



COHEN INDEPENDENT RESEARCH GROUP

Wall Street's #1 Independent Research Firm

D. Paul Cohen, President
21 Manzanita Avenue #1000
San Rafael, CA 94901
www.cohenresearch.com

Telephone: 415.454.6985
Fax: 415.455.0295
E-mail: paul@cohenresearch.com
E-mail: dpaulco@aol.com

QUICK VIEW

March 26, 2008

Avalon Capital Holdings (AVAL)

Recent Price: \$0.18
Symbol: AVAL
Recommendation: BUY
Industry: Software

Avalon Capital Holdings is the parent company for Traders Development LLC, the developer of an exciting complete turnkey foreign currency exchange trading platform. Since 2001, foreign currency trading has grown 15% to 20% annually, straining legacy systems in a fragmented market. The comprehensive feature profile of the Avalon FX Pro system is unmatched in the industry, is technologically superior and costs less to operate than competitive offerings.

Stock Metrics	
Recent Price	\$0.18
52 Weeks Price Range	0.07-0.99
Shares Outstanding (mil.), FY08	95
Market Capitalization (mil.)	13.3
Avg Daily Volume (3 month)	60,170
Beta (estimated)	2.20

Balance Sheet		2008 E
Cash & Equivalents		957,925
Working Capital		1,748,343
Total Assets		7,472,343
Long-Term Liabilities		500,000
Total Debt		500,000
Shareholders Equity		6,857,343

Key Ratios	2008 E	2009 E
SGA / Sales	87.6%	61.8%
Net Profit Margin	-45.2%	13.6%
Interest Coverage	-119.6	59.9
Return on Equity	-25.9%	18.7%
Return on Assets	-23.8%	17.5%

Price Ratios	
Price to Sales 2008E	3.4
Price to Sales 2009E	1.1
Price to Earnings 2008E	N/A
Price to Earnings 2009E	8.0
Price to Book 2008E	1.9

Short Term Price Targets vs. Growth Rates

Terminal Growth	5%	6%	7%	8%
Optimistic Case	1.47	1.65	1.87	2.17
Base Case	1.08	1.21	1.38	1.60
Pessimistic Case	0.82	0.91	1.03	1.20

Long Term Price Targets vs. 2010 PE Multiple

	Multiple	40	50	60
Optimistic Case		3.22	4.02	4.83
Base Case		2.31	2.89	3.47
Pessimistic Case		1.90	2.38	2.86

EPS Forecast

All figures in \$	2008	2009	2010	2011	2012
Optimistic Case	-\$0.01	\$0.03	\$0.08	\$0.15	\$0.21
Base Case	-\$0.02	\$0.02	\$0.06	\$0.11	\$0.17
Pessimistic Case	-\$0.02	\$0.02	\$0.05	\$0.09	\$0.13



Executive Summary

- The Avalon FX Pro trading platform system is the most up to date turnkey foreign exchange trading platform in the industry. Avalon FX Pro is a fully integrated system that includes back office reporting, front-end analytics and order entry, price feeds, dealing desk and risk management functions.
- The compound annual growth in foreign currency trading from 2001 to 2004 was 15 %, and expanded to 20% from 2004 to 2007. Annual compound growth in the non-dealer market, which is addressed by the Avalon FX Pro, averaged 19% from 2001 to 2004, and 28% between 2004 to 2007.
- The foreign currency market consists of two broad segments, the inter-bank trading and bank-to-customer market. The bank-to-customer market is fragmented with many single bank systems created by several software vendors per bank. The Avalon FX Pro addresses the bank-to-customer market segment.
- The retail market in foreign currency trading has grown 500% from 2001 to 2007. The retail market has been neglected by the foreign currency trading banks, creating a fragmented software market to serve retail customers. The turnkey Avalon FX Pro trading platform directly addresses this market.
- Avalon has a marketing agreement with one of the widely used price aggregators in the industry, HotSpotFX.
- The Avalon FX Pro has API Gateways to several of the major liquidity providers in the foreign exchange markets including Bank of America, Deutsche Bank, FXCM, Currenex, LavaFX, HotSpotFXi, HotSpotFXr, and UBS.
- The first full product licensee began operating live in late March 2008.
- The company is in discussions with many banks and brokerage firms regarding licensing the Avalon FX Pro trading platform.
- The company has already signed license agreements for its Avalon FX Pro technology with two financial companies.
- Competitive offerings are not comprehensive turnkey systems with the features required to operate the complete bank-to-customer system.
- The Avalon FX Pro system was originally developed in Windows, which lowers operating costs for customers compared to Java based systems.
- Revenues are generated from licensing agreements and usage based royalty fees. Usage based royalty fees from license agreements will be the largest revenue contributor.
- License pricing for Avalon FX Pro is very competitive. Relative to the value offered, pricing for Avalon FX Pro is lower than the competition. The company's low development and operating costs enable profitable operations at lower prices for itself and its customers.
- Avalon FX Pro is currently considered a best of breed trading platform for the Retail Foreign exchange market.
- The company is currently developing the capacity to trade other financial instruments, expected by the end of 2008. Inter-bank trading capability is expected in early 2009.

Valuation Summary

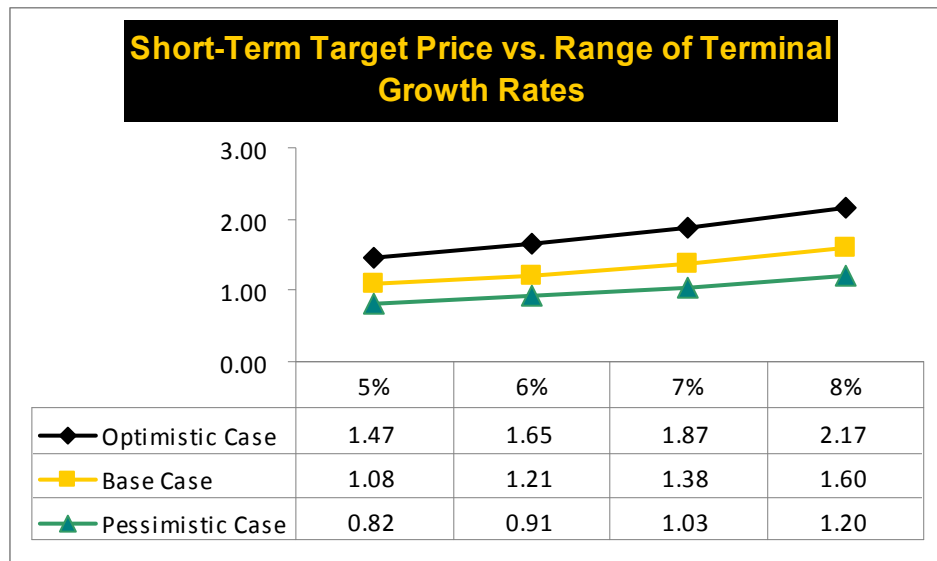
- We forecast three scenarios and value AVAL common stock using a Discounted Cash Flow (DCF) method for each scenario. Our Base Case scenario describes what we believe is easily achievable for the company based on industry growth, the company's competitive strengths and licensing activity in early 2008. Our DCF methodology describes an appropriate valuation for the current timeframe of Q1:08. Our single point price target for our Base Case forecast and a terminal growth rate of 6% is \$1.21 per share.
- For longer term price targets, we focus on projected earnings in 2010. We use a 50x PE multiple on 2010 earnings, a 55% discount to the 112.8% average annual compound growth rate from 2009 to 2012 in our forecast. Since stock prices typically discount future earnings, the timeframe is 18 to 24 months. Our single point long-term price target is \$2.89, according to our Base Case scenario.
- We believe the Base Case and Optimistic Case forecasts accurately describe the most likely range of fundamental performance for the company due to strong industry growth and the company's competitive position. The single point short-term price target for our Optimistic Case scenario is \$1.65 per share. Our long-term Optimistic Case scenario price target is \$4.02



Investment Thesis and Recommendation

Avalon Capital Holding’s trading platform addresses the most fragmented market segment in foreign currency exchange, the bank-to-customer transaction. The system is customizable, has comprehensive back office reporting, front end analytics, several price feeds from market makers and can link to legacy systems. The Avalon FX Pro is the most up to date turnkey trading platform for the foreign exchange market today. More asset classes such as futures and derivatives may be available as early as late 2008 and inter-bank dealer trading is scheduled for early 2009. The foreign exchange market has grown 20% annually since 2004, with “non-financial” customer growth of 28% annually since 2001. Non-financial customers are institutions and retail clients that are not required to report Forex trading to the National Futures Association. The technological superiority of the Avalon FX Pro system translates into lower operating costs for licensees. Relatively low development costs allows for very competitive pricing and healthy company profits. In our opinion, the Avalon FX Pro platform will move the foreign exchange trading platform market into the 21st century.

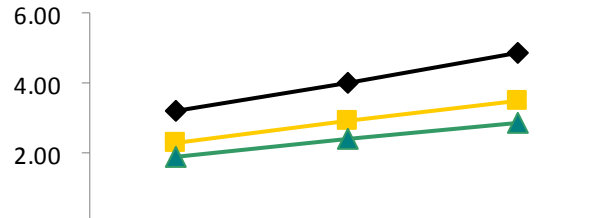
At \$0.18 per share, with a valuation target of \$1.21 to \$1.65 in the short-term, and \$2.89 to \$4.02 in the long-term of 18 to 24 months, we recommend the purchase of AVAL common stock for long-term growth investors.



At \$0.18 per share, we believe Avalon Capital Holdings (AVAL) is considerably undervalued even when compared to our most conservative valuation model. Based on our valuation analyses utilizing our discounted cash flow methodology, an investment in AVAL has the potential for high returns over the next few years. We created three scenarios – Base Case, Optimistic Case and Pessimistic Case – while valuing the company. We believe both the Base Case and Optimistic Case are highly likely given the company’s current momentum in signing new licensees.



Long-Term Target Price vs. 2010 PE Multiple



	40	50	60
◆ Optimistic Case	3.22	4.02	4.83
■ Base Case	2.31	2.89	3.47
▲ Pessimistic Case	1.90	2.38	2.86

**Cohen Growth Drivers – Base Case**

Cohen Growth Driver Analysis	FY-08E	FY-09E	FY-10E	FY-11E	FY-12E
Revenues	3,936,600	13,355,000	25,646,000	39,531,000	53,473,500
Operating Margin	-44.80%	13.91%	33.88%	42.71%	47.13%
Net Margin	-45.19%	13.57%	23.64%	29.84%	32.95%
EPS - Diluted	(0.02)	0.02	0.06	0.11	0.17
EBITDA	(963,792)	2,757,560	9,689,420	17,984,198	26,404,126
Free Cash Flow	(3,736,710)	(701,560)	3,204,049	8,697,532	14,469,184
Cash	957,925	1,256,365	4,460,414	13,157,946	27,627,131
Working Capital	1,748,343	4,117,273	10,007,267	21,704,086	39,258,165
Long Term Debt	500,000	500,000	500,000	500,000	500,000
Total Debt	500,000	500,000	500,000	500,000	500,000
Total Assets	7,472,343	10,381,015	16,583,594	28,575,796	46,319,564

Annual Percent Change in Revenues, Margins, Assets

Revenues		239.25%	92.03%	54.14%	35.27%
Operating Margin		-131.04%	143.60%	26.06%	10.35%
Net Margin		-130.04%	74.11%	26.27%	10.42%
EPS - Diluted		-193.16%	231.36%	94.63%	49.36%
EBITDA		-386.12%	251.38%	85.61%	46.82%
Free Cash Flow		-81.23%	-556.70%	171.45%	66.36%
Cash		31.15%	255.03%	194.99%	109.97%
Working Capital		135.50%	143.06%	116.88%	80.88%
Long Term Debt		0.00%	0.00%	0.00%	0.00%
Total Debt		0.00%	0.00%	0.00%	0.00%
Total Assets		38.93%	59.75%	72.31%	62.09%

The growth story for AVAL is exciting. In 2008, Avalon should generate almost \$4 million revenues. Revenue growth will accelerate from 2009 through 2012 due to new licensees of the Avalon FX Pro trading platform and increasing royalty revenues. We expect the company to be profitable in 2009. Operating margins improve dramatically from 2009 forward due to the increasing revenue contribution from royalties. Free cash flow is expected to be positive in 2010 and increase significantly through 2012. Earnings in our Base Case scenario are positive in 2009, and grow significantly through 2012, at an average compound annual growth rate of 112.8%. Our base case scenario indicates large cash balances in the latter forecast years, due to the strong cash flows.



Price and Volume





Disclaimer:

This report/release is for informational purposes only. All information contained herein is based on public information. Ethical Standards: Cohen Independent Research Group complies with securities laws, regulations and ethical standards as related to our legal and compliance requirements. Certain securities regulations are cited and disclaimed in our Disclaimer. Ethical standards as related to our firm are the foundation of those securities laws and regulations we follow. Our firm is not a member of any association for other research providers. Our firm's policy is to comply with any new securities laws and regulations that might be promulgated in the future. Cohen Independent Research Group (CIRG) is a registered investment advisor that distributes contracted third party independent research purchased from outside third party contracted securities analysts. CIRG issues two types of reports: fundamental research reports that contain securities recommendations, and statistical data reports from The Cohen Financial and Valuation Model, and other statistical reports that do not recommend any security purchase; Buy, Hold/Neutral, No Recommendation or Sell. CIRG's contracted analysts issue certain securities recommendations for fundamental research reports under NASD Rule 2711 defined as: Buy, Hold/Neutral or Sell recommendations. The Cohen Financial and Valuation Model contains statistical data derived from SEC filings. This Model does not recommend the Purchase; Buy, Hold, Sell, No Recommendation or Short Sale of any security. CIRG purchases certain financial data derived from SEC filings and data compiled by other vendors. CIRG and its data vendors do not warranty that such SEC filing data and other compiled data is accurate. CIRG advises recipients of all such data to be validated from the issuing company including all statistical information derived from SEC filings contained herein. Neither CIRG nor any data vendor shall be held liable for any misinformation contained in any SEC filing data or compiled data from various data feeds. Guests of CIRG's website, readers of CIRG's distributed research and subscribers to The Cohen Financial and Valuation Model assume full responsibility for the accuracy of all SEC filing data and compiled data from other sources, and are urged to confirm that data with the specific issuing company. For fundamental research reports, CIRG's outside contract analysts may at their option, assign a No Recommendation to certain research reports without opinion or rating, also published for informational purposes only. Under no circumstances is this report/release to be used or considered as an offer to sell or a solicitation of any offer to buy any security or other debt instruments, or any options, futures or other derivatives related to such securities herein. CIRG and its affiliates may trade for its own account, and own related securities of the issuer. CIRG or its affiliates, directors, officers and employees, may have a long or short position in securities of the issuer or related investments, and may effect securities transactions with CIRG clients through Direct Access Partners, Ltd. Investors interested in purchasing securities are urged to read the Prospectus, 10K, 10Q other relevant public documents in full, and to conduct their own research and due diligence. CIRG encourages our readers to invest carefully and read the investor information available on the web sites of the Securities and Exchange Commission ("SEC") at www.sec.gov and/or the National Association of Securities Dealers ("NASD") at www.nasd.com. The NASD has published information on how to invest carefully at its website. The reader should verify all claims and do his/her own due diligence before investing in any securities mentioned. Investing in securities is speculative and carries a high degree of risk. Investors are always encouraged to consult with their financial advisors, brokers, accountants, or attorneys and/or conduct their own due diligence prior to making an investment in any of our featured companies. CIRG's outside contracted analysts reserve the right to change their opinion at any point in time as they deem necessary. There is no guarantee that the target price for the stock will be met or that predicted business results for the company will be met. Contracted analysts engaged by CIRG are responsible for the preparation and substance of CIRG's research reports. Analysts are responsible only to the public and are paid in cash to insure independence of the research process. Reports are written and distributed on behalf of the public, and are not a service to any company. CIRG does not supervise any outside contracted analyst and does not guarantee this report to be error-free or factually accurate. CIRG is not a financial analyst as defined by NASD Rule 2711. Conclusions prepared by outside contracted analysts are deemed to be reasonable at the time of issuance of the report. All decisions are made solely by the outside contracted analyst and are independent of outside parties or influence. Neither the analyst's compensation nor the compensation received by CIRG is in any way related to the specific recommendations or views contained in this research report/release or note, nor is it related to price performance or volume of shares traded in the referenced security. CIRG or its affiliates may from time to time perform consulting or other services for, or solicit consulting or other business from any entity mentioned in this report/release. This research report/release has been prepared for general circulation and is circulated for general information only. It does not have regard to the specific investment objective, financial situation, suitability, and the particular need of any specific person who may receive this report/release. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report/release and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall substantially. Accordingly, investors may receive back less than originally invested. Past performance is not indicative of future performance. CIRG has not entered into a soft dollar agreement with the referred to company. CIRG does not currently have an investment banking relationship with the company, or a finder's fee agreement with the company. The Private Securities Litigation Reform Act of 1995 provides investors a 'safe harbor' in regard to forward-looking statements. CIRG cautions all investors that such forward-looking statements in this report/release and all research CIRG research reports are not guarantees of future performance. Foreword looking statements include statements concerning plans, objectives, goals, strategies, future events, performances, underlying assumptions, and other statements that are statements other than historical facts. These statements are subjected to uncertainties and risks including but not limited to product and service demand and acceptance changes in technology, ability to raise capital, availability of acquisition candidates, and or business partnerships or economic conditions, impact of pricing, capacity and supply constraints, or difficulties, or government regulation and other tasks certified in this document. All such written statements, whether written or oral and whether made by or on behalf of the companies presented are expressly qualified by these cautionary statements and any other cautionary statements which may accompany the foreword looking statements. In addition, CIRG disclaims any obligation to update any foreword looking statements to reflect events and circumstances as of the following date of this report/release. Unknown risk, including bankruptcy, uncertainties, as well as other uncontrollable or unknown factors may cause actual results to materially differ from the results, performance or expectations expressed or implied by such forward-looking statement. Smaller companies have a higher likelihood of filing bankruptcy. Investors are urged to do their own research regarding the dangers of a potential bankruptcy filing. CIRG urges all potential investors to perform comprehensive due-diligence prior to making any investment. When used, the words "anticipate," "believe," "estimate," "expect," and similar expressions as they relate to the company or its management are intended to identify such forward-looking statements. The company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward looking statements. Further management discussion of risks and uncertainties can be found in the company's quarterly filings with the Securities Exchange Commission and other periodic SEC filings. CIRG and its data vendors do not assume any responsibility or liability for any investor decision made as a result of reading this report/release or accessing financial data from CIRG's various data vendors. CIRG and the issuing company do not assume any responsibility or liability for any investor decision made as a result of reading this report/release. Readers hereby acknowledge that any reliance upon any Materials shall be at the reader's sole risk. CIRG is normally paid cash and is sometimes paid in stock, warrants, options or other securities to publish information provided by its clients. Non-cash payments to CIRG are designed to help smaller companies conserve their cash positions. CIRG reserves the right, in its sole discretion and without any obligation, to make improvements to, or correct any error or omissions in any portion of the Service or the Materials. The service and the materials are provided by CIRG on an 'as is' basis. CIRG expressly disclaims any and all warranties, express or implied, including without limitation warranties or merchantability and fitness for a particular purpose, with respect to the service or any materials and products. In no event shall CIRG be liable for any direct, indirect, incidental, punitive, or consequential damages of any kind whatsoever with respect to the service, the materials and the products. This report/release has been prepared in accordance with the Securities and Exchange Commission's rules and amendments, Oct 23, 2000, regarding 17 CFR Parts, 240, 243 and 249, (Selective Disclosure and Insider Trading), Regulation FD (Fair Disclosure), 10b5-1, 10b5-2, and NASD Rules 2250, 2420, 2710 and 2711. CIRG currently charges \$29,500 for analyst research coverage and distribution of research material for a one year period for initiate coverage reports 50 pages or less; \$39,500 for initiate coverage reports 50 pages or more, and \$49,500 for initiate coverage reports of 100 pages or more. The researched company has paid to CIRG \$25,000 and 210,000 shares of common stock for the period of research coverage. This document shall not be copied nor reproduced in any form without the expressed written and authorized consent of CIRG. Copyright: CIRG and D. Paul Cohen

Recommendations: BUY 98%, SELL 2%

