shareholder dispose of all shares directly owned or attributed to him under Section 318 of the Code. A repurchase will be considered "substantially disproportionate" with respect to a shareholder if, after applying the Section 318 attribution rules, the shareholder's percentage of ownership is reduced by more than 20% and the shareholder owns less than 50% of the Company's voting shares. A distribution "not essentially equivalent to a dividend" requires that there be a "meaningful reduction" in the shareholders interest, which should be the case if the shareholder has a minimal interest in the Company, exercises no control over Company affairs, and suffers a reduction in his proportionate interest.

It is anticipated that tendering shareholders will qualify for sale or exchange treatment. If the transaction is treated as a sale or exchange for tax purposes, any gain or loss recognized will be treated as a capital gain or loss by shareholders who hold their shares as a capital asset and as a mid-term capital gain or loss if such shares have been held for more than one year or a long-term capital gain or loss if such shares have been held for more than 18 months.

If the transaction is not treated as a sale or exchange, the amount received upon a sale of shares may consist in whole or in part of ordinary dividend income, a return of capital or capital gain, depending on the Company's current and accumulated earnings and profits and the shareholder's tax basis in the shares.

Pursuant to the backup withholding requirements of the Code ("backup withholding"), the Company or its agent could be required to withhold 31% of gross proceeds paid to a shareholder or other payee pursuant to a Repurchase Offer if (a) it has not been provided with the shareholder's taxpayer identification number (which, for an individual, is usually the social security number) and certification under penalties of perjury (i) that such number is correct and (ii) that the shareholder is not subject to withholding as a result of failure to report all interest and dividend income or (b) the Internal Revenue Service (IRS) or a broker notifies the Company that the number provided is incorrect or withholding is applicable for other reasons. Backup withholding does not apply to certain payments that are exempt from information reporting or are made to exempt payees, such as corporations. Foreign shareholders are required to provide the Company with a completed IRS Form W-8 to avoid 31% withholding on payments received on a sale or exchange. Foreign shareholders may be subject to tax withholding of 30% (or a lower treaty rate) on any portion of payments received that are deemed to constitute a dividend.

Suspension and Postponements of Repurchase Offers

The Company shall not suspend or postpone a Repurchase Offer except by vote of a majority of the Directors (including a majority of the disinterested Directors) and only: (1) if such purchases would impair the Company's status as a regulated investment company under the Code; (2) for any period during which an emergency exists as a result of which disposal by the Company of securities owned by it is not reasonably practicable, or during which it is not reasonably practicable for the Company fairly to determine the value of its net asset value; or (3) for such other periods as the Commission may by order permit for the protection of shareholders of the Company.

If the Repurchase Offer is suspended or postponed, the Company will provide notice thereof to shareholders. If the Fund renews the Repurchase Offer, the Company will send a new Notification to all shareholders.

Discretionary Repurchase Offers

In addition to the Company's policy of periodic repurchase offers, the Company may make discretionary repurchase offers once every two years. Because a discretionary repurchase offer would not be made pursuant to a fundamental policy of the Company, it would require only a vote of the Directors. Discretionary repurchase offers must comply with several of the requirements that apply to periodic repurchase offers. Among other requirements, the Company must pay repurchase proceeds within twenty-one days after the repurchase request deadline, must compute net asset value daily on the five business days preceding

the discretionary repurchase request deadline, and must send notification according to applicable procedures. The Company is not required to make discretionary repurchase offers, and there can be no assurance that one will be conducted.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Subject to the supervision of the Board of Directors, decisions to buy and sell securities for the Company are made by the Investment Adviser. The Investment Adviser is authorized to allocate the orders placed by it on behalf of the Company to such unaffiliated brokers who also provide research or statistical material, or other services to the Company or the Investment Adviser for the Company's use. Such allocation shall be in such amounts and proportions as the Investment Adviser shall determine and the Investment Adviser will report on said allocations regularly to the Board of Directors indicating the unaffiliated brokers to whom such allocations have been made and the basis thereof. In addition, the Investment Adviser may consider sales of shares of the Company and of any other funds advised or managed by the Investment Adviser as a factor in the selection of unaffiliated brokers to execute portfolio transactions for the Company, subject to the requirements of best execution.

In selecting a broker to execute each particular transaction, the Investment Adviser will take the following into consideration: the best net price available; the reliability, integrity and financial condition of the broker; the size and difficulty in executing the order; and, the value of the expected contribution of the broker to the investment performance of the Company on a continuing basis. Accordingly, the cost of the brokerage commissions to the Company in any transaction may be greater than that available from other brokers if the difference is reasonably justified by other aspects of the portfolio execution services offered. Subject to such policies and procedures as the Board of Directors may determine, the Investment Adviser shall not be deemed to have acted unlawfully or to have breached any duty solely by reason of its having caused the Company to pay an unaffiliated broker that provides research services to the Investment Adviser for the Company's use an amount of

commission for effecting a portfolio investment transaction in excess of the amount of commission another broker would have charged for effecting the transaction, if the Investment Adviser determines in good faith that such amount of commission was reasonable in relation to the value of the research service provided by such broker viewed in terms of either that particular transaction or the Investment Adviser's ongoing responsibilities with respect to the Company.

ALLOCATION OF INVESTMENTS

The Investment Adviser has other advisory clients which include individuals, trusts, pension and profit sharing funds, some of which have similar investment objectives to the Company. As such, there will be times when the Investment Adviser may recommend purchases and/or sales of the same portfolio securities for the Company and its other clients. In such circumstances, it will be the policy of the Investment Adviser to allocate purchases and sales among the Company and its other clients in a manner which the Investment Adviser deems equitable, taking into consideration such factors as size of account, concentration of holdings, investment objectives, tax status, cash availability, purchase cost, holding period and other pertinent factors relative to each account. Simultaneous transactions may have an adverse effect upon the price or volume of a security purchased by the Company.

TAX MATTERS

The following is only a summary of certain additional tax considerations generally affecting the Company and its shareholders that are not described in the Prospectus. No attempt is made to present a detailed explanation of the tax treatment of the Company or its shareholders, and the discussions here and in the Prospectus are not intended as substitutes for careful tax planning. Prospective investors should consult their own tax advisors with respect to the tax consequences of an investment in the Company.

Qualification as a Regulated Investment Company

The Company has elected and intends to continue to qualify to be taxed as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). The Company did so qualify for its previous taxable year and intends to continue so to quality. As a regulated investment company, the Company is not subject to federal income tax on the portion of its net investment income (i.e., taxable interest, dividends and other taxable ordinary income, net of expenses and the excess of net short-term capital gain over net long-term capital loss) and capital gain net income (i.e., the excess of net long-term capital gain over net short-term capital loss) that it distributes to shareholders, provided that it distributes at least 90% of its investment company taxable income for the taxable year (the "Distribution Requirement"), and satisfies certain other asset diversification and source of income requirements of the Code. Distributions by the Company made during the taxable year or, under specified circumstances, within twelve months after the close of the taxable year, will be considered distributions of income and gains of the taxable year and can therefore satisfy the Distribution Requirement. In determining the amount of capital gains to be distributed, any capital loss carryover from prior years will be applied against capital gains to reduce the amount of distributions paid. Any losses incurred in the taxable year subsequent to October 31, will be deferred to the next taxable year and used to reduce distributions in the subsequent year.

In addition to satisfying the Distribution Requirement, a regulated investment company must derive at least 90% of its gross income from dividends, interest, certain payments with respect to securities loans, gains from the sale or other disposition of stock or securities or foreign currencies (to the extent such currency gains are

directly related to the regulated investment company's principal business of investing in stock or securities) and other income (including but not limited to gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies (the "Income Requirement").

In general, gain or loss recognized by the Company on the disposition of an asset will be a capital gain or loss. However, gain recognized on the disposition of a debt obligation purchased by the Company at a market discount will be treated as ordinary income to the extent of the portion of the market discount that accrued during the period of time the Company held the debt obligation.

In addition to satisfying the requirements described above, the Company must satisfy an asset diversification test in order to qualify as a regulated investment company. Under this test, at the close of each quarter of the Company's taxable year, at least 50% of the value of the Company's assets must consist of cash and cash items, U.S. Government securities, securities of other regulated investment companies, and securities of other issuers (as to which the Company has not invested more than 5% of the value of the Company's total assets in securities of such issuer and as to which the Company does not hold more than 10% of the outstanding voting securities of such issuer), and no more than 25% of the value of its total assets may be invested in the securities of any one issuer (other than U.S. Government securities and securities of other regulated investment companies), or in two or more issuers which the Company controls and which are engaged in the same or similar trades or businesses. Generally, an option (call or put) with respect to a security is treated as issued by the issuer of the security not the issuer of the option.

If for any taxable year the Company did not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and such distributions would be taxable to the

shareholders as ordinary dividends to the extent of the Company's current and accumulated earnings and profits. Such distributions generally would be eligible for the dividends received deduction in the case of corporate shareholders.

Excise Tax on Regulated Investment Companies

A 4% non-deductible excise tax is imposed on a regulated investment company that fails to distribute in each calendar year an amount equal to 98% of ordinary taxable income for the calendar year and 98% of capital gain net income, generally for the one-year period ended on October 31 of such calendar year. The balance of such income must be distributed during the next calendar year. For the foregoing purposes, a regulated investment company is treated as having distributed any amount on which it is subject to income tax for any taxable year ending in such calendar year.

For purposes of the excise tax, a regulated investment company shall reduce its capital gain net income (but not below its net capital gain) by the amount of any net ordinary loss for the calendar year.

The Company intends to make sufficient distributions or deemed distributions of its ordinary taxable income and capital gain net income prior to the end of each calendar year to avoid liability for the excise tax. However, investors should note that the Company may in certain circumstances be required to liquidate portfolio investments to make sufficient distributions to avoid excise tax liability.

Company Distributions

The Company anticipates distributing substantially all of its investment company taxable income for each taxable year. Such distributions will be taxable to shareholders as ordinary income and treated as dividends for federal income tax purposes. Such dividends paid by the Company will qualify for the 70% dividends received deduction for corporate shareholders only to the extent discussed below.

The Company may either retain or distribute to shareholders its net capital gain for each taxable year. The Company currently intends to distribute any such amounts. If net capital gain is distributed and designated as a capital gain dividend, it will be taxable to shareholders as mid-term or long-term capital gain, regardless of the length of time the shareholder has held its shares or whether such gain was recognized by the Company prior to the date on which the shareholder acquired its shares.

Conversely, if the Company elects to retain its net capital gain, it will be taxed thereon (except to the extent of any available capital loss carryovers) at the 35% corporate tax rate. If the Company elects to retain its net capital gain, it is expected that the Company also will elect to have shareholders of record on the last day of its taxable year treated as if each received a distribution of its pro rata share of such gain, with the result that each shareholder will be required to report its pro rata share of such gain on its tax return as mid-term or long-term capital gain, will receive a refundable tax credit for its pro rata share of tax paid by the Company on the gain, and will increase the tax basis for its shares by an amount equal to the deemed distribution less the tax credit.

Ordinary income dividends paid by the Company with respect to a taxable year may qualify for the 70% dividends received deduction generally available to corporations (other than corporations, such as S corporations, which are not eligible for the deduction because of their special characteristics and other than for purposes of special taxes such as the accumulated earnings tax and the personal holding company tax) to the extent of the amount of qualifying dividends received by the Company from domestic corporations for the taxable year. The dividends received deduction will be

disallowed for shareholders who do not hold their shares in the Company for at least 45 days during the 90 day period beginning 45 days before a share in the Company becomes ex-dividend with respect to such dividend. A dividend received by the Company will not be treated as a qualifying dividend (1) if it has been received with respect to any share of stock that the Company has held for less than 46 days (91 days in the case of certain preferred stock) during the 90 day period (180 days in the case of such preferred stock) beginning 45 days (90 days in the case of such preferred stock) before the share becomes ex-dividend with respect to such dividend, excluding for this purpose certain periods in which the Company's risk of loss with respect to the stock is diminished; (2) to the extent that the Company is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property; or (3) to the extent the stock on which the dividend is paid is treated as debt-financed under the rules of Code Section 246A. Moreover, the dividends received deduction for a corporate shareholder may be disallowed or reduced (1) if the corporate shareholder fails to satisfy the foregoing requirements with respect to its shares of the Company or (2) by application of Code Section 246(b) which in general limits the dividends received deduction to 70% of the shareholder's taxable income (determined without regard to the dividends received deduction and certain other items).

Alternative minimum tax ("AMT") is imposed in addition to, but only to the extent it exceeds, the regular tax and is computed at a maximum marginal rate of 28% for noncorporate taxpayers and 20% for corporate taxpayers on the excess of the taxpayer's alternative minimum taxable income ("AMTI") over an exemption amount. For purposes of the corporate AMT, the corporate dividends-received deduction is not itself an item of tax preference that must be added back to taxable income or is otherwise disallowed in determining a corporation's AMTI. However, corporate shareholders will generally be required to take the full amount of any dividend received from the Company into account (without a dividends received deduction) in determining its adjusted current earnings, which are used in computing an additional corporate preference item (i.e., 75% of the

excess of a corporate taxpayer's adjusted current earnings over its AMTI (determined without regard to this item and the AMT net operating loss deduction)) includable in AMTI.

Distributions by the Company that do not constitute ordinary income dividends or capital gain dividends will be treated as a return of capital to the extent of (and in reduction of) the shareholder's tax basis in its shares; any excess will be treated as gain from the sale of the shares, as discussed below.

Distributions by the Company will be treated in the manner described above regardless of whether they are paid in cash or reinvested in additional shares of the Company. Shareholders receiving a distribution in the form of additional shares will be treated as receiving a distribution in an amount equal to the amount of the cash dividend that otherwise would have been distributable (where the additional shares are purchased in the open market), or the fair market value of the shares received, determined as of the reinvestment date. Investors should be careful to consider the tax implications of buying shares just prior to a distribution by the Company. Distributions by the Company reduce the net asset value of the Company's shares. If the net asset value at the time a shareholder purchases shares of the Company reflects undistributed net investment income or recognized capital gain net income, or unrealized appreciation in the value of the assets of the Company, when distributed such amounts will be taxable to the shareholder in the manner described above, although such distributions economically constitute a return of capital to the shareholder. The price of shares purchased at that time includes the amount of the forthcoming distribution.

Ordinarily, shareholders are required to take distributions by the Company into account in the year in which the distributions are made. However, dividends declared in October, November or December of any year and payable to shareholders of record on a specified date in those months will be deemed to have been received by the shareholders (and made by the Company) on December 31 of such calendar year if such dividends are actually paid in January of the following year. Shareholders will be advised annually as to the U.S. federal income tax consequences of distributions made (or deemed made) during the year.

The Company will be required in certain cases pursuant to the backup withholding rules to withhold and remit to the U.S. Treasury 31% of ordinary income dividends and capital gain dividends paid to any shareholder (1) who has provided either an incorrect tax identification number or no number at all, (2) who is subject to backup withholding by the IRS for failure to report the receipt of interest or dividend income properly, or (3) who has failed to certify to the Company that it is not subject to backup withholding or that it is a corporation or other "exempt recipient."

Under the Code, gains or losses attributable to fluctuations in exchange rates which occur between the time the Company accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Company actually collects such receivables or pays such liabilities generally are treated as ordinary income or ordinary loss. Similarly, on disposition of debt securities denominated in a foreign currency and on disposition of certain forward contracts, gains or losses attributable to fluctuations in the value of foreign currency between the date of acquisition of the security or contract and the date of disposition also are treated as ordinary gain or loss. These gains or losses, may increase, decrease, or eliminate the amount of the Company's investment taxable to be distributed to its shareholders as ordinary income.

Income received by the Company from sources within foreign countries may be subject to withholding and other similar income taxes imposed by the foreign country. Generally, a credit for foreign taxes is available but is subject to the limitation that it may not exceed the shareholder's U.S. tax attributable to its total foreign source taxable income. For this purpose, the source of the Company's income flows through to its shareholders. With respect to the Company, gains from the sale of securities will be treated as derived from U.S. sources and certain currency fluctuation gains, including fluctuation gains from foreign currency-denominated debt securities, receivables and payables, will be treated as ordinary income derived from U.S. sources. The limitation on the

foreign tax credit is applied separately to foreign source passive income (as defined for purposes of the foreign tax credit) including foreign source passive income of the Company. The foreign tax credit may offset only 90% of the alternative minimum tax imposed on corporations and individuals, and foreign taxes generally may not be deducted in computing alternative minimum taxable income.

Sale of Shares

A shareholder will recognize gain or loss on the sale of shares of the Company in an amount equal to the difference between the proceeds of the sale and the shareholder's adjusted tax basis in the shares. All or a portion of any loss so recognized may be disallowed if the shareholder purchases other shares of the Company within 30 days before or after the sale. In general, any gain or loss arising from (or treated as arising from) the sale of shares of the Company will be considered capital gain or loss and will be mid-term if the shares were held for longer than one year and long-term if the shares were held for more than 18 months. However, any capital loss arising from the sale of shares held for six months or less will be treated as a long-term capital loss to the extent of the amount of capital gain dividends received on such shares. For this purpose, the special holding period rules applying to certain periods in which the holder's risk of loss with respect to the stock is diminished (discussed above in connection with the dividends received deduction for corporations) generally will apply in determining the holding period of shares. Mid-term capital gains of noncorporate taxpayers are currently taxed at a maximum rate of 28 percent, and long-term capital gains of such taxpayers are currently taxed at a maximum rate of 20% (10% if the taxpayer is, and would be after accounting for such gains, subject to the 15% tax bracket for ordinary income). Capital losses in any year are deductible only to the extent of capital gains plus, in the case of a noncorporate taxpayer, $3,000 of ordinary income ($1500 for married individuals filing separately).

Foreign Shareholders

Taxation of a shareholder who, as to the United States, is a nonresident alien individual, foreign trust or estate, foreign corporation, or foreign partnership ("foreign shareholder"), depends on whether the income from the Company is "effectively connected" with a U.S. trade or business carried on by such shareholder.

If the income from the Company is not effectively connected with a U.S. trade or business carried on by a foreign shareholder, ordinary income dividends paid to a foreign shareholder will be subject to U.S. withholding tax at the rate of 30% (or lower treaty rate) upon the gross amount of the dividend. Such a foreign shareholder would generally be exempt from U.S. federal income tax on gains realized on the sale of shares of the Company, capital gain dividends and amounts retained by the Company that are designated as undistributed capital gains.

If the income from the Company is effectively connected with a U.S. trade or business carried on by a foreign shareholder, then ordinary income dividends, capital gain dividends, and any gains realized upon the sale of shares of the Company will be subject to U.S. federal income tax at the rates applicable to U.S. citizens or domestic corporations.

In the case of foreign noncorporate shareholders, the Company may be required to withhold U.S. federal income tax at a rate of 31% on distributions that are otherwise exempt from withholding tax (or taxable at a reduced treaty rate) unless such shareholders furnish the Company with proper notification of their foreign status.

The tax consequences to a foreign shareholder entitled to claim the benefits of an applicable tax treaty may be different from those described herein.

Exempt Shareholders

Entities that generally qualify for an exemption from Federal income tax, such as many pension trusts, are nevertheless taxed on "unrelated business taxable income." A tax-exempt entity's dividend income from the Company and gain from the sale of shares in the Company or the Company's sale of securities is not expected to constitute unrelated business income to such tax-exempt entity unless the acquisition of the share itself is debt-financed or the shares constitute dealer property in the hands of the tax-exempt entity.

Before investing in the Company, the trustee or investment manager of an employee benefit plan (e.g., a pension or profit sharing retirement plan) should consider among other things (a) whether the investment is prudent under the Employee Retirement Income Security Act of 1974 ("ERISA"), taking into account the needs of the plan and all of the facts and circumstances of the investment in the Company; (b) whether the investment satisfies the diversification requirement of Section 404(a)(1)(C) of ERISA; and (c) whether the assets of the Trust are deemed "plan assets" under ERISA and the Department of Labor regulations regarding the definition of "plan assets."

Effect of Future Legislation; Local Tax Considerations

The foregoing general discussion of U.S. federal income tax consequences is based on the Code and the Treasury Regulations issued thereunder as in effect on the date of this Statement of Additional Information. Future legislative or administrative changes or court decisions may significantly change the conclusions expressed herein, and any such changes or decisions may have a retroactive effect with respect to the transactions contemplated herein.

Rules of state and local taxation of ordinary income dividends and capital gain dividends from regulated investment companies often differ from the rules for U.S. federal income taxation described above.

GENERAL INFORMATION

Shareholder and Director Liability

The Company was incorporated on March 14, 1995 in the state of Maryland. Under Maryland law, shareholders of such a corporation are not held personally liable for the obligations of the corporation.

The Articles of Incorporation of the Company provide that, to the fullest extent permitted by the Maryland General Corporation Law, no director or officer of the corporation will have any liability to the corporation or its stockholders for damages. The corporation will indemnify and advance expenses to its directors or officers to the fullest extent that indemnification is permitted by Maryland General Corporation Law.

The Articles of Incorporation do not waive a director's or officer's duty to comply with the Securities Act of 1933, as amended, or the Investment Company Act of 1940, as amended, or any rule, regulation, or order thereunder. Further, the Articles of Incorporation do not protect the officers and directors against any liability to the corporation or its stockholders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Voting Rights

The Company will hold annual meetings of shareholders. Shares of the Company entitle the holders to one vote per share. The shares have no preemptive or conversion rights. The dividend rights are described in the Prospectus. When issued, shares are fully paid and nonassessable. The shareholders have certain rights, as set forth in the Bylaws, to call a meeting for any purpose, including the purpose of voting on removal of one or more Directors.

Shareholders of the Company shall be entitled to receive distributions as a class of the assets belonging to the Company. The assets of the Company received for the issue or sale of the shares of the Company and all income earnings and the proceeds thereof, subject only to the rights of creditors, are specially allocated to the Company, and constitute the underlying assets of the Company.

The Articles of Incorporation of the Company include certain "anti-takeover" provisions that could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to gain control in a tender offer, proxy contest or similar transaction. These provisions are more fully described in the Prospectus. A copy of the Articles of Incorporation may be obtained from the Securities and Exchange Commission.

Principal Holders

As of December 31, 1997, no person owned beneficially, directly or indirectly, 5% or more of the outstanding shares of the Company.

Accountants

Deloitte & Touche LLP, New York, New York, serves as the independent accountant of the Company. Generally, the independent accountants will audit the financial statement and the financial highlights of the Company, as well as provide reports to the Directors.

Legal Counsel

Messrs. Battle Fowler LLP, 75 E. 55th Street, New York, New York 10022 serves as legal counsel for the Company. Generally, legal counsel reviews documents relating to the operations of the Company. In addition, legal counsel will provide counsel to the Board of Directors of the Company.

FINANCIAL STATEMENTS

Shareholders receive reports at least semi-annually showing the Company's holdings and other information. In addition, shareholders receive annual financial statements contained in the Annual Report to Shareholders examined by Deloitte & Touche LLP, the Company's Independent Accountants. A copy of the Fund's Annual Report to Shareholders will be provided upon request by writing or calling the Fund at the address or telephone number set forth on page 1 of this Statement of Additional Information.

PART C. OTHER INFORMATION

ITEM 24. Financial Statements and Exhibits

(a) Financial Statements.

In Part A:

Financial Highlights

In Part B:

None

In Part C:

The following financial statements and report included therewith are incorporated by reference herein from the Annual Report to Shareholders for the year ended August 31, 1997:

(i) Schedule of Investments - August 31, 1997;

(ii) Statement of Assets and Liabilities - August 31, 1997;

(iii) Statements of Changes in Net Assets - for the period November 20, 1995 through August 31, 1996 and the year ended August 31, 1997;

(iv) Financial Highlights;

(v) Notes to Financial Statements for the year ended August 31, 1997; and

(vi) Independent Auditor's Report of Deloitte & Touche LLP dated October 22, 1997.

(b) Exhibits

1. Articles of Incorporation of Registrant(1)

2. By-Laws of Registrant(1)

3. Inapplicable

4. Inapplicable

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(1) Filed herewith

5. Automatic Dividend Reinvestment and Cash Purchase Plan(1)

6. Inapplicable

7. Investment Advisory Agreement between the Registrant and Hutner Capital Management, Inc.(1)

8. Inapplicable

9. Inapplicable

10. Custodian Agreement between the Registrant and Star Bank, N.A.(1)

11. (a) Administration Agreement between the Registrant and American Data Services, Inc.(1)

    (b) Transfer Agent Agreement between the Registrant and American Stock Transfer & Trust Co.(1)

12. (a) Opinion and Consent of Messrs. Battle Fowler LLP as to the legality of the securities being registered(1)

    (b) Opinion and Consent of Venable Baetjer and Howard as to issues relating to Maryland law(1)

    (c) Consent of Messrs. Battle Fowler LLP to be named in the Prospectus and Statement of Additional Information(1)

13. Inapplicable

14. Consent of Deloitte & Touche LLP to the use of the Report of Independent Accountants and to be named in the Prospectus and Statement of Additional Information (1)

15. Inapplicable

16. Subscription Agreement Letter from Avalon Partners, L.P. to Registrant(1)

17. Inapplicable

18. Financial Data Schedule (1)

ITEM 25. Marketing Arrangements

None.

ITEM 26. Other Expenses at Issuance and Distribution

Not Applicable

ITEM 27. Persons Controlled By or Under Common Control With Registrant

None.

ITEM 28. Number of Holders of Securities

Title of Class; Shares ($0.001 par value)	Number of Record Holders as of December 26, 1997
AVALON CAPITAL, INC. Common Stock	263

ITEM 29. Indemnification

(1) To the fullest extent that limitations on the liability of directors and officers are permitted by the Maryland General Corporation Law, no director or officer of the corporation shall have any liability to the corporation or its Stockholders for damages. This limitation on liability applies to events occurring at the time a person serves as a director or officer of the corporation whether or not such person is a director or officer at the time of any proceeding in which liability is asserted.

(2) Any person who was or is a party or is threatened to be made a party in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is a current or former director or officer of the Corporation, or is or was serving while a director or officer of the Corporation at the request of the Corporation as a director, officer, partner, trustee, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, enterprise or employee benefit plan, shall be indemnified by the Corporation against judgments, penalties, fines, excise taxes, settlements and reasonable expenses (including attorneys' fees) actually incurred by such person in connection with such action, suit or proceeding to the fullest extent permissible under the Maryland General Corporation Law, the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, as such statutes are now or hereafter in force. In addition, the Corporation shall also advance expenses to its currently acting and its former directors and officers to the fullest extent that such advance of expenses is permitted by the Maryland General Corporation Law, the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended. The Board of Directors may by Bylaw, resolution or agreement make further provisions for indemnification of directors, officers, employees and agents to the fullest extent permitted by the Maryland General Corporation Law.

19. (3) No provision of this Article shall be effective to protect or purport to protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

(4) References to the Maryland General Corporation Law in this Article are to the law as from time to time amended. No amendment to the Articles of Incorporation of the corporation shall affect any right of any person under this Article based on any event, omission or proceeding prior to such amendment.

ITEM 30. Business and Other Connections of Investment Adviser

None.

ITEM 31. Location of Accounts and Records

The accounts, books or other documents required to be maintained by Section 31(a) of the 1940 Act and the rules promulgated thereunder are maintained by American Data Services, Inc., The Happaugue Corporate Center, 150

Motor Roadway, Hauppauge, New York 11788.

ITEM 32. Management Services

Not applicable.

ITEM 33. Undertakings

1. The Registrant undertakes to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement or (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

2. The Registrant undertakes that for the purpose of determining any liability under the 1933 Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

3. The Registrant undertakes that for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

4. The Registrant undertakes to send by first class mail or other means designed to ensure equally prompt delivery, within two business days of receipt of a written or oral request, any Statement of Additional Information.

272564.3

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Post-Effective Amendment to its Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Princeton, and the State of New Jersey, on the 24th day of October, 1997.

AVALON CAPITAL, INC. /s/ Daniel Hutner

Registrant By: Daniel Hutner, President and Director

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment to its Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ Daniel E. Hutner Daniel E. Hutner	Chief Executive Officer and Director	October 24, 1997
/s/ Nancy W. Hutner Nancy W. Hutner	Director and Chief Financial Officer	October 24, 1997

/s/ William T. Endicott	Director	November 6, 1997
William T. Endicott		
/s/ Edward Rosen	Director	October 24, 1997
Edward Rosen		
/s/ Donald Smith	Director	October 24, 1997
Donald Smith		

</TABLE>

EXHIBIT INDEX (1)

1. Articles of Incorporation of Registrant

2. By-Laws of Registrant

5. Automatic Dividend Reinvestment and Cash Purchase Plan

7. Investment Advisory Agreement between the Registrant and Hutner Capital Management, Inc.

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14. Consent of Deloitte & Touche LLP to the use of the Report of Independent Accountants and to be named in the Prospectus and Statement of Additional Information

16. Subscription Agreement Letter from Avalon Partners, L.P. to Registrant

18. Financial Data Schedule

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(1) Filed herewith

ARTICLES OF INCORPORATION

OF

AVALON CAPITAL, INC.

ARTICLE I

THE UNDERSIGNED, Thomas R. Westle, 919 Third Avenue, New York, New York 10022, being at least eighteen years of age, does hereby act as an incorporator and form a corporation under and by virtue of the Maryland General Corporation Law.

ARTICLE II

NAME

The name of the Corporation is Avalon Capital, Inc.

ARTICLE III

PURPOSES AND POWERS

The Corporation is formed to conduct and carry on the business of a closed-end investment company registered under the Investment Company Act of 1940, as amended. The Corporation shall have all of the powers granted to corporations by the Maryland General Corporation Law now or hereafter in force.

ARTICLE IV

PRINCIPAL OFFICE AND RESIDENT AGENT

The post office address of the principal office of the Corporation in the State of Maryland is c/o CSC-Lawyers Incorporating Service Company, 11 East Chase St., Suite 9E, Baltimore, Maryland 21202. The name of the resident agent of the Corporation in the State of

Maryland is CSC-Lawyers Incorporating Service Company. The post office address of the resident agent is 11 East Chase St., Suite 9E, Baltimore, Maryland 21202.

ARTICLE V

CAPITAL STOCK

(1) The total number of shares of capital stock that the Corporation shall have authority to issue is one hundred million (100,000,000) shares, of the par value of one tenth of one cent ($.001) per share and of the aggregate par value of one hundred thousand dollars ($100,000), all of which one hundred million (100,000,000) shares are initially designated Common Stock.

(2) The Corporation may issue fractional shares. Any fractional share shall carry proportionately the rights of a whole share including, without limitation, the right to vote and the right to receive dividends and distributions, and the right to participate upon liquidation of the Corporation. A fractional share shall not, however, have the right to receive a certificate evidencing it.

(3) All persons who shall acquire stock or other securities of the Corporation shall acquire the same subject to the provisions of these Articles of Incorporation and the Bylaws of the Corporation, as from time to time amended.

(4) No holder of stock of the Corporation by virtue of being such a holder shall have any right to purchase or subscribe for any shares of the Corporation's capital stock or any other security that the Corporation may issue or sell other than a right that the Board of Directors in its discretion may determine to grant.

(5) The Board of Directors shall have authority by resolution to classify and reclassify any authorized but unissued shares of capital stock from time to time by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of the capital stock.

(6) Notwithstanding any provision of law requiring any action to be taken or authorized by the affirmative vote of the holders of a greater proportion of the votes of all classes or of any class of stock of the Corporation, such action shall be effective and valid if taken or authorized by the affirmative vote of a majority of the total number of votes entitled to be

cast thereon, subject to any applicable requirements of the Investment Company Act of 1940, as amended, or rules, regulations or orders thereunder by the Securities and Exchange Commission, except as otherwise provided in these Articles of Incorporation.

(7) Dividends payable in cash declared by the Board of Directors may be automatically invested in shares of Common Stock pursuant to a Dividend Reinvestment Plan to be adopted by the Board of Directors, as modified or amended from time to time. If the Board of Directors determines not to implement or to terminate such Dividend Reinvestment Plan, dividends declared and payable in cash shall be paid to all stockholders in cash. Any stockholder who chooses not to participate in the Dividend Reinvestment Plan shall be paid in cash any dividends declared and payable in cash. The Board of Directors may appoint a Plan Agent for the Dividend Reinvestment Plan. Appointment of the Plan Agent by the Board of Directors shall also constitute appointment of the Plan Agent by the participants in the Dividend Reinvestment Plan. If additional classes of stock are issued, dividends declared in respect of such classes shall not be subject to this Section.

ARTICLE VI

BOARD OF DIRECTORS

(1) The initial number of directors of the Corporation shall be three (3). The number of directors of the Corporation may be changed by the Bylaws or by the Board of Directors pursuant to the Bylaws. The number of directors shall in no event be greater than twenty (20). The term of office of a director in office at the time of any decrease in the number of directors shall not be affected as a result thereof. The names of directors who shall act until the first annual meeting of stockholders or until their successors are duly chosen and qualified are:

Daniel E. Hutner
Nancy W. Hutner
Thomas R. Westle

(2) Beginning with the first annual meeting of stockholders held after the initial public offering of the shares of the Corporation (the "initial annual meeting"), the Board of Directors shall be divided into three classes: Class I, Class II and Class III. The terms of office of the classes of Directors elected at the initial meeting shall expire at the times of the annual meetings of the stockholders as follows: Class I on the next annual meeting,

Class II on the second next annual meeting and Class III on the third next annual meeting, or thereafter in each case when their respective successors are elected and qualified. At each subsequent annual election, the Directors chosen to succeed those whose terms are expiring shall be identified as being of the same class as the Directors whom they succeed, and shall be elected for a term expiring at the time of the third succeeding annual meeting of stockholders, or thereafter in each case when their respective successors are elected and qualified. The number of Directorships shall be apportioned among the classes so as to maintain the classes as nearly equal in number as possible.

(3) A Director may be removed with or without cause, but only by action of the stockholders taken by the holders of at least seventy-five percent (75%) of the votes entitled to be cast.

(4) In furtherance, and not in limitation, of the powers conferred by the laws of the State of Maryland, the Board of Directors is expressly authorized:

(i) to make, alter or repeal the Bylaws of the Corporation, except as otherwise required by the Investment Company Act of 1940, as amended.

(ii) From time to time to determine whether and to what extent and at what times and places and under what conditions and regulations the accounts, books and records of the Corporation, or any of them other than the stock ledger, shall be open to the inspection of the stockholders. No stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by law or authorized by resolution of the Board of Directors.

(iii) From time to time to determine the net asset value per share of the Corporation's stock or to establish methods to be used by the Corporation's officers, employees or agents for determining the net asset value per share of the Corporation's stock.

(iv) Without the assent or vote of the stockholders, to authorize the issuance and sale from time to time of shares of the stock of any class of the Corporation, whether now or hereafter authorized, and securities convertible into shares of stock of the Corporation of any class or classes, whether now or hereafter authorized, in such amounts and such terms and conditions for such amount and kind of consideration as the Board of Directors may deem advisable.

(v) Without the assent or vote of the stockholders, to authorize and issue obligations of the Corporation, secured and unsecured, as the Board of Directors may determine, and to authorize and cause to be executed mortgages and liens upon the real or personal property of the Corporation.

(vi) In addition to the powers and authorities granted herein and by statute expressly conferred upon it, the Board of Directors is authorized to exercise all powers and do all acts that may be exercised or done by the Corporation pursuant to the provisions of the laws of the State of Maryland, these Articles of Incorporation and the Bylaws of the Corporation.

(5) Any determination made in good faith by or pursuant to the direction of the Board of Directors, with respect to the amount of assets, obligations or liabilities of the Corporation, as to the amount of net income of the Corporation from dividends and interest for any period or amounts at any time legally available for the payment of dividends, as to the

amount of any reserves or charges set up and the propriety thereof, as to the time of or purpose for creating reserves or as to the use, alteration or cancellation of any reserves or charges (whether or not any obligation or liability for which the reserves or charges have been created has been paid or discharged or is then or thereafter required to be paid or discharged), as to the value of any security owned by the Corporation or as to the determination of the net asset value of shares of any class of the Corporation's capital stock, shall be final and conclusive, and shall be binding upon the Corporation and all holders of its capital stock, past, present and future, and shares of the capital stock of the Corporation are issued and sold on the condition and understanding, evidenced by the purchase of shares of capital stock or acceptance of share certificates, that any and all such determinations shall be binding as aforesaid. No provision of these Articles of Incorporation of the Corporation shall be effective to (i) require a waiver of compliance with any provisions of the Securities Act of 1933, as amended, or the Investment Company Act of 1940, as amended, or of any valid rule, regulation or order of the Securities and Exchange Commission under those Acts or (ii) protect or purport to protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

ARTICLE VII

CERTAIN TRANSACTIONS

(1) Except as otherwise provided in this Article VII, at least seventy-five percent (75%) of the votes entitled to be cast by stockholders, in addition to the affirmative vote of at least seventy-five (75%) of the entire Board of Directors, shall be necessary to effect any of the following actions:

(i) any amendment to these Articles to make the Corporation's Common Stock a "redeemable security" or to convert the corporation from a "closed-end company" to an "open-end company" (as such terms are defined in the Investment Company Act of 1940, as amended) or any amendment to Article III, unless the Continuing Directors (as hereinafter defined) of the Corporation, by a vote of at least seventy-five percent (75%) of such Directors, approve such amendment in which case the affirmative vote of a majority of the votes entitled to be cast by stockholders shall be required to approve such transaction;

(ii) any stockholder proposal as to specific investment decisions made or to be made with respect to the Corporation's assets;

(iii) any proposal as to the voluntary liquidation or dissolution of the Corporation or any amendment to these Articles of Incorporation to terminate the existence of the Corporation, unless the Continuing Directors of the Corporation, by a vote of at least seventy-five percent (75%) of such Directors, approve such proposals in which case the

affirmative vote of a majority of the votes entitled to be cast by stockholders shall be required to approve such transaction;

(iv) any Business Combination (as hereinafter defined) unless either the condition in clause (A) below is satisfied, or all of the conditions in clauses (B), (C), (D), (E) and (F) below are satisfied, in which case paragraph (c) below shall apply.

(A) The Business Combination shall have been approved by a vote of at least 75% of the Continuing Directors.

(B) The aggregate amount of cash and the Fair Market Value (as hereinafter defined), as of the date of the consummation of the Business Combination, of consideration other than cash to be received per share by holders of any class of outstanding Voting Stock (as hereinafter defined) in such Business Combination shall be at least equal to the higher of the following:

(x) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by an Interested Party (as hereinafter defined) for any shares of such Voting Stock acquired by it (aa) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date"), or (bb)(i) in the Threshold Transaction (as hereinafter defined), or (ii) in any period between the Threshold Transaction and the consummation of the Business Combination, whichever is higher; and

(y) the net asset value per share of such Voting Stock on the Announcement Date or on the date of the Threshold Transaction, whichever is higher.

(C) The consideration to be received by holders of the particular class
of outstanding Voting Stock shall be in cash or in the same form as the Interested Party has previously paid for shares of any class of Voting Stock. If the Interested Party has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it.

(D) After the occurrence of the Threshold Transaction, and prior to the consummation of such Business Combination, such Interested Party shall not have become the beneficial owner of any additional shares of Voting Stock except by virtue of the Threshold Transaction.

(E) After the occurrence of the Threshold Transaction, such Interested Party shall not have received the benefit, directly or indirectly (except proportionately as a shareholder of the Corporation), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the

Corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(F) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (or any subsequent provisions replacing such Acts, rules or regulations) shall be prepared and mailed by the Interested Party, at such Interested Party's expense, to the shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is

required to be mailed pursuant to such Acts or subsequent provisions).

(2) For the purposes of this Article and Article IX:

(i) "Business Combination" shall mean any of the transactions described or referred to in any one or more of the following subparagraphs:

(A) any merger, consolidation or share exchange of the Corporation with or into any other person;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions in any 12-month period) to or with any other person of any assets of the Corporation having an aggregate Fair Market Value of $1,000,000 or more except for portfolio transactions of the Corporation effected in the ordinary course of the Corporation's business;

(B) the issuance or transfer by the Corporation (in one transaction or a series of transactions in any 12-month period) of any securities of the Corporation to any other person in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of $1,000,000 or more excluding (x) sales of any securities of the Corporation in connection with a public offering thereof, (y) issuances of any securities of the Corporation pursuant to a dividend reinvestment plan adopted by the Corporation upon the exercise of any stock subscription rights distributed by the Corporation.

(ii) "Continuing Director" means any member of the Board of Directors of the Corporation who is not an Interested Party or an Affiliate (as hereinafter defined) of an Interested Party and has been a member of the Board of Directors for a period at least 12 months (or since the Corporation's commencement of operations, if that period is less than 12 months), or is a successor of a Continuing Director who is unaffiliated with an Interested Party and is recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of Directors.

(iii) "Interested Party" shall mean any person, other than an investment company advised by the Corporation's initial investment manager or any of its Affiliates, which enters, or proposes to enter, into a Business Combination with the Corporation.

(iv) "Person" shall mean an individual, corporation, a trust or a partnership.

(v) "Voting Stock" shall mean capital stock of the Corporation entitled to vote generally in the election of directors.

(vi) A person shall be a "beneficial owner" of any Voting Stock:

(A) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(B) which such person or any of its Affiliates or Associates has the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options; or

(C) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(vii) Affiliate" and "Associate" shall have the respective meanings
ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

(viii) "Fair Market Value" means:

(A) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the relevant date of a share of such stock on the New York Stock Exchange, or if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sale price (if such stock is a National Market System security) or the highest closing bid quotation (if such stock is not a National Market System security) with respect to a share of such stock during the 30-day period preceding the relevant date on the National Association of Securities Dealers, Inc. Automated Quotation Systems (NASDAQ) or any system then in use, or if no such quotations are available, the fair market value on the relevant date of the share of such stock as determined by at least 75% of the Continuing Directors in good faith, and

(B) in the case of property other than cash or stock, the fair market value of such property on the relevant date as determined by at least 75% of the Continuing Directors in good faith.

(ix) "Threshold Transaction" means the transaction by or as a result of which an Interested Party first becomes the beneficial owner of Voting Stock.

(x) In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash to be received" as used in subparagraph (a)(iv)(B) above shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(xi) Continuing Directors of the Corporation, acting by a vote of at least 75%, shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine (a) the number of shares of Voting Stock beneficially owned by any person, (b) whether a person is an Affiliate or Associate of another, (c) whether the requirements of subparagraph (a)(iv) above have been met with respect to any Business Combination, and (d) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation in any Business Combination has, an aggregate Fair Market Value of $1,000,000 or more.

(c) If any Business Combination described in paragraph (b)(i)(A) or (B) (if the merger, consolidation, share exchange or transfer or other disposition constitutes a merger, consolidation, share exchange or transfer of all or substantially all of the assets of the Corporation with respect to which stockholder approval is required under Maryland law) is approved by a vote of 75% of the Continuing Directors or all of the conditions in paragraph (a)(iv)(B), (C), (D), (E) and (F) are satisfied, a majority of the votes entitled to be cast by stockholders shall be required to approve such transaction. If any other Business Combination is approved by a vote of 75% of the Continuing Directors or all of the conditions in paragraph (a)(iv)(B) (C), (D), (E) and (F) are satisfied, no stockholder vote shall be required to approve such transaction unless otherwise provided in these Articles of Incorporation or required by law.

ARTICLE VIII

(1) To the fullest extent that limitations on the liability of directors and officers are permitted by the Maryland General Corporation Law, no director or officer of the Corporation shall have any liability to the Corporation or its stockholders for damages. This limitation on liability applies to events occurring at the time a person serves as a director or officer of the Corporation whether or not such person is a director or officer at the time of any proceeding in which liability is asserted.

(2) Any person who was or is a party or is threatened to be made a party in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is a current or former director or officer of the Corporation, or is or was serving while a director or officer of the Corporation at the request of the Corporation as a director, officer, partner, trustee, employee, agent of fiduciary of another corporation, partnership, joint venture, trust, enterprise or employee benefit plan, shall be indemnified by the Corporation against judgments, penalties, fines, excise taxes, settlements and reasonable expenses (including attorneys' fees) actually incurred by such person in connection with such action, suit or proceeding to the fullest extent permissible under the Maryland General Corporation Law, the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, as such statutes are now or hereafter in force. In addition, the Corporation shall also advance expenses to its currently acting and its former directors and officers to the fullest extent that such advances of expenses are permitted by the Maryland General Corporation Law, the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended. The Board of Directors may by Bylaw, resolution or agreement make further provision for indemnification of directors, officers, employees and agents to the fullest extent permitted by the Maryland General Corporation Law.

(3) No provision of this Article shall be effective to protect or purport to protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

(4) References to the Maryland General Corporation Law in this Article are to that law as from time to time amended. No amendment to the charter of the Corporation shall affect any right of any person under this Article based on any event, omission or proceeding prior to the amendment.

ARTICLE IX

AMENDMENTS

(1) The Corporation reserves the right from time to time to make any amendments to its Charter, now or hereafter authorized by law, including any amendment that alters the contract rights, as expressly set forth in its Charter, of any outstanding stock.

(2) Notwithstanding Paragraph (1) of this Article or any other provision of these Articles of Incorporation, no amendment to these Articles of Incorporation shall amend, alter, change or repeal any of the provisions of paragraph (1), (2) or (3) of Article VI unless the amendment effecting such alteration, change or repeal shall receive the affirmative vote of at least seventy-five percent (75%) of the votes entitled to be cast by stockholders and the affirmative vote of at least seventy-five percent (75%) of the entire Board of Directors, unless the amendment shall have approved by at least 75% of the Continuing Directors, in which case the affirmative vote of a majority of the votes entitled to be cast shall be sufficient to approve the amendment, and no amendment to these Articles of Incorporation shall amend, alter, change or repeal Articles VII or IX unless the amendment effecting such amendment, alteration, change or repeal shall receive the affirmative vote of at least seventy-five percent (75%) of the votes entitled to be cast by stockholders and a vote of at least seventy-five percent (75%) of the entire Board of Directors.

IN WITNESS WHEREOF, I have adopted and signed these Articles of Incorporation and do hereby acknowledge that the adoption and signing are my act.

Dated the 7th day of March, 1995

/s/ Thomas R. Westle
Incorporator

667967.1

BYLAWS
OF
AVALON CAPITAL, INC.

BYLAW-ONE: NAME OF COMPANY, LOCATION OF OFFICES AND SEAL.

Article 1.1. Name. The name of the Company is Avalon Capital, Inc.

Article 1.2. Principal Offices. The principal office of the Company in the State of Maryland shall be located in Baltimore, Maryland. The Company may, in addition, establish and maintain such other offices and places of business within or outside the State of Maryland as the Board of Directors may from time to time determine.

Article 1.3. Seal. The corporate seal of the Company shall be circular in form and shall bear the name of the Company, the year of its incorporation and the words "Corporate Seal, Maryland." The form of the seal shall be subject to alteration by the Board of Directors and the seal may be used by causing it or a facsimile to be impressed or affixed or printed or otherwise reproduced. Any Officer or Director of the Company shall have authority to affix the corporate seal of the Company to any document requiring the same.

BYLAW-TWO: STOCKHOLDERS.

Article 2.1. Place of Meetings. All meetings of the Stockholders shall be held at such place within the United States, whether within or outside the State of Maryland, as the

Board of Directors shall determine, which shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Article 2.2. Annual Meeting. Commencing with the first annual meeting of the Stockholders held after the Company's initial public offering, the annual meeting of the Stockholders of the Company shall be held at such place as the Board of Directors shall select on such date, during the 31-day period ending

four months after the end of the Company's fiscal year, as may be fixed by the Board of Directors each year, at which time the Stockholders shall elect Directors by plurality of votes cast, and transact such other business as may properly come before the meeting. Any business of the Company may be transacted at the annual meeting without being specially designated in the notice except as otherwise provided by statute, by the Articles of Incorporation or by these Bylaws.

Article 2.3. Special Meetings. Special meetings of the Stockholders for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by resolution of the Board of Directors or by the President, and shall be called by the Secretary at the request of a majority of the Board of Directors or at the request, in writing, of Stockholders holding at least 25% of the votes entitled to be cast at the meeting upon payment by such Stockholders to the Company of the reasonably estimated cost of preparing and mailing a notice of the meeting (which estimated cost shall be provided to such Stockholders by the Secretary of the Company). Notwithstanding the foregoing, unless requested by Stockholders entitled to cast a majority of the votes entitled to be cast at the meeting, a special meeting of the Stockholders need not be called at the request

of Stockholders to consider any matter that is substantially the same as a matter voted on at any special meeting of the Stockholders held during the preceding 12 months. A written request shall state the purpose or purposes of the proposed meeting and the matters proposed to be acted upon at it.

Article 2.4. Notice. Written notice of every meeting of Stockholders, stating the purpose or purposes for which the meeting is called, the time when and the place where it is to be held, shall be served, either personally or by mail, not less than ten nor more than ninety days before the meeting, upon each Stockholder as of the record date fixed for the meeting who is entitled to notice of or to vote at such meeting. If mailed (i) such notice shall be directed to a Stockholder at his address as it shall appear on the books of the Company (unless he shall have filed with the Transfer Agent of the Company a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request) and (ii) such notice shall be deemed to have been given as of the date when it is deposited in the United States mail with first-class postage thereon prepaid.

Article 2.5. Notice of Stockholder Business. At any annual or special meeting of the Stockholders, only such business shall be conducted as shall have

been properly brought before the meeting. To be properly brought before an annual or special meeting, the business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the

meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a Stockholder.

For business to be properly brought before an annual or special meeting by a Stockholder, the Stockholder must have given timely notice thereof in writing to the Secretary of the Company. To be timely, any such notice must be delivered to or mailed and received at the principal executive offices of the Company not later than 60 days prior to the date of the meeting; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to Stockholders, any such notice by a Stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the annual or special meeting was given or such public disclosure was made.

Any such notice by a Stockholder shall set forth as to each matter the Stockholder proposes to bring before the annual or special meeting (i) a brief description of the business desired to be brought before the annual or special meeting and the reasons for conducting such business at the annual or special meeting, (ii) the name and address, as they appear on the Company's books, of the Stockholder proposing such business, (iii) the class and number of shares of the capital stock of the Company which are beneficially owned by the Stockholder, and (iv) any material interest of the Stockholder in such business.

Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual or special meeting except in accordance with the procedures set forth in this Article 2.5. The chairman of the annual or special meeting shall, if the facts

warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Article 2.5, and, if he should so determine, he shall so declare to the meeting that any such business not properly brought before the meeting shall not be considered or transacted.

Article 2.6. Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the Stockholders for the transaction of business except as otherwise provided by statute, by the Articles of Incorporation or by these Bylaws. If a quorum shall not be present in person or by proxy, the Stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, to a date not more than 120 days after the original record date, until a quorum shall be present or represented. At such adjourned meeting, at which a quorum shall be present or represented, any business which might have been transacted at the original meeting may be transacted.

Article 2.7. Vote of the Meeting. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the votes cast shall decide any question brought before such meeting (except with respect to election of directors which shall be by a plurality of votes cast), unless the question is one upon which, by express provisions of applicable statutes, of the Articles of Incorporation or of these Bylaws, a different vote is required, in which case such express provisions shall govern and control the decision of such question.

Article 2.8. Voting Rights of Stockholders. Each Stockholder of record having the right to vote shall be entitled at every meeting of the Stockholders of the Company to one vote for each share of stock having voting power standing in the name of such Stockholder on the books of the Company on the record date fixed in accordance with Article 6.5 of these Bylaws, with pro rata voting rights for any fractional shares and such votes may be cast either in person or by written proxy.

Article 2.9. Organization. At every meeting of the Stockholders, the Chairman of the Board, or in his absence or inability to act, the President or a Vice President of the Company, shall act as chairman of the meeting. The Secretary, or in his absence or inability to act, a person appointed by the chairman of the meeting, shall act as secretary of the meeting and keep the minutes of the meeting.

Article 2.10. Proxies. Every proxy must be executed in writing by the Stockholder or by his duly authorized attorney-in-fact. No proxy shall be valid after the expiration of eleven months from the date of its execution unless it shall have specified therein its duration. Every proxy shall be revocable at the pleasure of the person executing it or of his personal representatives or assigns. Proxies shall be delivered prior to the meeting to the Secretary of the Company or to the person acting as Secretary of the meeting before being voted. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless, at or prior to exercise of such proxy, the Company receives a specific written notice to the contrary from any one of them. A proxy purporting

to be executed by or on behalf of a Stockholder shall be deemed valid unless challenged at or prior to its exercise.

Article 2.11. Stock Ledger and List of Stockholders. It shall be the duty of the Secretary or Assistant Secretary of the Company to cause an original or duplicate stock ledger to be maintained at the office of the Company's Transfer Agent.

Article 2.12. Action without Meeting. Any action to be taken by Stockholders may be taken without a meeting if (1) all Stockholders entitled to vote on the matter consent to the action in writing, (2) all Stockholders entitled to notice of the meeting but not entitled to vote at it sign a written waiver of any right to dissent and (3) said consents and waivers are filed with the records of the meetings of Stockholders. Such consent shall be treated for all purposes as a vote at a meeting.

BYLAW-THREE: BOARD OF DIRECTORS.

Article 3.1. General Powers. Except as otherwise provided in the Articles of Incorporation, the business and affairs of the Company shall be managed under the direction of the Board of Directors. All powers of the Company may be exercised by or under authority of the Board of Directors except as conferred on or reserved to the Stockholders by law, by the Articles of Incorporation or by these Bylaws.

Article 3.2. Board of Three to Twenty Directors. The Board of Directors shall consist of not less than three (3) nor more than twenty (20) Directors; provided that if there are less than three stockholders, the number of Directors may be less than three but not less

than the number of stockholders or one, if less. Directors need not be Stockholders. The majority of the entire Board of Directors shall have power from time to time, and at any time when the Stockholders as such are not assembled in a meeting, regular or special, to increase or decrease the number of Directors. If the number of Directors is increased, the additional Directors may be elected by a majority of the Directors in office at the time of the increase. If such additional Directors are not so elected by the Directors in office at the time they increase the number of places on the Board, or if the additional Directors are elected by the existing Directors prior to the first annual meeting of the Stockholders of the Company, then in either of such events the additional Directors shall be elected or re-elected by the Stockholders at their next annual meeting or at an earlier special meeting called for that purpose.

Beginning with the first annual meeting of Stockholders held after the initial public offering of the shares of the Company (the "initial annual meeting"), the Board of Directors shall be divided into three classes: Class I, Class II and Class III. The terms of office of the classes of Directors elected at the initial annual meeting shall expire at the times of the annual meetings of the Stockholders as follows: Class I on the next annual meeting, Class II on the second next annual meeting and Class III on the third next annual meeting, or thereafter in each case when their respective successors are elected and qualified. At each subsequent annual election, the Directors chosen to succeed those whose terms are expiring shall be identified as being of the same class as the Directors whom they succeed, and shall be elected for a term expiring at the time of the third succeeding annual meeting of Stockholders, or thereafter in each case when their respective successors are elected and

qualified. The number of directorships shall be apportioned among the classes so as to maintain the classes as nearly equal in number as possible.

Article 3.3. Director Nominations.

(a) Only persons who are nominated in accordance with the procedures set forth in this Article 3.3 shall be eligible for election or re-election as Directors. Nominations of persons for election or re-election to the Board of Directors of the Company may be made at a meeting of Stockholders by or at the

direction of the Board of Directors or by any Stockholder of the Company who is entitled to vote for the election of such nominee at the meeting and who complies with the notice procedures set forth in this Article 3.3.

(b) Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice delivered in writing to the Secretary of the Company. To be timely, any such notice by a Stockholder must be delivered to or mailed and received at the principal executive offices of the Company not later than 60 days prior to the meeting; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to Stockholders, any such notice by a Stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the meeting was given or such public disclosure was made.

(c) Any such notice by a Stockholder shall set forth (i) as to each person whom the Stockholder proposes to nominate for election or re-election as a Director, (A) the name,

age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the capital stock of the Company which are beneficially owned by such person and (D) any other information relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors pursuant to Regulation 14A under the Securities Exchange Act of 1934 or any successor regulation thereto (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected and whether any person intends to seek reimbursement from the Company of the expenses of any solicitation of proxies should such person be elected a Director of the Company); and (ii) as to the Stockholder giving the notice (A) the name and address, as they appear on the Company's books, of such Stockholder and (B) the class and number of shares of the capital stock of the Company which are beneficially owned by such Stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the Company that information required to be set forth in a Stockholder's notice of nomination which pertains to the nominee.

(d) If a notice by a Stockholder is required to be given pursuant to this Article 3.3, no person shall be entitled to receive reimbursement from the Company of the expenses of a solicitation of proxies for the election as a Director of a person named in such notice unless such notice states that such

reimbursement will be sought from the Company. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the Bylaws,

and, if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded for all purposes.

Article 3.4. Vacancies. Subject to the provisions of the Investment Company Act of 1940, as amended, if the office of any Director or Directors becomes vacant for any reason (other than an increase in the number of Directors), the Directors in office, although less than a quorum, shall continue to act and may choose a successor or successors, who shall hold office until the next election of Directors, or any vacancy may be filled by the Stockholders at any meeting thereof.

Article 3.5. Removal. At any meeting of Stockholders duly called and at which a quorum is present, the Stockholders may, by the affirmative vote of the holders of at least three-fourths of the votes entitled to be cast thereon, remove any Director or Directors from office, with or without cause, and may elect a successor or successors to fill any resulting vacancies for the unexpired term of the removed Director.

Article 3.6. Resignation. A Director may resign at any time by giving written notice of his resignation to the Board of Directors or the Chairman of the Board or the Secretary of the Company. Any resignation shall take effect at the time specified in it or, should the time when it is to become effective not be specified in it, immediately upon its receipt. Acceptance of a resignation shall not be necessary to make it effective unless the resignation states otherwise.

Article 3.7. Place of Meetings. The Directors may hold their meetings at the principal office of the Company or at such other places, either within or

outside the State of Maryland, as they may from time to time determine.

Article 3.8. Regular Meetings. Regular meetings of the Board may be held at such date and time as shall from time to time be determined by resolution of the Board.

Article 3.9. Special Meetings. Special meetings of the Board may be called by order of the Chairman of the Board on one day's notice given to each Director either in person or by mail, telephone, telegram, cable or wireless to each Director at his residence or regular place of business. Special meetings will be called by the Chairman or Vice Chairman, if any, of the Board or Secretary in a like manner on the written request of a majority of the Directors.

Article 3.10. Quorum. At all meetings of the Board, the presence of a majority of the entire Board of Directors shall constitute a quorum except when a vacancy or vacancies prevents such majority, whereupon a majority of the Directors in office shall constitute a quorum, provided such majority shall constitute at least one-third of the entire Board and, in no event, less than two directors. A majority of the Directors present, whether or not a quorum is present, may adjourn a meeting to another time and place. Except as otherwise specifically provided by statute, by the Articles of Incorporation, or by these By-laws, the action of a majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors.

Article 3.11. Organization. The Board of Directors shall designate one of its members to serve as Chairman of the Board. The Chairman of the Board shall preside at each meeting of the Board. In the absence or inability of the Chairman of the Board to act another Director chosen by a majority of the Directors present, shall act as chairman of the meeting and preside at the meeting. The Secretary (or, in his absence or inability to act, any person appointed by the chairman) shall act as secretary of the meeting and keep the minutes of the meeting.

Article 3.12. Informal Action by Directors and Committees. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may, except as otherwise required by statute, be taken without a meeting if a written consent to such action is signed by all members of the Board, or of such committee, as the case may be, and filed with the

minutes of the proceedings of the Board or committee. Subject to the Investment Company Act of 1940, as amended, members of the Board of Directors or a committee thereof may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time.

Article 3.13. Executive Committee. There may be an Executive Committee of two or more Directors appointed by the Board who may meet at stated times or on notice to all by any of their own number. The Executive Committee shall consult with and advise the Officers of the Company in the management of its business and exercise such powers of the Board of Directors as may be lawfully delegated by the Board of Directors. Vacancies shall

be filled by the Board of Directors at any regular or special meeting. The Executive Committee shall keep regular minutes of its proceedings and report the same to the Board when required.

Article 3.14. Audit Committee. There shall be an Audit Committee of two or more Directors who are not "interested persons" of the Company (as defined in the Investment Company Act of 1940, as amended) appointed by the Board who may meet at stated times or on notice to all by any of their own number. The Committee's duties shall include reviewing both the audit and other work of the Company's independent accountants, recommending to the Board of Directors the independent accountants to be retained, and reviewing generally the maintenance and safekeeping of the Company's records and documents.

Article 3.15. Other Committees. The Board of Directors may appoint other committees which shall in each case consist of such number of members (but not less than two) and shall have and may exercise, to the extent permitted by law, such powers as the Board may determine in the resolution appointing them. A majority of all members of any such committee may determine its action, and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to change the members and, to the extent permitted by law, to change the powers of any such committee, to fill vacancies and to discharge any such committee.

Article 3.16. Compensation of Directors. The Board may, by resolution, determine what compensation and reimbursement of expenses of attendance at meetings, if any, shall be paid to Directors in connection with their service on the Board. Nothing herein contained

shall be construed to preclude any Director from serving the Company in any other capacity or from receiving compensation therefor.

BYLAW-FOUR: OFFICERS.

Article 4.1. Officers. The Officers of the Company shall be fixed by the Board of Directors and shall include a President, Secretary and Treasurer. Any two offices may be held by the same person except the offices of President and Vice President. A person who holds more than one office in the Company may not act in more than one capacity to execute, acknowledge or verify an instrument required by law to be executed, acknowledged or verified by more than one officer.

Article 4.2. Appointment of Officers. The Directors shall appoint the Officers, who need not be members of the Board.

Article 4.3. Additional Officers. The Board may appoint such other Officers and agents as it shall deem necessary who shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

Article 4.4. Salaries of Officers. The salaries of all Officers of the Company shall be fixed by the Board of Directors.

Article 4.5. Term, Removal, Vacancies. The Officers of the Company shall serve at the pleasure of the Board of Directors and hold office for one year and until their successors are chosen and qualify in their stead. Any Officer elected or appointed by the

Board of Directors may be removed at any time by the affirmative vote of a majority of the Directors. If the office of any Officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

Article 4.6. President. The President shall be the chief executive officer of the Company, shall, subject to the supervision of the Board of Directors, have general responsibility for the management of the business of the Company and shall see that all orders and resolutions of the Board are carried into effect.

Article 4.7. Vice President. Any Vice President shall, in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties as the Board of Directors shall prescribe.

Article 4.8. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Company as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Chairman of the Board and Directors at the regular meetings of the Board, or whenever they may require it, an account of the financial condition of the Company.

Any Assistant Treasurer may perform such duties of the Treasurer as the Treasurer or the Board of Directors may assign, and, in the absence of the Treasurer, may perform all the duties of the Treasurer.

Article 4.9. Secretary. The Secretary shall attend meetings of the Board and meetings of the Stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for the Executive Committee of the Board when required. He shall give or cause to be given notice of all meetings of Stockholders and special meetings of the Board of Directors and shall perform such other duties as may be prescribed by the Board of Directors. He shall keep in safe custody the seal of the Company and affix it to any instrument when authorized by the Board of Directors.

Any Assistant Secretary may perform such duties of the Secretary as the Secretary or the Board of Directors may assign, and, in the absence of the

Secretary, may perform all the duties of the Secretary.

Article 4.10. Subordinate Officers. The Board of Directors from time to time may appoint such other officers or agents as it may deem advisable, each of whom shall serve at the pleasure of the Board of Directors and have such title, hold office for such period, have such authority and perform such duties as the Board of Directors may determine. The Board of Directors from time to time may delegate to one or more officers or agents the power to appoint any such subordinate officers or agents and to prescribe their respective rights, terms of office, authorities and duties.

Article 4.11. Surety Bonds. The Board of Directors may require any officer or agent of the Company to execute a bond (including, without limitation, any bond required by the Investment Company Act of 1940, as amended, and the rules and regulations of the Securities and Exchange Commission) to the Company in such sum and with such surety or sureties as the Board of Directors may determine, conditioned upon the faithful performance of his duties to the Company, including responsibility for negligence and for the accounting of any of the Company's property, funds or securities that may come into his hands.

BYLAW-FIVE: GENERAL PROVISIONS.

Article 5.1. Waiver of Notice. Whenever the Stockholders or the Board of Directors are authorized by statute, the provisions of the Articles of Incorporation or these Bylaws to take any action at any meeting after notice, such notice may be waived, in writing, before or after the holding of the meeting, by the person or persons entitled to such notice, or, in the case of a Stockholder, by his duly authorized attorney-in-fact. Such notice is also waived if the person entitled to the notice is present at the meeting in person, or, in the case of a stockholder, by proxy.

Article 5.2. Indemnity.

(a) The Company shall indemnify its directors to the fullest extent that indemnification of directors is permitted by the Maryland General Corporation Law. The Company shall indemnify its officers to the same extent as its directors and to such further extent as is consistent with law. The Company shall indemnify its directors and officers

who, while serving as directors or officers, also serve at the request of the Company as a director, officer, partner, trustee, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, other enterprise or employee benefit plan to the fullest extent consistent with law. The indemnification and other rights provided by this Article shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person. This Article shall not protect any such person against any liability to the Company or any Stockholder thereof to which such person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office ("disabling conduct").

(b) Any current or former director or officer of the Company seeking indemnification within the scope of this Article shall be entitled to advances from the Company for payment of the reasonable expenses incurred by him in connection with the matter as to which he is seeking indemnification in the manner and to the fullest extent permissible under the Maryland General Corporation Law. The person seeking indemnification shall provide to the Company a written affirmation of his good faith belief that the standard of conduct necessary for indemnification by the Company has been met and a written undertaking to repay any such advance if it should ultimately be determined that the standard of conduct has not been met. In addition, at least one of the following additional conditions shall be met: (i) the person seeking indemnification shall provide security in form and amount acceptable to the Company for his undertaking; (ii) the Company is insured against losses arising by reason of the advance; or (iii) a majority of a quorum of Directors

of the Company who are neither "interested persons" as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended, nor parties to the proceeding ("disinterested non-party directors"), or independent legal counsel, in a written opinion, shall have determined, based on a review of facts readily available to the Company at the time the advance is proposed to be made, that there is reason to believe that the person seeking indemnification will ultimately be found to be entitled to indemnification.

(c) At the request of any person claiming indemnification under this

Article, the Board of Directors shall determine, or cause to be determined, in a manner consistent with the Maryland General Corporation Law, whether the standards required by this Article have been met. Indemnification shall be made only following: (i) a final decision on the merits by a court or other body before whom the proceeding was brought that the person to be indemnified was not liable by reason of disabling conduct or (ii) in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the person to be indemnified was not liable by reason of disabling conduct by (i) the vote of a majority of a quorum of disinterested non-party directors or (ii) an independent legal counsel in a written opinion.

(d) Employees and agents who are not officers or directors of the Company may be indemnified, and reasonable expenses may be advanced to such employees or agents, as may be provided by action of the Board of Directors or by contract, subject to any limitations imposed by the Investment Company Act of 1940.

(e) The Board of Directors may make further provision consistent with law for indemnification and advance of expenses to directors, officers, employees and agents by resolution, agreement or otherwise. The indemnification provided by this Article shall not be deemed exclusive of any other right, with respect to indemnification or otherwise, to which those seeking indemnification may be entitled under any insurance or other agreement or resolution of stockholders or disinterested directors or otherwise.

(f) References in this Article are to the Maryland General Corporation Law and to the Investment Company Act of 1940, as from time to time amended. No amendment of these Bylaws shall affect any right of any person under this Article based on any event, omission or proceeding prior to the amendment.

Article 5.3. Insurance. The Company may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company or who, while a director, officer, employee or agent of the Company, is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, other enterprise or employee benefit plan, against any liability asserted against and incurred by such person in any such capacity or arising out of such person's position; provided that no insurance may be purchased by the Company on behalf of any person against any liability to

the Company or to its Stockholders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Article 5.4. Checks. All checks or demands for money and notes of the Company shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Article 5.5. Fiscal Year. The fiscal year of the Company shall be determined by resolution of the Board of Directors.

BYLAW-SIX: CERTIFICATES OF STOCK.

Article 6.1. Certificates of Stock. The interest of each Stockholder of the Company shall be evidenced by certificates for shares of stock in such form as the Board of Directors may from time to time prescribe. The certificates shall be numbered and entered in the books of the Company as they are issued. They shall exhibit the holder's name and the number of whole shares and no certificate shall be valid unless it has been signed by the President, Vice President or Chairman and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary and bears the corporate seal. Such seal may be a facsimile, engraved or printed. Where any such certificate is signed by a Transfer Agent or by a Registrar, the signatures of any such officer may be facsimile, engraved or printed. In case any of the officers of the Company whose manual or facsimile signature appears on any stock certificate delivered to a Transfer Agent of the Company shall cease to be such Officer prior to the issuance of such certificate, the Transfer Agent may nevertheless countersign and deliver such certificate as though the person signing the same or whose facsimile signature appears thereon had not ceased to be such officer, unless written instructions of the Company to the contrary are delivered to the Transfer Agent.

Article 6.2. Lost, Stolen or Destroyed Certificates. The Board of Directors, or the President together with the Treasurer or Secretary, may direct a new certificate to be issued in place of any certificate theretofore issued by

the Company, alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed, or by his legal representative. When authorizing such issue of a new certificate, the Board of Directors, or the President and Treasurer or Secretary, may, in its or their discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as it or they shall require and/or give the Company a bond in such sum and with such surety or sureties as it or they may direct as indemnity against any claim that may be made against the Company with respect to the certificate alleged to have been lost, stolen or destroyed for such newly issued certificate.

Article 6.3. Transfer of Stock. Shares of the Company shall be transferable on the books of the Company by the holder thereof in person or by his duly authorized attorney or legal representative upon surrender and cancellation of a certificate or certificates for the same number of shares of the same class, duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, with such proof of the authenticity of the signature as the Company or its agents may reasonably require. The shares of stock of the Company may be freely transferred, and the Board of Directors may, from time to time, adopt rules and regulations with reference to the method of transfer of the shares of stock of the Company.

Article 6.4. Registered Holder. The Company shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as expressly provided by statute.

Article 6.5. Record Date. The Board of Directors may fix a time not less than 10 nor more than 90 days prior to the date of any meeting of Stockholders or prior to the last day on which the consent or dissent of Stockholders may be effectively expressed for any purpose without a meeting, as the time as of which Stockholders entitled to notice of, and to vote at, such a meeting or whose consent or dissent is required or may be expressed for any purpose, as the case may be, shall be determined; and all such persons who were holders of record of voting stock at such time, and no other, shall be entitled to notice of, and to vote at, such meeting or to express their consent or dissent, as the case may be. If no record date has been fixed, the record date for the determination of Stockholders entitled to notice of, or to vote at, a meeting of Stockholders shall be the later of the close of business on the day on which notice of the meeting is mailed or the thirtieth day before the

meeting, or, if notice is waived by all Stockholders, at the close of business on the tenth day next preceding the day on which the meeting is held. The Board of Directors may also fix a time not exceeding 90 days preceding the date fixed for the payment of any dividend or the making of any distribution, or for the delivery of evidences of rights, or evidences of interests arising out of any change, conversion or exchange of capital stock, as a record time for the determination of the Stockholder entitled to receive any such dividend, distribution, rights or interests.

Article 6.6. Stock Ledgers. The stock ledgers of the Company, containing the names and addresses of the Stockholders and the number of shares held by them respectively, shall be kept at the principal offices of the Company or at the offices of the Transfer Agent of the Company or at such other location as may be authorized by the Board of Directors from time to time.

Article 6.7. Transfer Agents and Registrars. The Board of Directors may from time to time appoint or remove Transfer Agents and/or Registrars of transfers (if any) of shares of stock of the Company, and it may appoint the same person as both Transfer Agent and Registrar. Upon any such appointment being made, all certificates representing shares of capital stock thereafter issued shall be countersigned by one of such Transfer Agents or by one of such Registrars of transfers (if any) or by both and shall not be valid unless so countersigned. If the same person shall be both Transfer Agent and Registrar, only one countersignature by such person shall be required.

BYLAW-SEVEN: AMENDMENTS.

Article 7.1. General. Except as provided in the next succeeding sentence and in the Articles of Incorporation, all Bylaws of the Company, whether adopted by the Board of Directors or the Stockholders, shall be subject to amendment, alteration or repeal, and new Bylaws may be made, by the affirmative vote of a majority of either: (a) the holders of record of the outstanding shares of stock of the Company entitled to vote, at any annual or special meeting, the notice or waiver of notice of which shall have specified or summarized

the proposed amendment, alteration, repeal or new Bylaw; or (b) the Directors,

at any regular or special meeting, the notice or waiver of notice of which shall have specified or summarized the proposed amendment, alteration, repeal or new Bylaw. The provisions of Articles 2.5, 3.2, 3.3, 3.5 and 7.1 of these Bylaws shall be subject to amendment, alteration or repeal by: (i) the affirmative vote of the holders of record of 75% of the outstanding shares of stock of the Company entitled to vote, at any annual or special meeting, the notice or waiver of notice of which shall have specified or summarized the proposed amendment, alteration or repeal or (ii) the Board of Directors including the affirmative vote of 75% of the Continuing Directors (as such term is defined in Article VII of the Company's Articles of Incorporation), at any regular or special meeting, the notice or waiver of notice of which shall have specified or summarized the proposed amendment, alteration or repeal.

Dated: _____

272595.1

AVALON CAPITAL, INC.
DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

_____ , 1995

1. Participation

All distributions to shareholders whose shares are registered in their own names will automatically be reinvested in additional shares of Avalon Capital, Inc. (the "Company") pursuant to the Dividend Reinvestment and Cash Payment Plan (the "Plan"), unless the shareholder elects to receive the distributions in cash. Shareholders participating in the Plan will be deemed to have appointed the Bank of Boston, N.A., as their agent and as agent for the Company under the Plan (the "Plan Agent").

2. Dividend Investment Account

The Company's transfer agent and dividend disbursing agent, Forum Financial Services, Inc. ("Forum") will establish a Dividend Investment Account (the "Account") with the Plan Agent for each shareholder participating in the Plan. Forum will credit to the Account of each participant funds it receives from the following sources: (a) dividends from net investment income; (b) capital gain distributions; and (c) distributions from paid in capital. Sources described in clauses (a), (b) and (c) are hereinafter called ("Distributions"). Such Distributions will be paid on shares of common stock (the "Shares") of the Company registered in the participant's name on the books of the Company.

3. Investment of Distributions in Each Account

On each date on which the Company determines the net asset value of the shares (a "Valuation Date"), and which occurs not more than five business days prior to a date fixed for payment of a dividend or other distribution from the Company, the Plan Agent will compare the determined net asset value per share with the market price per share. For all purposes of the Plan, "market price" shall be deemed to be the highest price bid at the close of the market by any market maker on the date which coincides with the relevant Valuation Date, or, if no bids were made on such date, the next preceding day on which a bid was made. If the net asset value in any such comparison is found to be lower than said market price, the Plan Agent will demand that the Company satisfy its obligation with respect to any Distribution by issuing additional Shares to the Participants in the Plan at a price per share equal to the greater of the determined net asset value per share or ninety-five percent (95%) of the market price per share

determined as of the close of business on the relevant Valuation Date. However, if the net asset value per share (as determined above) is higher than the market price per share, then the Plan Agent will demand that the Company satisfy its obligation with respect to any Distribution by a cash payment to the Plan Agent for the account of Plan Participants and the Plan Agent then shall use such cash payment to buy additional shares in the "open market" for the account of the Plan Participants, provided, however, that the Plan Agent shall not purchase shares in the "open market" at a price in excess of the net asset value as of the relevant Valuation Date. In the event the Plan Agent is unable to complete its acquisition of shares to be purchased in the "open market" by the end of the first trading day following receipt of the cash payment from the Company, any remaining funds shall be used by the Plan Agent to purchase newly issued shares of the Company's common stock from the Company at the greater of the determined net asset value per share or ninety-five (95%) percent of the market price per share as of the date coinciding with or next preceding the date of the relevant Valuation Date.

4. Additional Cash Purchases for Each Account

Participants in the Plan will also have additional cash payments to the Plan Agent ("Additional Cash Purchases"), on a monthly basis, for investment payments may be made in any amount from a minimum of $50.00 to a maximum of $1,000.00 per month. The Company may, in its discretion, waive the maximum monthly limit with respect to any participant. At the end of each calendar month, the Plan Agent will determine the amount of funds accumulated. Purchases made from the accumulation of payments during any one calendar month will be made on or about the first business day of the following month ("Investment Date"). The funds will be used to purchase Shares of the Company's common stock from the Company. If the net asset value of the Shares is lower than the market price as of the Valuation Date which occurs not more than five business days prior to the relevant Investment Date, such Shares will be newly issued Shares and will be issued at a price per share equal to the greater of the determined net asset value per share or ninety-five percent (95%) of the market price per share. If the net asset value per share is higher than the market price per share, then the Plan Agent shall use such cash payments to buy additional Shares in the "open market" for the account of the Plan Participants, provided, however,

the option of making

that the Plan Agent shall not purchase Shares in

the "open market" at a price in excess of the net asset value as of the relevant Valuation Date. In the event that the Plan Agent is unable to complete its acquisition of Shares to be purchased in the "open market" by the end of the Investment Date, any remaining cash payments shall be used by the Plan Agent to purchase newly issued Shares of the Company's common stock from the Company at the greater of the determined net asset value per share or ninety-five (95%) percent of the market price per share as of the relevant Valuation Date. All cash payments received by the Plan Agent in connection with the Plan will be held without earning interest. Participants that wish to make voluntary cash payments must send such payments to the Plan Agent in such a manner that assures that the Plan Agent will receive and collect Federal Funds by the end of the month. This procedure will avoid unnecessary accumulations of cash and will enable Participants to realize lower brokerage commissions and to avoid additional transaction charges. If a voluntary cash payment is not received in time to purchase Shares in any calendar month, such payment shall be invested on the next Investment Date. A participant may withdraw a voluntary cash payment by written notice to the Plan Agent if the notice is received by the Plan Agent at least 48 hours before such payment is to be invested by the Plan Agent.

5. Determination of Purchase Price

The cost of Shares and fractional Shares acquired for each participant's Account in connection with a purchase for the Plan shall be determined by the average cost per share, including brokerage commissions as described in paragraph 6 hereof, of the Shares acquired by the Plan Agent. Shareholders will receive a confirmation showing the average cost and number of Shares acquired as soon as practicable after the Plan Agent has purchased Shares.

6. Brokerage and Service Charges

There will be no direct brokerage charges with respect to Shares issued directly by the Company as a result of Distributions. However, with respect to the Plan Agent's open market purchases of Shares being purchased as a result of the reinvestment of Distributions, Participants will be charged reasonable transactions fees, which shall not exceed the lesser of five percent (5%) of the amount reinvested or three ($3.00) dollars

least forty-eight hours before such payment is

and a termination fee of up to one ($1.00) dollar. With respect to the voluntary Additional Cash Purchases, the Plan Agent will charge Participants three ($3.00) dollars, plus a pro rata share of the brokerage commissions,

if any. Brokerage charges for purchasing small amounts of Shares for individual Accounts through the Plan can be expected to be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing Shares for all participants in blocks and pro rating the lower commission thus attainable. The Company reserves the right to amend the Plan in the future with respect to the actual amount of the service charge.

7. Transfer of Shares Held by the Plan Agent

The Plan Agent will maintain the participant's Account, hold the additional Shares acquired through the Plan in safekeeping and furnish the participant with written confirmation of all transactions in the participant's account. Shares in the Account are transferable upon prior written instructions to the Plan Agent. Upon request to the Plan Agent, a certificate for any or all full Shares in a participant's Account will be sent to. the participant.

8. Shares Not Held in Shareholder's Name

9. Amendments

Experience under the Plan may indicate that changes are desirable. Accordingly, the Company terminate the Plan. Participants will receive written notice at least 90 days before the Record Date of any Distribution or the Investment Date of any Additional Cash Purchase affected by an amendment. In the case of termination, participants will receive at least 90 days' written notice.

10. Withdrawal from the Plan

Shareholders in the Plan may elect to withdraw from the Plan at any time and thereby elect once again to receive cash in lieu of Dividend Shares and cease to be a participant in the Additional Cash Purchase component of the Plan. There will be no penalty for withdrawal from the Plan and shareholders who have previously withdrawn from the Plan may rejoin at any time. Changes in elections must be in writing and will only be effective for (i) Distributions declared after, and with a Record Date of at least ten days after, or (ii) Additional Cash Purchases with an Investment Date of

Beneficial owners of Shares which are held in the name of a broker or nominee will not be automatically included in the Plan and will receive all Distributions in cash. Such shareholders should contact the broker or nominee in whose name their Shares are being held to determine whether and how they may participate in the Plan.

at least ten days after, such elections are received by the Fund or Agent.

FORM OF
INVESTMENT ADVISORY AGREEMENT

THIS AGREEMENT is made this 9th day of August, 1995 by and between AVALON CAPITAL, INC., a Maryland corporation (the "Company"), and HUTNER CAPITAL MANAGEMENT, INC., a New York corporation (the "Investment Adviser"), with respect to the following recital of facts:

R E C I T A L

WHEREAS, the Company is registered as a closed-end, non-diversified management investment company under the Investment Company Act of 1940, as amended (the "1940 Act") and the rules and regulations promulgated thereunder; and

WHEREAS, the Investment Adviser is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and engages in the business of acting as an investment adviser; and

WHEREAS, the Company and the Investment Adviser desire to enter into an agreement to provide for the rendering of investment advisory services for the Company's assets on the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable considerations, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Appointment of the Investment Adviser. The Investment Adviser shall manage the Company's affairs and shall

supervise all aspects of the Company's operations, including the investment and reinvestment of cash, securities or other properties comprising the Company's assets, subject at all times to the policies and control of the Company's Board of Directors. The Investment Adviser shall give the Company the benefit of its best judgment, efforts and facilities in rendering its services as Investment Adviser.

2. Duties of the Investment Adviser. In carrying out its obligations under paragraph 1 hereof, the Investment Adviser shall:

(a) supervise and oversee all aspects of the Company's operations;

(b) provide the Company with certain executive, services as

are deemed advisable by the Company's Board of Directors and that are not otherwise provided by Forum Financial Services, Inc. (the "Administrator");

(c) provide the Company with, or obtain for it, adequate office space and all necessary office equipment and services;

(d) obtain and evaluate pertinent information about significant developments and economic, statistical and financial data, domestic, foreign or otherwise, whether affecting the economy generally or the portfolio of the Company, and whether concerning the individual issuers whose securities are included in the Company's portfolio or the activities in which they engage, or with respect to securities which the Investment

Adviser considers desirable for inclusion in the Company's portfolio;

(e) determine what issuers and securities shall be represented in the Company's portfolio and regularly report them to the Company's Board of Directors;

(f) formulate and implement continuing programs for the purchases and sales of the securities of such issuers and regularly report thereon to the Company's Board of Directors;

(g) take, on behalf of the Company, all actions which appear necessary to carry into effect such purchase and sale programs and supervisory functions as aforesaid, including the placing of orders for the purchase and sale of portfolio securities, it being understood that the Company shall reimburse the Investment Adviser for the costs of such actions upon proper accounting; and

(h) it is understood that you may from time to time employ, subcontract with or otherwise associate yourself with, entirely at your expense, such persons as you believe to be particularly fitted to assist you in the execution of your duties hereunder.

3. Compliance with Applicable Requirements. In carrying out its obligations under this Agreement, the Investment Adviser shall at all times conform to:

(a) all applicable provisions of the 1940 Act and any rules and regulations adopted thereunder, as amended; and

(b) the provisions of the Registration Statement of the Company under the Securities Act of 1933 and the 1940 Act, as amended; and

(c) the provisions of the Articles of Incorporation of the Company, as amended;

(d) the provisions of the By-Laws of the Company, as amended; and

(e) any other applicable provisions of state and federal law.

4. Broker-Dealer Relationships. The Investment Adviser is responsible for decisions to buy and sell securities for the Company, broker-dealer selection, and negotiation of its brokerage commission rates. The Investment Adviser's primary consideration in effecting a security transaction will be execution at the most favorable price.

In selecting a broker-dealer to execute each particular transaction, the Investment Adviser will take the following into consideration: the best net price available; the reliability, integrity and financial condition of the broker-dealer; the size of and difficulty in executing the order; the value of the expected contribution of the broker-dealer to the investment performance of the Company on a continuing basis; and other factors such as the broker-dealer's ability to engage in transactions in shares of issuers which are typically not listed on an organized stock exchange. Accordingly, the price to the Company in any transaction may be less favorable than that available from another broker-dealer if the difference is reasonably justified by other aspects of the portfolio execution services offered. Subject to such policies as the Board of

Directors may determine, the Investment Adviser shall not be deemed to have acted unlawfully or to have breached any duty created by this Agreement or otherwise solely by reason of its having caused the Company to pay a broker or dealer that provides brokerage and research services to the Investment Adviser an amount of commission for effecting a portfolio investment transaction in excess of the amount of commission another broker or dealer would have charged for effecting that transaction, if the Investment Adviser determines in good faith that such amount of commission was reasonable in relation to the value of the brokerage and research services provided by such broker or dealer, viewed in terms of either that particular transaction or the Investment Adviser's overall responsibilities with respect to the Company.

The Investment Adviser is further authorized to allocate the orders placed by it on behalf of the Company to such brokers and dealers who also provide research or statistical material, or other services to the Company

or the Investment Adviser. Such allocations shall be in such amounts and proportions as the Investment Adviser shall determine and the Investment Adviser will report on said allocations regularly to the Board of Directors of the Company indicating the brokers to whom such allocations have been made and the basis therefor.

5. Control by Board of Directors. Any management or supervisory activities undertaken by the Investment Adviser pursuant to this Agreement, as well as any other activities

undertaken by the Investment Adviser on behalf of the Company pursuant thereto, shall at all times be subject to any directives of the Board of Directors of the Company.

6. Expenses. The expenses connected with the Company shall be allocable between the Company and the Investment Adviser as follows:

(a) The Investment Adviser shall furnish at its expense and without cost to the Company the services of a President, Secretary and one or more Vice Presidents of the Company, to the extent that such additional officers may be required by the Company for the proper conduct of its affairs;

(b) The Company shall pay or cause to be paid all expenses of the stock transfer or dividend agent or agents appointed by the Company;

(c) The Company assumes and shall pay or cause to be paid all other expenses of the Company, including, without limitation: the fees and expenses of the Investment Adviser under this Agreement and the fees and expenses of the Administrator pursuant to the Administrative Services Agreement; the charges and expenses of the registrar, any custodian or depositary appointed by the Company for the safekeeping of its cash, portfolio securities and other property, and any accounting agent appointed by the Company; brokers' commissions chargeable to the Company in connection with portfolio securities transactions to which the Company is a party; all taxes, including securities issuance and transfer taxes, and corporate

fees payable by the Company to federal, state or other governmental agencies; the cost and expense of engraving or printing of stock certificates representing shares of the Company; all costs and expenses in connection with the registration and maintenance of registration of the Company and its shares with the Securities and Exchange Commission and various states and other

jurisdictions (including filing fees and legal fees and disbursements of counsel); the costs and expenses in connection with the listing, and maintenance of such listing, of the Company's shares on any securities exchange; the costs and expenses of preparing (including typesetting) prospectuses (including supplements thereto) of the Company, proxy statements and reports to shareholders, and of printing and distributing such items to the Company's shareholders; all expenses of shareholders' and directors' meetings; fees and travel expenses of directors or members of any advisory board or committee; all expenses incident to the payment of any dividend, distribution, withdrawal or redemption, whether in shares or in cash; charges and expenses of any outside service used for pricing of the Company's shares; charges and expenses of legal counsel, including counsel to the directors of the Company who are not interested persons (as defined in the Investment Company Act of 1940, as amended) of the Company, and of independent accountants, in connection with any matter relating to the Company; membership dues of industry associations; interest payable on Company borrowings; postage; insurance premiums on property or personnel

(including officers and directors) of the Company which inure to its benefit; extraordinary expenses (including, but not limited to, legal claims and liabilities and litigation costs and any indemnification related thereto); and all other charges and costs of the Company's operation unless otherwise explicitly provided therein.

7. Delegation of Responsibilities. The Investment Adviser may, but should be under no duty to, perform services on behalf of the Company which are not required by this Agreement upon the request of the Company's Board of Directors. Such services will be performed on behalf of the Company and the Investment Adviser's charge in rendering such services may be billed monthly to the Company, subject to examination by the Company's independent accountants. Payment or assumption by the Investment Adviser of any Company expense that the Investment Adviser is not required to pay or assume under this Agreement shall not relieve the Investment Adviser of any of its obligations to the Company nor obligate the Investment Adviser to pay or assume any similar Company expense on any subsequent occasions.

8. Compensation. For the services to be rendered, the facilities furnished and the expenses assumed by the Investment Adviser, the Company shall pay to the Investment Adviser, on behalf of the Company, monthly compensation at the annual rate of 1.00% of the Company's average weekly net assets. Except as hereinafter set forth, compensation under this Agreement shall be

calculated and accrued weekly and the amounts of the weekly accruals shall be paid monthly. If this Agreement becomes effective subsequent to the first day of a month or shall terminate before the last day of a month, compensation for that part of the month in which this Agreement is in effect shall be prorated in a manner consistent with the calculation of the fees as set forth above.

9. Non-Exclusivity. The services of the Investment Adviser to the Company are not exclusive, and the Investment Adviser shall be free to render investment management and corporate administrative or other services to others (including other investment companies) and to engage in other activities, so long as its services under this Agreement are not impaired thereby. It is understood and agreed that officers and directors of the Investment Adviser may serve as officers or directors of the Company, and that officers or directors of the Company may serve as officers or directors of the Investment Adviser to the extent permitted by law; and that the officers and directors of the Investment Adviser are not prohibited from engaging in any other business activity or from rendering services to any other person, or from serving as partners, officers or directors of any other firm or corporation, including other investment companies.

10. Term and Approval. This Agreement shall become effective at the close of business on the date hereof and shall remain in force and effect for two years from the date hereof.

11. Renewal. Following the expiration of its initial two-year term, the Agreement shall continue in force and effect from year to year, provided that such continuance is specifically approved at least annually:

(a) (i) by the Company's Board of Directors or (ii) by the vote of a majority of the Company's outstanding voting securities (as defined in Section 2(a)(42) of the 1940 Act, as amended), and

(b) by the affirmative vote of a majority of the directors who are not parties to this Agreement or interested persons of a party to this Agreement (other than as Company directors), by votes cast in person at a meeting specifically called for such purpose.

12. Termination. This Agreement may be terminated at any time, without the payment of any penalty, by vote of the Company's Board of Directors or by vote of a majority of the Company's outstanding voting securities (as defined in Section 2(a)(42) of the 1940 Act, as amended), or by the Investment Adviser, on sixty (60) days' written notice to the other party. This Agreement

shall automatically terminate in the event of its "assignment", as that term is defined in Section 2(a)(4) of the 1940 Act, as amended.

13. Liability of the Investment Adviser. In the absence of willful misfeasance, bad faith or gross negligence on the part of the Investment Adviser or its officers, directors or employees, or reckless disregard by the Investment Adviser of its duties under this Agreement, the Investment Adviser shall not be liable to the Company or to any shareholder of the Company for any act or omission in the course of, or connected with,

rendering services hereunder or for any losses that may be sustained in the purchase, holding or sale of any security

14. Notices. Any notices under this Agreement shall be in writing, addressed and delivered or mailed postage paid to the other party at such address as such other party may designate for the receipt of such notice. Until further notice to the other party, it is agreed that the address of the Investment Adviser and that of the Company for this purpose shall be 14 Wall Street, New York, New York 10005-2133.

15. Questions of Interpretation. Any question of interpretation of any term or provision of this Agreement having a counterpart in or otherwise derived from a term or provision of the 1940 Act, as amended, shall be resolved by reference to such term or provision of the 1940 Act and to interpretations thereof, if any, by the United States Courts or in the absence of any controlling decision of any such court, by rules, regulations or orders of the Securities and Exchange Commission issued pursuant to said Act. In addition, where the effect of a requirement of the 1940 Act, as amended, reflected in any provisions of this Agreement is revised by rule, regulation or order of the Securities and Exchange Commission, such provisions shall be deemed to incorporate the effect of such rule, regulation or order.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate by their respective officers on the day and year first above written.

AVALON CAPITAL, INC.

Attest:

By: /s/ Daniel E. Hutner

Title: President

/s/ Nancy Hutner

HUTNER CAPITAL MANAGEMENT, INC.

Attest:

By: /s/ Daniel E. Hutner

Title: President

/s/ Nancy Hutner

CUSTODY AGREEMENT

This agreement (the "Agreement") is entered into as of the 31 day of December, 1996, by and between Avalon Capital, Inc., (the "Corporation" or the "Fund"), a corporation organized under the laws of the State of Maryland and having its office at 34 Chambers, Suite 200, Princeton, New Jersey 08542 which is operated and maintained for the benefit of the holders of shares of the Fund, and Star Bank, N.A. (the "Custodian"), a national banking association having its principal office and place of business at Star Bank Center, 425 Walnut Street, Cincinnati, Ohio 45202.

WHEREAS, the Fund and the Custodian desire to enter into this Agreement to provide for the custody and safekeeping of the assets of the Fund as required by the Investment Company Act of 1940, as amended (the "Act").

WHEREAS, the Custodian is eligible to function as a custodian of investment company as required by the Act.

WHEREAS, the Fund hereby appoints the Custodian as custodian of all the Fund's Securities and moneys at any time owned by the Fund during the term of this Agreement (the "Fund Assets").

WHEREAS, the Custodian hereby accepts such appointment as Custodian and agrees to perform the duties thereof as hereinafter set forth.

THEREFORE, in consideration of the mutual promises hereinafter set forth, the Fund and the Custodian agree as follows:

ARTICLE I

Definitions

The following words and phrases, when used in this Agreement, unless the context otherwise requires, shall have the following meanings:

Authorized Person-- the Chairman, President, Secretary, Treasurer, Controller, or Senior Vice President of the Fund, or any other person, whether or not any such person is an officer or employee of the Fund, duly authorized by the Board of Directors of the Fund to give Oral Instructions and Written Instructions on behalf of the Fund, and listed in the Certificate annexed hereto as Appendix A, or such other Certificate as may be received by the Custodian from time to time.

Book-Entry System -- the Federal Reserve Bank book-entry system for United States Treasury securities and federal agency securities.

Depository -- The Depository Trust Company ("DTC"), a limited purpose trust company its successor(s) and its nominee(s) or any other person or clearing agent.

Dividend and Transfer Agent -- the dividend and transfer agent appointed, from time to time, pursuant to a written agreement between the dividend and transfer agent and the Fund.

Foreign Securities -- a) securities issued and sold primarily outside of the United States by a foreign government, a national of any foreign country, or a trust or other organization incorporated or organized under the laws of any foreign country or; b) securities issued or guaranteed by the government of the United States, by any state, by any political subdivision or agency thereof, or by any entity organized under the laws of the United States or of any state thereof, which have been issued and sold primarily outside of the United States.

Money Market Security -- debt obligations issued or guaranteed as to principal and/or interest by the government of the United States or agencies or instrumentalities thereof, commercial paper, obligations (including certificates of deposit, bankers' acceptances, repurchase agreements and reverse repurchase agreements with respect to the same), and time deposits of domestic banks and thrift institutions whose deposits are insured by the Federal Deposit Insurance Corporation, and short-term corporate obligations where the purchase and sale of such securities normally require settlement in federal funds or their equivalent on the same day as such purchase and sale, all of which mature in not more than thirteen (13) months.

Officers -- the Chairman, President, Secretary, Treasurer, Controller, and Senior Vice President of the Fund listed in the Certificate annexed hereto as

Appendix A, or such other Certificate as may be received by the Custodian from time to time.

Oral Instructions -- verbal instructions received by the Custodian from an Authorized Person (or from a person that the Custodian reasonably believes in good faith to be an Authorized Person) and confirmed by Written Instructions in such a manner that such Written Instructions are received by the Custodian on the business day immediately following receipt of such Oral Instructions.

Prospectus -- the Fund's then currently effective prospectus and Statement of Additional Information, as filed with and declared effective from time to time by the Securities and Exchange Commission.

Security or Securities -- Money Market Securities, common stock, preferred stock, options, financial futures, bonds, notes, debentures, corporate debt securities, mortgages, and any certificates, receipts, warrants, or other instruments representing rights to receive, purchase, or subscribe for the same or evidencing or representing any other rights or interest therein, or any property or assets.

Written Instructions -- communication received in writing by the Custodian from an Authorized Person.

ARTICLE II

Documents and Notices to be Furnished by the Fund

A. The following documents, including any amendments thereto, will be provided contemporaneously with the execution of the Agreement, to the Custodian by the Fund:

1. A copy of the Articles of Incorporation of the Fund certified by the Secretary.

2. A copy of the By-Laws of the Fund certified by the Secretary.

3. A copy of the resolution of the Board of Directors of the Fund appointing the Custodian, certified by the Secretary.

4. A copy of the then current Prospectus.

5. A Certificate of the President and Secretary of the Fund setting forth the names and signatures of the Officers of the Fund.

B. The Fund agrees to notify the Custodian in writing of the appointment of any Dividend and Transfer Agent.

ARTICLE III

Receipt of Fund Assets

A. During the term of the Agreement, the Fund will deliver or cause to be delivered to the Custodian all moneys constituting Fund Assets. The Custodian shall be entitled to reverse any deposits made on the Fund's behalf where such deposits have been entered and moneys are not finally collected within 30 days of the making of such entry.

B. During the term of this Agreement, the Fund will deliver or cause to be delivered to the Custodian all Securities constituting Fund Assets. The Custodian will not have any duties or responsibilities with respect to such Securities until actually received by the Custodian.

C. As and when received, the Custodian shall deposit to the account(s) of the Fund any and all payment for shares of the Fund issued or sold from time to time as they are received from the Fund's distributor or Dividend and Transfer Agent or from the Fund itself.

ARTICLE IV

Disbursement of Fund Assets

A. The Fund shall furnish to the Custodian a copy of the resolution of the Board of Directors of the Fund, certified by the Fund's Secretary, either (i) setting forth the date of the declaration of any dividend or distribution in respect of shares of the Fund, the date of payment thereof, the record date as of which Fund shareholders entitled to payment shall be determined, the amount payable per share to Fund shareholders of record as of the date, and the total amount to be paid by the Dividend and Transfer Agent on the payment date, or (ii) authorizing the declaration of dividends and distributions in respect of shares of the Fund on daily basis and authorizing the Custodian to rely on a Certificate setting forth the date of the declaration of any

such dividend or distribution, the date of payment thereof, the record date as of which Fund shareholders entitled to payment shall be determined, the amount payable per share to Fund shareholders of record as of that date, and the total amount to be paid by the Dividend and Transfer Agent on the payment date.

On the payment date specified in such resolution or Certificate described above, the Custodian shall segregate such amounts from moneys held for the account of the Fund so that they are available for such payment.

B. Upon receipt of Written Instructions so directing it, the Custodian shall segregate amounts necessary for the payment of redemption proceeds to be made by the Dividend and Transfer Agent from moneys held for the account of the Fund so that they are available for such payment.

C. Upon receipt of a Certificate directing payment and setting forth the name and address of the person to whom such payment is to be made, the amount of such payment, and the purpose for which payment is to be made, the Custodian shall disburse amounts as and when directed from the Fund Assets. The Custodian is authorized to rely on such directions and shall be under no obligation to inquire as to the propriety of such directions.

D. Upon receipt of a Certificate directing payment, the Custodian shall disburse moneys from the Fund Assets in payment of the Custodian's fees and expenses as provided in Article VIII hereof.

ARTICLE V

Custody of Fund Assets

A. The Custodian shall open and maintain a separate bank account or accounts in the United States in the name of the Fund, subject only to draft or order by the Custodian acting pursuant to the terms of this Agreement, and shall hold all cash received by it from or for the account of the Fund, other than cash maintained by the Fund in a bank account established and used by the Fund in accordance with Rule 17f-3 under the Act. Moneys held by the Custodian on behalf of the Fund may be deposited by the Custodian to its credit as Custodian in the banking

department of the Custodian. Such moneys shall be deposited by the Custodian in its capacity as such, and shall be withdrawable by the Custodian only in such capacity.

B. The Custodian shall hold all Securities delivered to it in safekeeping in a separate account or accounts maintained at Star Bank, N.A. for the benefit of the Fund.

C. All Securities held which are issued or issuable only in bearer form, shall be held by the Custodian in that form; all other Securities held for the Fund shall be registered in the name of the Custodian or its nominee. The Fund agrees to furnish to the Custodian appropriate instruments to enable the Custodian to hold, or deliver in proper form for transfer, any Securities that it may hold for the account of the Fund and which may, from time to time, be registered in the name of the Fund.

D. With respect to all Securities held for the Fund, the Custodian shall on a timely basis (concerning items 1 and 2 below, as defined in the Custodian's Standards of Service Guide, as amended from time to time, annexed hereto as Appendix C):

1.) Collect all income due and payable with respect to such Securities;

2.) Present for payment and collect amounts payable upon all Securities which may mature or be called, redeemed, or retired, or otherwise become payable;

3.) Surrender Securities in temporary form for definitive Securities; and

4.) Execute, as agent, any necessary declarations or certificates of ownership under the Federal income tax laws or the laws or regulations of any other taxing authority, including any foreign taxing authority, now or hereafter in effect.

E. Upon receipt of a Certificate and not otherwise, the Custodian shall:

1.) Execute and deliver to such persons as may be designated in such Certificate proxies, consents, authorizations, and any other instruments whereby the authority of the Fund as beneficial owner of any Securities may be exercised;

2.) Deliver any Securities in exchange for other Securities or cash issued or paid in connection with the liquidation, reorganization, refinancing,

merger, consolidation, or recapitalization of any trust, or the exercise of any conversion privilege;

3.) Deliver any Securities to any protective committee, reorganization committee, or other person in connection with the reorganization, refinancing, merger, consolidation, recapitalization, or sale of assets of any trust, and receive and hold under the terms of this Agreement such certificates of deposit, interim receipts or other instruments or documents as may be issued to it to evidence such delivery;

4.) Make such transfers or exchanges of the assets of the Fund and take such other steps as shall be stated in said Certificate to be for the purpose of effectuating any duly authorized plan of liquidation, reorganization, merger, consolidation or recapitalization of the Fund; and

5.) Deliver any Securities held for the Fund to the depository agent for tender or other similar offers.

F. The Custodian shall promptly deliver to the Fund all notices, proxy material and executed but unvoted proxies pertaining to shareholder meetings of Securities held by the Fund. The Custodian shall not vote or authorize the voting of any Securities or give any consent, waiver or approval with respect thereto unless so directed by a Certificate or Written Instruction.

G. The Custodian shall promptly deliver to the Fund all information received by the Custodian and pertaining to Securities held by the Fund with respect to tender or exchange offers, calls for redemption or purchase, or expiration of rights.

ARTICLE VI

Purchase and Sale of Securities

A. Promptly after each purchase of Securities by the Fund, the Fund shall deliver to the Custodian (i) with respect to each purchase of Securities which are not Money Market

Securities, Written Instructions, and (ii) with respect to each purchase of Money Market Securities, Written Instructions or Oral Instructions, specifying with respect to each such purchase the;

1.) name of the issuer and the title of the Securities,

2.) principal amount purchased and accrued interest, if any,

3.) date of purchase and settlement,

4.) purchase price per unit,

5.) total amount payable, and

6.) name of the person from whom, or the broker through which, the purchase was made.

The Custodian shall, against receipt of Securities purchased by or for the Fund, pay out of the Fund Assets, the total amount payable to the person from whom or broker through which the purchase was made, provided that the same conforms to the total amount payable as set forth in such Written Instructions or Oral Instructions, as the case may be.

B. Promptly after each sale of Securities by the Fund, the Fund shall deliver to the Custodian (i) with respect to each sale of Securities which are not Money Market Securities, Written Instructions, and (ii) with respect to each sale of Money Market Securities, Written Instructions or Oral Instructions, specifying with respect to each such sale the;

1.) name of the issuer and the title of the Securities,

2.) principal amount sold and accrued interest, if any,

3.) date of sale and settlement,

4.) sale price per unit,

5.) total amount receivable, and

6.) name of the person from whom, or the broker through which, the sale was made.

The Custodian shall deliver the Securities against receipt of the total amount receivable, provided that the same conforms to the total amount receivable as set forth in such Written Instructions or Oral Instructions, as the case may be.

C. On contractual settlement date, the account of the Fund will be charged for all purchased Securities settling on that day, regardless of whether or not delivery is made.

Likewise, on contractual settlement date, proceeds from the sale of Securities settling that day will be credited to the account of the Fund, irrespective of delivery.

D. Purchases and sales of Securities effected by the Custodian will be made on a delivery versus payment basis. The Custodian may, in its sole discretion, upon receipt of a Certificate, elect to settle a purchase or sale transaction in some other manner, but only upon receipt of acceptable indemnification from the Fund.

E. The Custodian shall, upon receipt of a Written Instructions so directing it, establish and maintain a segregated account or accounts for and on behalf of the Fund. Cash and/or Securities may be transferred into such account or accounts for specific purposes, to-wit:

1.) in accordance with the provision of any agreement among the Fund, the Custodian, and a broker-dealer registered

under the Securities and Exchange Act of 1934, as amended, and also a member of the National Association of Securities Dealers (NASD) (or any futures commission merchant registered under the Commodity Exchange Act), relating to compliance with the rules of the Options Clearing Corporation and of any registered national securities exchange, the Commodity Futures Trading Commission, any registered contract market, or any similar organization or organizations requiring escrow or other similar arrangements in connection with transactions by the Fund;

2.) for purposes of segregating cash or government securities in connection with options purchased, sold, or written by the Fund or commodity futures contracts or options thereon purchased or sold by the Fund;

3.) for the purpose of compliance by the fund with the procedures required for reverse repurchase agreements, and short sales by Act Release No. 10666, or any subsequent release or releases or rule of the Securities and Exchange Commission relating to the maintenance of segregated accounts by registered investment companies; and

4.) for other corporate purposes, only in the case of this clause 4 upon receipt of a copy of a resolution of the Board of Directors of the Fund, certified by the Secretary of the Fund, setting forth the purposes of such segregated account.

F. Except as otherwise may be agreed upon by the parties hereto, the Custodian shall not be required to comply with any Written Instructions to settle the purchase of any Securities on behalf of the Fund unless there is sufficient cash in the account(s) at the time or to settle the sale of any Securities from an account(s) unless such Securities are in deliverable form. Notwithstanding the foregoing, if the purchase price of such Securities exceeds the amount of cash in the account(s) at the time of such purchase, the Custodian may, in its sole discretion, advance the amount of the difference in order to settle the purchase of such Securities. The amount of any such advance shall be deemed a loan from the Custodian to the Fund payable on demand and bearing interest accruing from the date such loan is made up to but not including the date such loan is repaid at a rate per annum customarily charged by the Custodian on similar loans.

ARTICLE VII

Fund Indebtedness

In connection with any borrowings by the Fund, the Fund will cause to be delivered to the Custodian by a bank or broker requiring Securities as collateral for such borrowings (including the Custodian if the borrowing is from the Custodian), a notice or undertaking in the form currently employed by such bank or broker setting forth the amount of collateral. The Fund shall promptly deliver to the Custodian a Certificate specifying with respect to each such borrowing:

(a) the name of the bank or broker, (b) the amount and terms of the borrowing, which may be set forth by incorporating by reference an attached promissory note duly endorsed by the Fund, or a loan agreement, (c) the date, and time if known, on which the loan is to be entered into, (d) the date on which the loan becomes due and payable, (e) the total amount payable to the Fund on the borrowing date, and(f) the description of the Securities securing the loan, including the name of

the issuer, the title and the number of shares or the principal amount. The Custodian shall deliver on the borrowing date specified in the Certificate the required collateral against the lender's delivery of the total loan amount then

payable, provided that the same conforms to that which is described in the Certificate. The Custodian shall deliver, in the manner directed by the Fund, such Securities as additional collateral, as may be specified in a Certificate, to secure further any transaction described in this Article VII. The Fund shall cause all Securities released from collateral status to be returned directly to the Custodian and the Custodian shall receive from time to time such return of collateral as may be tendered to it.

The Custodian may, at the option of the lender, keep such collateral in its possession, subject to all rights therein given to the lender because of the loan. The Custodian may require such reasonable conditions regarding such collateral and its dealings with third-party lenders as it may deem appropriate.

ARTICLE VIII

Concerning the Custodian

A. Except as otherwise provided herein, the Custodian shall not be liable for any loss or damage resulting from its action or omission to act or otherwise, except for any such loss or damage arising out of its own gross negligence or willful misconduct. The Fund shall defend, indemnify and hold harmless the Custodian and its directors, officers, employees and agents with respect to any loss, claim, liability or cost (including reasonable attorneys' fees) arising or alleged to arise from or relating to the Fund's duties hereunder or any other action or inaction of the Fund or its Directors, officers, employees or agents, except such as may arise from the negligent action, omission, willful misconduct or breach of this Agreement by the Custodian. The Custodian may, with respect to questions of law, apply for and obtain the advice and opinion of counsel, at the expense of the Fund, and shall be fully protected with respect to anything done or omitted by it in good faith in conformity with the advice or opinion of counsel. The provisions under this paragraph shall survive the termination of this Agreement.

B. Without limiting the generality of the foregoing, the Custodian, acting in the capacity of Custodian hereunder, shall be under no obligation to inquire into, and shall not be liable for:

1.) The validity of the issue of any Securities purchased by or for the account of the Fund, the legality of the purchase thereof, or the propriety of the amount paid therefor;

2.) The legality of the sale of any Securities by or for the account of the Fund, or the propriety of the amount for which the same are sold;

3.) The legality of the issue or sale of any shares of the Fund, or the sufficiency of the amount to be received therefor;

4.) The legality of the redemption of any shares of the Fund, or the propriety of the amount to be paid therefor;

5.) The legality of the declaration or payment of any dividend by the Fund in respect of shares of the Fund;

6.) The legality of any borrowing by the Fund on behalf of the Fund, using Securities as collateral.

C. The Custodian shall not be under any duty or obligation to take action to effect collection of any amount due to the Fund from any Dividend and Transfer Agent of the Fund nor to take any action to effect payment or distribution by any Dividend and Transfer Agent of the Fund of any amount paid by the Custodian to any Dividend and Transfer Agent of the Fund in accordance with this Agreement.

D. Notwithstanding Section D of Article V, the Custodian shall not be under any duty or obligation to take action to effect collection of any amount, if the Securities upon which such amount is payable are in default, or if payment is refused after due demand or presentation, unless and until (i) it shall be directed to take such action by a Certificate and (ii) it shall be assured to its satisfaction (including prepayment thereof) of reimbursement of its costs and expenses in connection with any such action.

E. The Fund acknowledges and hereby authorizes the Custodian to hold Securities through its various agents described in Appendix B annexed hereto. The Fund hereby represents that such authorization has been duly approved by the Board of Directors of the Fund as required by the Act. The Custodian acknowledges that although certain Fund Assets are held by its agents, the Custodian remains primarily liable for the safekeeping of the Fund Assets.

In addition, the Fund acknowledges that the Custodian may appoint one or more financial institutions, as agent or agents or as sub-custodian or sub-custodians, including, but not limited to, banking institutions located in foreign countries, for the purpose of holding Securities and moneys at any time owned by the Fund. The Custodian shall not be relieved of any obligation or liability under this Agreement in connection with the appointment or activities of such agents or sub-custodians. Any such agent or sub-custodian shall be qualified to serve as such for assets of investment companies registered under the Act. Upon request, the Custodian shall promptly forward to the Fund any documents it receives from any agent or sub-custodian appointed hereunder which may assist trustees of registered investment companies fulfill their responsibilities under Rule 17f-5 of the Act.

F. The Custodian shall not be under any duty or obligation to ascertain whether any Securities at any time delivered to or held by it for the account of the Fund are such as properly may be held by the Fund under the provisions of the Articles of Incorporation and the Fund's ByLaws.

G. The Custodian shall treat all records and other information relating to the Fund and the Fund Assets as confidential and shall not disclose any such records or information to any other person unless (i) the Fund shall have consented thereto in writing or (ii) such disclosure is required by law.

H. The Custodian shall be entitled to receive and the Fund agrees to pay to the Custodian such compensation as shall be determined pursuant to Appendix D attached hereto, or shall be determined pursuant to amendments to such Appendix D. The Custodian shall be entitled to charge against any money held by it for the account of the Fund, the amount of any of

its fees, any loss, damage, liability or expense, including counsel fees. The expenses which the Custodian may charge against the account of the Fund include, but are not limited to, the expenses of agents or sub-custodians incurred in settling transactions involving the purchase and sale of Securities of the Fund.

I. The Custodian shall be entitled to rely upon any Oral Instructions and any Written Instructions. The Fund agrees to forward to the Custodian Written Instructions confirming Oral Instructions in such a manner so that such Written Instructions are received by the Custodian, whether by hand delivery, facsimile or otherwise, on the same business day on which Oral Instructions were given. The Fund agrees that the failure of the Custodian to receive such confirming instructions shall in no way affect the validity of the transactions or enforceability of the transactions hereby authorized by the Fund. The Fund agrees that the Custodian shall incur no liability to the Fund for acting Oral Instructions given to the Custodian hereunder concerning such transactions.

J. The Custodian will (i) set up and maintain proper books of account and complete records of all transactions in the accounts maintained by the Custodian hereunder in such manner as will meet the obligations of the Fund under the Act, with particular attention to Section 31 thereof and Rules 31a-1 and 31a-2 thereunder and those records are the property of the Fund, and (ii) preserve for the period prescribed by applicable Federal statute or regulation all records required to be so preserved. All such books and records shall be the property of the Fund, and shall be open to inspection and audit at reasonable times and with prior notice by Officers and auditors employed by the Fund.

K. The Custodian shall send to the Fund any report received on the systems of internal accounting control of the Custodian, or its agents or sub-custodians, as the Fund may reasonably request from time to time.

L. The Custodian performs only the services of a custodian and shall have no responsibility for the management, investment or reinvestment of the Securities from time to time owned by the Fund. The Custodian is not a selling agent for shares of the Fund and

performance of its duties as custodian shall not be deemed to be a recommendation to the Fund's depositors or others of shares of the Fund as an investment.

M. The Custodian shall take all reasonable action, that the Fund may from time to time request, to assist the Fund in obtaining favorable opinions from the Fund's independent accountants, with respect to the Custodian's activities hereunder, in connection with the preparation of the Fund's Form N-2, Form N-SAR, or other annual reports to the Securities and Exchange Commission.

N. The Fund hereby pledges to and grants the Custodian a security interest in any Fund Assets to secure the payment of any liabilities of the Fund to the Custodian, whether acting in its capacity as Custodian or otherwise, or on account of money borrowed from the Custodian. This pledge is in addition to any other pledge of collateral by the Fund to the Custodian.

ARTICLE IX

Force Majeure

Neither the Custodian nor the Corporation shall be liable for any failure or delay in performance of its obligations under this Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; governmental actions; or inability to obtain labor, material, equipment or transportation; provided, however, that the Custodian, in the event of a failure or delay, shall use its best efforts to ameliorate the effects of such failure or delay.

ARTICLE X

Termination

A. Either of the parties hereto may terminate this Agreement for any reason by giving to the other party a notice in writing specifying the date of such termination, which shall be not less than ninety (90) days after the date of giving of such notice. If such notice is

given by the Fund, it shall be accompanied by a copy of a resolution of the Board of Directors of the Fund, certified by the Secretary of the Fund, electing to terminate this Agreement and designating a successor custodian or custodians. In the event such notice is given by the Custodian, the Fund shall, on or before the termination date, deliver to the Custodian a copy of a resolution of the Board of Directors of the Fund, certified by the Secretary, designating a successor custodian or custodians to act on behalf of the Fund. In the absence of such designation by the Fund, the Custodian may designate a successor custodian which shall be a bank or trust company having not less than $100,000,000 aggregate capital, surplus, and undivided profits. Upon the date set forth in such notice this Agreement shall terminate, and the Custodian, provided that it has received a notice of acceptance by the successor custodian, shall deliver, on that date, directly to the successor custodian all Securities and moneys then owned by the Fund and held by it as Custodian. Upon termination of this Agreement, the Fund shall pay to the Custodian on behalf of the Fund such compensation as may be due as of the date of such termination. The Fund agrees on behalf of the Fund that the Custodian shall be reimbursed for its reasonable costs in connection with the termination of this Agreement.

B. If a successor custodian is not designated by the Fund, or by the Custodian in accordance with the preceding paragraph, or the designated successor cannot or will not serve, the Fund shall, upon the delivery by the Custodian to the Fund of all Securities (other than Securities held in the Book-Entry System which cannot be delivered to the Fund) and moneys then owned by the fund, be deemed to be the custodian for the Fund, and the Custodian shall thereby be relieved of all duties and responsibilities pursuant to this Agreement, other than the duty with respect to Securities held in the Book-Entry System, which cannot be delivered to the Fund, which shall be held by the

Custodian in accordance with this Agreement.

ARTICLE XI

Miscellaneous

A. Appendix A sets forth the names and the signatures of all Authorized Persons, as certified by the Secretary of the Fund. The Fund agrees to furnish to the Custodian a new Appendix A in form similar to the attached Appendix A, if any present Authorized Person ceases to be an Authorized Person or if any other or additional Authorized Persons are elected or appointed. Until such new Appendix A shall be received, the Custodian shall be fully protected in acting under the provisions of this Agreement upon Oral Instructions or signatures of the then current Authorized Persons as set forth in the last delivered Appendix A.

B. No recourse under any obligation of this Agreement or for any claim based thereon shall be had against any organizer, shareholder, Officer, Director, past, present or future as such, of the Fund or of any predecessor or successor, either directly or through the Fund or any such predecessor or successor, whether by virtue of any constitution, statute or rule of law or equity, or be the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that this Agreement and the obligations thereunder are enforceable solely against the Fund, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the organizers, shareholders, Officers, Directors of the Fund or of any predecessor or successor, or any of them as such. To the extent that any such liability exists, it is hereby expressly waived and released by the Custodian as a condition of, and as a consideration for, the execution of this Agreement.

C. The obligations set forth in this Agreement as having been made by the Fund have been made by the Board of Directors, acting as such Directors for and on behalf of the Fund, pursuant to the authority vested in them under the laws of the State of Maryland, the Articles of Incorporation and the By-Laws of the Fund. This Agreement has been executed by Officers of the Fund as officers, and not individually, and the obligations contained herein are

not binding upon any of the Directors, Officers, agents or holders of shares, personally, but bind only the Fund.

D. Provisions of the Prospectus and any other documents (including advertising material) specifically mentioning the Custodian (other than merely by name and address) shall be reviewed with the Custodian by the Fund prior to publication and/or dissemination or distribution, and shall be subject to the consent of the Custodian.

E. Any notice or other instrument in writing, authorized or required by this Agreement to be given to the Custodian, shall be sufficiently given if addressed to the Custodian and mailed or delivered to it at its offices at Star Bank Center, 425 Walnut Street, M.L. 6118, Cincinnati, Ohio 45202, attention Mutual Fund Custody Department, or at such other place as the Custodian may from time to time designate in writing.

F. Any notice or other instrument in writing, authorized or required by this Agreement to be given to the Fund shall be sufficiently given when delivered to the Fund or on the second business day following the time such notice is deposited in the U.S. mail postage prepaid and addressed to the Fund at its office at 34 Chambers Street, Suite 200, Princeton, New Jersey 08542 or at such other place as the Fund may from time to time designate in writing.

G. This Agreement, with the exception of the Appendices, may not be amended or modified in any manner except by a written agreement executed by both parties with the same formality as this Agreement, and authorized and approved by a resolution of the Board of Directors of the Fund.

H. This Agreement shall extend to and shall be binding upon the parties hereto, and their respective successors and assigns; provided, however, that this Agreement shall not be assignable by the Fund or by the Custodian, and no attempted assignment by the Fund or the Custodian shall be effective without the written consent of the other party hereto.

I. This Agreement shall be construed in accordance with the laws of the State of Ohio.

J. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts shall, together, constitute only one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective Officers, thereunto duly authorized as of the day and year first above written.

ATTEST:	Avalon Capital, Inc.
/s/ Michelle Sheedden	By: /s/ Daniel E. Hutner
	Title: Chairman, President
ATTEST:	Star Bank, N.A.
/s/ Lynette C. Gibson	By: /s/ Marsha A. Croxton
	Title: Vice President

APPENDIX A

	Authorized Persons	Specimen Signatures
Chairman:	Daniel E. Hutner	/s/ Daniel E. Hutner
President:	Daniel E. Hutner	/s/ Daniel E. Hutner
Secretary:	Michele Scheddin	/s/ Michele Scheddin
Treasurer:	Nancy W. Hutner	/s/ Nancy W. Hutner
Controller:	n/a	
Adviser Employees:		
Transfer Agent/Fund Accountant Employees:		
	Michael Miola	/s/ Michael Miola
	Michael J. Wagner	/s/ Michael J. Wagner
	Sally A. Lent	/s/ Sally A. Lent

APPENDIX B

The following agents are employed currently by Star Bank, N.A. for securities processing and control...

The Depository Trust Company (New York)

7 Hanover Square
New York, NY 10004

The Federal Reserve Bank
Cincinnati and Cleveland Branches

Bankers Trust Company
16 Wall Street
New York, NY 10005
(For Foreign Securities and certain non-DTC eligible Securities)

APPENDIX C

Star Bank, N.A.
Standards of Service Guide

Star Bank, N.A. is committed to providing superior quality service to all customers and their agents at all times. We have compiled this guide as a tool for our clients to determine our standards for the processing of security settlements, payment collection, and capital change transactions. Deadlines recited in this guide represent the times required for Star Bank to guarantee processing. Failure to meet these deadlines will result in settlement at our client's risk. In all cases, Star Bank will make every effort to complete all processing on a timely basis.

Star Bank is a direct participant of the Depository Trust Company, a direct member of the Federal Reserve Bank of Cleveland, and utilizes the Bankers Trust Company as its agent for ineligible and foreign securities.

For corporate reorganizations, Star Bank utilizes SEI's Reorg Source, Financial Information, Inc., XCITEK, DTC Important Notices, and The Wall Street Journal.

For bond calls and mandatory puts, Star Bank utilizes SEI's Bond Source, Kenny Information Systems, Standard & Poor's Corporation, and DTC Important Notices. Star Bank will not notify clients of optional put opportunities.

Any securities delivered free to Star Bank or its agents must be received three (3) business days prior to any payment or settlement in order for the Star Bank standards of service to apply.

Should you have any questions regarding the information contained in this guide, please feel free to contact your account representative.

The information contained in this Standards of Service Guide is subject to change. Should any changes be made Star Bank will provide you with an updated copy of its Standards of Service Guide.

<TABLE>
<CAPTION>

Star Bank Security Settlement Standards

Transaction Type	Instructions Deadlines*	Delivery Instructions
<S>	<C>	<C>
DTC	1:30 P.M. on Settlement Date	DTC Participant #2219 Agent Bank ID#27895 Institutional #_____ For Account #_____
Federal Reserve Book Entry	12:30 P.M. on Settlement Date	Federal Reserve Bank of Cinti/Trust for Star Bank, N.A. ABA# 042000013 For Account #_____

Federal Reserve Book Entry (Repurchase Agreement Collateral Only)	1:00 P.M. on Settlement Date	Federal Reserve Bank of Cinti/Spec for Star Bank, N.A. ABA# 042000013 For Account #_____
PTC Securities (GNMA Book Entry)	12:00 P.M. on Settlement Date	PTC For Account BTRST/CUST Sub Account: Star Bank, N.A. #090334
Physical Securities	9:30 A.M. EST on Settlement Date (for Deliveries, by 4:00 P.M. on Settlement Date minus 1)	Bankers Trust Company 16 Wall Street 4th Floor, Window 43 for Star Bank Account #090334
CEDEL/EURO-CLEAR	11:00 A.M. on Settlement Date minus 2	Euroclear Via Cedel Bridge In favor of Bankers Trust Comp Cedel 53355 For Star Bank Account #501526354
Cash Wire Transfer	3:00 P.M.	Star Bank, N.A. Cinti/Trust ABA# 042000013 Credit Account #9901877 Further Credit to _____ Account #_____

</TABLE>

* All times listed are Eastern Standard Time.

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Star Bank Payment Standards

Security Type	Income	Principal
Equities	Payable Date	
Municipal Bonds*	Payable Date	Payable Date
Corporate Bonds*	Payable Date	Payable Date
Federal Reserve Bank Book Entry*	Payable Date	Payable Date
PTC GNMA's (P&I)	Payable Date + 1	Payable Date + 1
CMOs*		
DTC	Payable Date + 1	Payable Date + 1
Bankers Trust	Payable Date + 1	Payable Date + 1
SBA Loan Certificates	When Received	When Received
Unit Investment Trust Certificates*	Payable Date	Payable Date
Certificates of Deposit*	Payable Date	Payable Date
Limited Partnerships	When Received	When Received
Foreign Securities	When Received	When Received
*Variable Rate Securities		
Federal Reserve Bank Book Entry	Payable Date	Payable Date
DTC	Payable Date + 1	Payable Date + 1
Bankers Trust	Payable Date + 1	Payable Date + 1

NOTE: If a payable date falls on a weekend or bank holiday, payment will be made on the immediately following business day.

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<TABLE>
<CAPTION>
Star Bank Corporate Reorganization Standards

Type of Action	Notification to Client	Deadline for Client Instructions to Star Bank	Transaction Posting
<S>	<C>	<C>	<C>
Rights, Warrants, and Optional Mergers	Later of 10 business days prior to expiration or receipt of notice	5 business days prior to expiration	Upon receipt

Mandatory Puts with Option to Retain	Later of 10 business days prior to expiration or receipt of notice	5 business days prior to expiration	Upon receipt
Class Actions	10 business days prior to expiration date	5 business days prior to expiration	Upon receipt
Voluntary Tenders, Exchanges, and Conversions	Later of 10 business days prior to expiration or receipt of notice	5 business days prior to expiration	Upon receipt
Mandatory Puts, Defaults, Liquidations, Bankruptcies, Stock, Splits, Mandatory Exchanges	At posting of funds or securities received	None	Upon receipt
Full and Partial Calls	Later of 10 business days prior to expiration or receipt of notice	None	Upon receipt

NOTE: Fractional shares/par amounts resulting from any of the above will be sold.
</TABLE>

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APPENDIX D
Star Bank, N.A.
Domestic Custody Fee Schedule
Avalon Capital, Inc.

Star Bank, N.A., as Custodian, will receive monthly compensation for services according to the terms of the following Schedule:

I. Portfolio Transaction Fees:

a.	For each repurchase agreement transaction	$7.00
b.	For each portfolio transaction processed through DTC or Federal Reserve	$9.00
c.	For each portfolio transaction processed through our New York custodian	$25.00
d.	For each GNMA/Amortized Security Purchase	$16.00
e.	For each GNMA Prin/Int Paydown, GNMA Sales	$8.00
f.	For each option/future contract written, exercised or expired	$40.00
g.	For each Cedel/Euro Clear transaction	$80.00
h.	For each Disbursement (Fund expenses only)	$5.00

A transaction is a purchase/sale of s security, free receipt/free delivery (excludes initial conversion), maturity, tender or exchange:

II. Market Value Fee

Based upon an annual rate of:	Million
.0003 (3 Basis Points) on First	$20
.0002 (2 Basis Points) on Next	$20
.00015 (1.5 Basis Points) on	Balance

III. Monthly Minimum Fee-Per Fund $250.00

IV. Out-of-Pocket Expenses The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees.

V. IRA Documents Per Shareholder/year to hold each IRA Document $8.00

VI. Earnings Credits On a monthly basis any earnings credits generated from uninvested custody balances will be applied against any cash management service fees generated. Earnings credits are based on a Cost of Funds

Tiered Earnings Credit Rate. Revised November 25, 1996

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ADMINISTRATIVE SERVICE AGREEMENT

between

AVALON CAPITAL, INC.

and

AMERICAN DATA SERVICES, INC.

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ADMINISTRATIVE SERVICES AGREEMENT

AGREEMENT made the 1ST day of January, 1997, by and between Avalon Capital, Inc., a Maryland Corporation, having its principal office and place of business at 34 Chambers Street, Princeton, New Jersey 08542 (the "Fund"), and American Data Services, Inc., a New York corporation having its principal office and place of business at 24 West Carver Street, Huntington, New York 11743 (the "Administrator").

BACKGROUND

WHEREAS, the Fund is a non-diversified closed-end management investment company registered with the United States Securities and Exchange Commission under the Investment Company Act of 1940, as amended (the "1940 Act"); and

WHEREAS, the Administrator is a corporation experienced in providing administrative services to closed-end investment companies and possesses facilities sufficient to provide such services; and

WHEREAS, the Fund desires to avail itself of the experience, assistance and facilities of the Administrator and to have the Administrator perform for the Fund certain services appropriate to the operations of the Fund and the Administrator is willing to furnish such services in accordance with the terms hereinafter set forth.

TERMS

NOW, THEREFORE, in consideration of the promises and mutual covenants hereinafter contained, the Fund and the Administrator hereby agree to the following:

1. DUTIES OF THE ADMINISTRATOR.

The Administrator will provide the Fund with the necessary office space, communication facilities and personnel to perform the following services for the Fund:

(a) Monitor all regulatory (1940 Act IRS and state) and prospectus restrictions for compliance;

(b) Prepare and coordinate the preparation and printing of semi-annual and annual financial statements, other communication to shareholders, notices of shareholder meetings, proxy statements and proxy card;

(c) Prepare selected management reports for performance and compliance analyses as agreed upon by the Fund and Administrator from time to time;

(d) Prepare selected financial data required for directors' meetings as

agreed upon by the Fund and the Administrator from time to time and coordinate directors meeting agendas with outside legal counsel to the Fund;

(e) Determine income and capital gains available for distribution and calculate distributions required to meet regulatory, income, and excise tax requirements, to be reviewed by the Fund's independent public accountants;

(f) Prepare the Fund's federal, state, and local tax returns to be reviewed by the Fund's independent public accountants;

(g) Prepare and maintain the Fund's operating expense budget to determine proper expense accruals to be charged to the Fund in order to calculate it's daily net asset value including calculation of contractual or other expense limitations, expense waivers, and all Fund disbursements;

(h) 1940 ACT filings -

In conjunction with the Fund's outside legal counsel the Administrator will:

* Prepare the Fund's Form N-SAR reports;

* Update all financial sections of the Fund's Prospectus and Statement of Additional Information and coordinate their completion;

* Update all financial sections of the Fund's proxy statement and coordinate its completion;

* Prepare an annual update to Fund's 24f-2 filing (if applicable);

* Prepare annual repurchase offer and periodic subscription offers for shareholders.

(i) Monitor services provided by the Fund's custodian bank as well as any other service providers to the Fund;

(j) Provide appropriate financial schedules (as requested by the Fund's independent public accountants or SEC examiners), coordinate the Fund's annual or SEC audit, and provide office facilities as may be required;

(k) Attend management and board of directors meetings as requested;

(l) The preparation and filing (filing fee to be paid by the Fund) of applications and reports as necessary to register or maintain the Funds registration under the securities or "Blue Sky" laws of the various states

selected by the Fund or its Distributor.

(m) Fund Accounting Services to be provided:

1) Obtain daily securities quotations for all securities in the Fund's portfolio from independent pricing services and determination of unrealized appreciation/depreciation of portfolio securities.

2) Timely calculate and transmit to NASDAQ the Fund's weekly net asset value and communicate such value to the Fund and its transfer agent;

3) Maintain and keep current all books and records of the Fund as required by Rule 31a-1 under the 1940 Act, as such rule or any successor rule may be amended from time to time ("Rule 31a-1"), that are applicable to the fulfillment of the Administrator's duties hereunder, as well as any other documents necessary or advisable for compliance with applicable regulations as may be mutually agreed to between the Fund and the Administrator. Without limiting the generality of the foregoing, the Administrator will prepare and maintain the following records upon receipt of information in proper form from the Fund or its authorized agents:

* Cash receipts journal
* Cash disbursements journal
* Dividend record
* Purchase and sales - portfolio securities journals
* Subscription and redemption journals
* Security ledgers
* Broker ledger
* General ledger
* Daily expense accruals
* Daily income accruals
* Securities and monies borrowed or loaned and collateral therefore
* Foreign currency journals
* Trial balances

4) Provide the Fund and its investment adviser with daily portfolio valuation, net asset value calculation and other standard operational reports as requested from time to time.

5) Provide facilities to accommodate annual audit and any audits or examinations conducted by the Securities and Exchange Commission or any other governmental or quasi-governmental entities with jurisdiction.

6) Verify and reconcile with Fund's custodian bank all daily trade activity.

The Administrator shall, for all purposes herein, be deemed to be an independent contractor and shall, unless otherwise expressly provided or authorized, have no authority to act for or represent the Fund in any way or otherwise be deemed an agent of the Fund.

2. COMPENSATION OF THE ADMINISTRATOR.

In consideration of the services to be performed by the Administrator as set forth herein for each portfolio listed in Schedule B, the Administrator shall be entitled to receive compensation and reimbursement for all reasonable out-of-pocket expenses. The Fund agrees to pay the Administrator the fees and reimbursement of out-of-pocket expenses as set forth in the fee schedule attached hereto as Schedule A, which may be amended from time to time by mutual agreement of the parties hereto.

3. RESPONSIBILITY AND INDEMNIFICATION.

(a) The Administrator shall be held to the exercise of reasonable care in carrying out the provisions of the Agreement, but shall be without liability to the Fund for any action taken or omitted by it in good faith without negligence, bad faith, willful misconduct or reckless disregard of its duties hereunder. It shall be entitled to rely upon and may act upon the accounting records and reports generated by the Fund, advice of the Fund, or of counsel for the Fund and upon statements of the Fund's independent accountants, and shall be without liability for any action reasonably taken or omitted pursuant to such records and reports or advice, provided that such action is not, to the knowledge of the Administrator, in violation of applicable federal or state laws or regulations, and provided further that such action is taken without negligence, bad faith, willful misconduct or reckless disregard of its duties.

(b) The Administrator shall not be liable to the Fund for any error of judgment or mistake of law or for any loss arising out of any act or omission by the Administrator in the performance of its duties hereunder except as hereinafter set forth. Nothing herein contained shall be construed to protect the Administrator against any liability to the Fund or its security holders to which the Administrator shall otherwise be subject by reason of willful misfeasance, bad faith, negligence in the performance of its duties on behalf of the Fund, reckless disregard of the Administrator's obligations and duties under this Agreement or the willful violation of any applicable law.

(c) Except as may otherwise be provided by applicable law, neither the Administrator nor its stockholders, officers, directors, employees or agents shall be subject to, and the Fund shall indemnify and hold such persons harmless from and against, any liability for and any damages, reasonable expenses (including attorney's fees) or losses incurred by reason of the inaccuracy of information furnished to the Administrator by the Fund or its authorized agents or in connection with any error in judgment or mistake of law or any act or omission in the course of, connected with or arising out of any services to be rendered hereunder, except by reason of willful misfeasance, bad faith or negligence in the performance of its duties, by reason of reckless disregard of the Administrator's obligations and duties under this Agreement or the willful

violation of any applicable law.

4. REPORTS.

(a) The Fund shall provide to the Administrator on a quarterly basis a report of a duly authorized officer of the Fund representing that all information furnished to the Administrator during the preceding quarter was true, complete and correct to the best of its knowledge. The Administrator shall not be responsible for the accuracy of

any information furnished to it by the Fund, and the Fund shall hold the Administrator harmless in regard to any liability incurred by reason of the inaccuracy of such information.

(b) The Administrator shall provide to the Board of Directors of the Fund, on a quarterly basis, a report, in such a form as the Administrator and the Fund shall from time to time agree, representing that, to its knowledge, the Fund was in compliance with all requirements of applicable federal and state law, including without limitation, the rules and regulations of the Securities and Exchange Commission and the Internal Revenue Service, or specifying any instances in which the Fund was not so in compliance. Whenever, in the course of performing its duties under this Agreement, the Administrator determines, on the basis of information supplied to the Administrator by the Fund, that a violation of applicable law has occurred, or that, to its knowledge, a possible violation of applicable law may have occurred or, with the passage of time, could occur, the Administrator shall promptly notify the Fund and its counsel of such violation.

5. ACTIVITIES OF THE ADMINISTRATOR.

The Administrator shall be free to render similar services to others so long as its services hereinunder are not impaired thereby.

6. RECORDS.

The accounts and records maintained by the Administrator shall be the property of the Fund, and shall be surrendered to the Fund promptly upon request by the Fund in the form in which such accounts and records have been maintained or preserved. The Administrator agrees to maintain a back-up set of accounts and records of the Fund (which back-up set shall be updated on at least a weekly basis) at a location other than that where the original accounts and records are stored. The Administrator shall assist the Fund's independent auditors, or, upon approval of the Fund, any regulatory body, in any requested review of the Fund's accounts and records. The Administrator shall preserve the accounts and records in its possession (at the expense of the Fund) as they are required to be maintained and preserved by Rule 31a-1.

7. CONFIDENTIALITY.

The Administrator agrees that it will, on behalf of itself and its officers and employees, treat all transactions contemplated by this Agreement, and all other information germane thereto, as confidential and such information shall not be disclosed to any person except as may be authorized by the Fund.

8. DURATION AND TERMINATION OF THE AGREEMENT.

This Agreement shall become effective as of the date hereof and shall remain in force for a period of three (3) years, provided however, that both parties to this Agreement have the option to terminate the Agreement, upon sixty (60) days prior written notice.

Should the Fund exercise its right to terminate, all out-of-pocket expenses associated with the movement of records and material will be borne by the Fund. Additionally, the Administrator reserves the right to charge for any other reasonable expenses associated with such termination.

9. ASSIGNMENT.

This Agreement shall extend to and shall be binding upon the parties hereto and their respective successors and assigns; provided, however, that this Agreement shall not be assignable by the Fund without the prior written consent of the Administrator, or by the Administrator without the prior written consent of the Fund.

10. NEW YORK LAWS TO APPLY

The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the 1940 Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the 1940 Act, the latter shall control.

11. AMENDMENTS TO THIS AGREEMENT.

This Agreement may be amended by the parties hereto only if such amendment is in writing and signed by both parties.

12. MERGER OF AGREEMENT

This Agreement constitutes the entire agreement between the parties hereto and supersedes any prior agreement with respect to the subject matter hereof whether oral or written.

13. NOTICES.

All notices and other communications hereunder shall be in writing, shall be deemed to have been given when delivered in person or by certified mail, return receipt requested, and shall be given to the following addresses (or such other addresses as to which notice is given):

To the Fund:
Daniel E. Hutner
President
Avalon Capital, Inc.
34 Chambers Street
Princeton, NJ 08542

To the Administrator:
Michael Miola
President
American Data Services, Inc.
24 West Carver Street
Huntington, New York 11743

With a copy to:
Thomas R. Westle, Esq.
Battle Fowler LLP
75 East 55th Street
New York, New York 10022

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

AVALON CAPITAL, INC.
.

By: /s/ Daniel E. Hutner
Daniel E. Hutner, President

AMERICAN DATA SERVICES, INC.

By: /s/ Michael Miola
Michael Miola, President

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SCHEDULE A

(a) ADMINISTRATIVE SERVICE FEE:

For the services rendered by the Administrator in its capacity as administrator, as specified in Paragraph 1. DUTIES OF THE ADMINISTRATOR, the Fund shall pay the Administrator within ten (10) days after receipt of an invoice from the Administrator at the beginning of each month, a fee equal to the greater of:

NOTE: The following fees are per portfolio serviced.

MINIMUM FEE:

CALCULATED FEE WILL BE BASED UPON PRIOR MONTH AVERAGE NET ASSETS:
(No prorating partial months)

Each Portfolio

Under $11 million.....	$3,100
From $11 million to $20 million.....	3,700
From $20 million on.....	4,400

OR,

NET ASSET CHARGE:

* 1/12th of 0.010% (10 basis points) of first $100 million of average net assets of portfolio for month, plus; * 1/12th of 0.075% (7.5 basis points) of next $100 million of average net assets of portfolio for month, plus; * 1/12th of 0.050% (5 basis points) of average net assets of portfolio for month in excess of $200 million.

(b) EXPENSES.

The Fund shall reimburse the Administrator for any direct out-of-pocket expenses, exclusive of salaries, advanced by the Administrator in connection with but not limited to the printing or filing of documents for the Fund, travel, telephone, quotation services, facsimile transmissions, stationery and supplies, record storage, postage, telex, and courier charges, incurred in connection with the performance of its duties hereunder. the Administrator shall provide the Fund with a monthly invoice of such expenses and the Fund shall reimburse the Administrator within fifteen (15) days after receipt thereof.

(c) STATE REGISTRATION (BLUE SKY) SURCHARGE:

The fees enumerated in paragraph (a) above include the initial state registration, renewal and maintenance of registrations (as detailed in Paragraph 1(l) DUTIES OF THE ADMINISTRATOR) for three states. Each additional state registration requested will be subject to the following fees:

Initial registration.....	$295.00
From $11 million to $20 million.....	$150.00
From $20 million on.....	$ 25.00

(d) SPECIAL REPORTS.

All reports and /or analyses requested by the Fund, its auditors, legal counsel, portfolio manager, or any regulatory agency having jurisdiction over the Fund, that are not in the normal course of fund administrative activities as specified in Section 1 of this Agreement shall be subject to an additional charge, agreed upon in advance, based upon the following rates:

Labor:
Senior staff - $150.00/hr. Junior staff - $ 75.00/hr.
Computer time - $45.00/hr.

(e) SERVICE DEPOSIT.

The Fund will remit to the Administrator upon execution of this Agreement a security deposit equal to one (1) month's minimum fee under this Agreement, computed in accordance with the number of portfolios listed in Schedule B of this Agreement. The Fund will have the option to have the security deposit applied to the last month's service fee, or applied to any new contract between the Fund and the Administrator.

SCHEDULE B

PORTFOLIOS TO BE SERVICED UNDER THIS AGREEMENT:

AVALON CAPITAL, INC.
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<TABLE>
<CAPTION>

BY

Avalon Capital, Inc.
(name of corporation)

a Maryland corporation
(state of corporation)

<S>

I, the undersigned, Secretary of the above named Corporation, DO HEREBY CERTIFY that:

1. The following resolution was duly adopted by the Board of Directors of the Corporation at a meeting thereof duly called and held on _____, November 22, 1996, at which a quorum was present, the resolution has not been rescinded, and is still in full force and effect.

WHEREAS, the Corporation is authorized to issue, and it has issued the following capital stock:

Class	Par Value	Number of Shares Authorized	Number of Shares Issued
	$.001	100,000,000	958,360

The address of the Corporation to which Notices may be sent is:

34 Chambers Street, Suite 200

Princeton, NJ 08542

NOW, THEREFORE, IT IS RESOLVED that American Stock Transfer & Trust Company ("AST") is hereby appointed transfer agent and registrar* for all said authorized shares [the following shares -- _____]** of the Corporation, in accordance with the general practices of AST and its regulations set forth in the pamphlet submitted to this meeting entitled

"Regulations of the American Stock Transfer & Trust Company."

_____

*Delete either "transfer agent" or "registrar," if the appointment is not to cover such.
**If the appointment is to cover less than the entire amount of the authorized capital stock, the words "all said authorized shares" should be stricken out and the class and (if the appointment is for less than all authorized shares of a class) number of shares to be covered by the appointment inserted in the blank space.

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2. The following are the duly elected and qualified officers of the Corporation, holding the respective offices set opposite their names, and the signatures set opposite their names are their genuine signatures:

NAME		SIGNATURE
<C>	<C>	<C>
	Chairman	
Daniel Hutner	President	/s/ Daniel E. Hutner
Nancy Hutner	Vice-President	/s/ Nancy W. Hutner
Michele Scheddin	Vice-President	/s/ Michele Scheddin
Nancy Hutner	Treasurer	/s/ Nancy W. Hutner
	Assistant Treasurer	
Michele Scheddin	Secretary	/s/ Michele Scheddin
	Assistant Secretary	

3. The name and address of legal counsel of the Corporation is:

Thomas Westle, Battle Fowler

75 East 55th St., 5th Fl., NY, NY 10022

4. Attached is a specimen stock certificate for each denomination of capital stock (the "Stock") for which AST has been authorized to act as transfer agent or registrar.

5. Attached is a true copy of the certificate of incorporation,

6. Attached is a true copy of the by-laws, as amended, of the Corporation.

7. If any provision of the certificate of incorporation or by-laws of the Corporation, any court order or administrative order, or any other document, affects any transfer agency or registrar function or responsibility relating to the shares, attached is a statement of each such provision.

8. All certificates representing Shares which were not issued pursuant to an effective registration statement under the Securities Act of 1933, as amended, bear a legend in substantially the following form:

The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"). The shares may not be sold, transferred or assigned in the absence of an effective registration for these shares under the Act or an opinion of the Corporation's counsel

---

CERTIFICATE OF APPOINTMENT OF
AMERICAN STOCK TRANSFER
& TRUST COMPANY as

that registration is not required under the Act.

All Shares not so registered were issued or transferred in a transaction or series of transactions exempt from the registration provisions of the Act, and in each such issuance or transfer, the Corporation was so advised by its legal counsel.

___ TRANSFER AGENT ___ REGISTRAR

9. If any class of the Corporation's securities are registered under the Securities Exchange Act of 1934, as amended, the most recent Form 10-K, proxy statement and annual report to stockholders of the Corporation are attached.

10. The initial term of AST's appointment hereunder shall be three years from the date hereof and the appointment shall automatically be renewed for further three year successive periods unless terminated by either party by written notice to the other given not less than ninety (90) days before the end of the initial or any subsequent three year period. AST's fees will not be increased during the initial three year term and, thereafter, may only be increased by agreement. Notwithstanding the aforegoing, AST shall be entitled to terminate the appointment forthwith on not less than thirty (30) days notice in the event that the Corporation commits any breach of its material obligations to AST including payment of any amount owing to AST. On termination of the appointment for any reason, AST shall be entitled to retain all transfer records and related documents until all amounts owing to AST have been paid in full.

11. The Corporation will advise AST promptly of any change in any information contained in, or attached to, this Certificate by a supplemental Certificate or otherwise in writing.

WITNESS my hand and seal of the Corporation this 6th day of February, 1997.

/s/ Michele Scheddin

Secretary

(corporate seal)

</TABLE>

669192.1

BATTLE FOWLER LLP
A LIMITED LIABILITY PARTNERSHIP
75 East 55th Street
New York, New York 10022
(212) 856-7000

(212) 856-7053

(212) 856-7815

September 11, 1995

Avalon Capital, Inc.
14 Wall Street
New York, NY 10005

Gentlemen:

We have acted as counsel to Avalon Fund, Inc., a Maryland corporation (the "Company"), in connection with the preparation and filing of Registration Statement No. 33-90522 on Form N-2 and all amendments thereto (the "Registration Statement") covering shares of Common Stock, par value $.001 per share, of the Company.

We have examined copies of the Articles of Incorporation and By-Laws of the Company, the Registration Statement, and such other corporate records, proceedings and documents, including the consent of the Board of Directors and the minutes of the meeting of the Board of Directors of the Company, as we have deemed necessary for the purpose of this opinion. In our examination of such material, we have assumed the genuineness of all signatures and the conformity to original documents of all copies submitted to us. As to various questions of fact material to such opinion, we have relied upon statements and certificates of officers and representatives of the Company and others.

We are not admitted to the practice of law in any jurisdiction but the State of New York and we do not express any opinion as to the laws of other states or jurisdictions except as to matters of Federal law. In addition, we have relied upon the attached opinion of Venable, Baetjer and Howard as to matters of Maryland law.

Based upon and subject to the foregoing, we are of the opinion that the shares of Common Stock, par value $.001 per share,

of the Company, to be issued in accordance with the terms of the offering, as set forth in the Prospectus and Statement of Additional Information included as part of the Registration Statement, and when issued and paid for, will constitute validly authorized and legally issued shares of Common Stock, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to us in the Registration Statement under the heading "Legal Counsel" in the Statement of Information.

Very truly yours,

/s/ Battle Fowler LLP

Venable, Baetjer and Howard, LLP
including professional corporations
1800 Mercantile Bank & trust Building
Two Hopkins Plaza Plaza
Baltimore, Maryland 21206-2978
(410) 244-7400, Fax (410) 244-7742

September 11, 1995

Battle Fowler LLP
75 East 55th Street
New York, New York 10022

Re: Avalon Capital, Inc.

Ladies and Gentlemen:

We have acted as special Maryland counsel for Avalon Capital, Inc., a Maryland corporation (the "Fund"), in connection with the organization of the Fund and the issuance of shares of its common stock, par value $.001 per share (the "Common Stock").

As special Maryland counsel for the Fund, we are familiar with its Charter and Bylaws. We have examined the prospectus and statement of additional information included in its Registration Statement on Form N-2 (File Nos. 33-90522; 811-9004) (the "Registration Statement"), substantially in the form in which they are to become effective (collectively, the "Prospectus"). We have further examined and relied upon a certificate of the Maryland State Department of Assessments and Taxation to the effect that the Fund is duly incorporated and existing under the laws of the State of Maryland and is in good standing and duly authorized to transact business in the State of Maryland.

We have also examined and relied upon such corporate records of the Fund and other documents and certificates with respect to factual matters as we have deemed necessary to render the opinion expressed herein. With respect to the documents we have received, we have assumed, without independent verification, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, and the conformity with originals of all documents submitted to us as copies.

Based on such examination, we are of the opinion and so advise you that:

(1) The Fund is duly organized and validly existing as a corporation in good standing under the laws of the State of Maryland.

(2) The 10,000 presently issued and outstanding shares of Common Stock have been validly and legally issued and are fully paid and non-assessable.

(3) The 3,000,000 shares of Common Stock of the Fund to be offered for sale pursuant to the Prospectus are duly authorized and, when sold, issued and paid for as contemplated by the Prospectus, will be validly and legally issued and will be fully paid and nonassessable.

This letter expresses our opinion with respect to the Maryland General Corporation Law governing matters such as due organization and the authorization and issuance of stock. It does not extend to the securities or "blue sky" laws of Maryland, to federal securities laws or to other laws.

You may rely upon our foregoing opinion in rendering your opinion to the Fund that is to be filed as an exhibit to the Registration Statement. We consent to the filing of this opinion as an exhibit to the Registration Statement.

Very truly yours,

/s/ Venable, Baetjer and Howard, LLP

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CONSENT OF MESSRS. BATTLE FOWLER

We consent to the reference to our Firm in Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 of Avalon Capital, Inc. as filed with the Securities and Exchange Commission on December 30, 1997.

BATTLE FOWLER

New York, New York
December 30, 1997

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CONSENT OF INDEPENDENT AUDITORS

We consent to the use in Post-Effective Amendment No. 1 to Registration Statement No. 33-90522 on Form N-2 of Avalon Capital, Inc., of our report dated October 22, 1997, appearing in the Statement of Additional Information, which is included in such Registration Statement, and to the references to us under the headings "Accountants" and "Financial Statements" also in the Statement of Additional Information.

Deloitte & Touche LLP
New York, New York
December 29, 1997

AVALON PARTNERS, L.P.
14 Wall Street
New York, New York 10005

September 6, 1995

Board of Directors of
Avalon Capital, Inc.
14 Wall Street
New York, New York 10005-2113

Ladies and Gentlemen:

On behalf of Avalon Partners, L.P. (the "Partnership"), a Delaware limited partnership and, in my sole capacity as the General Partner of the Partnership, I hereby subscribe for 10,000 shares of the Common Stock, $.001 par value per share, of Avalon Capital, Inc., a Maryland corporation (the "Company"), at $10.00 per share for an aggregate purchase price of $100,000. The Partnership's payment in full is confirmed.

I hereby represent and agree that the Partnership is purchasing these shares of stock for investment purposes, for its own account and risk and not with a view to any sale, division or other distribution thereof within the meaning of the Securities Act of 1933 as amended, nor with any present intention of distributing or selling such shares. I further agree that if any organizational expenses of the Company are being amortized, the Partnership will reimburse the Company the then unamortized organizational expenses in the same ratio as the number of shares redeemed bears to the number of such shares held at the time of redemption.

Very truly yours,

AVALON PARTNERS, L.P.

By: /s/ Daniel E. Hutner
Daniel E. Hutner,
General Partner

Confirmed and Accepted:
AVALON CAPITAL, INC.

By: /s/ Daniel E. Hutner

Daniel E. Hutner,
President

667967.1

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