

# SECURITIES AND EXCHANGE COMMISSION

## FORM 485BPOS

Post-effective amendments [Rule 485(b)]

Filing Date: **1996-12-30**  
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### FILER

#### **UNITED HIGH INCOME FUND II INC**

CIK: **793300** | State of Incorpor.: **KS** | Fiscal Year End: **0930**  
Type: **485BPOS** | Act: **33** | File No.: **033-05648** | Film No.: **96687348**

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*66201-9217*

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 X

Pre-Effective Amendment No. \_\_\_\_\_  
Post-Effective Amendment No. 18

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT  
OF 1940 X

Amendment No. 18

UNITED HIGH INCOME FUND II, INC.  
(Exact Name as Specified in Charter)

6300 Lamar Avenue, Shawnee Mission, Kansas 66202-4200  
(Address of Principal Executive Office) (Zip Code)

Registrant's Telephone Number, including Area Code (913) 236-2000

Sharon K. Pappas, P. O. Box 29217, Shawnee Mission, Kansas 66201-9217  
(Name and Address of Agent for Service)

It is proposed that this filing will become effective

- immediately upon filing pursuant to paragraph (b)
- on December 31, 1996 pursuant to paragraph (b)
- 60 days after filing pursuant to paragraph (a)(1)
- on (date) pursuant to paragraph (a)(1)
- 75 days after filing pursuant to paragraph (a)(2)
- on (date) pursuant to paragraph (a)(2) of Rule 485
- this post-effective amendment designates a new effective date for a previously filed post-effective amendment

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DECLARATION REQUIRED BY RULE 24f-2(a)(1)

The issuer has registered an indefinite amount of its securities under the Securities Act of 1933 pursuant to Rule 24f-2(a)(1). Notice for the Registrant's fiscal year ended September 30, 1996 was filed on November 26, 1996.

UNITED HIGH INCOME FUND II, INC.  
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Cross Reference Sheet  
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Item No.  
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\*\*Included in Annual Report to Shareholders

Please read this Prospectus before investing, and keep it on file for future reference. It sets forth concisely the information about the Fund that you ought to know before investing.

Additional information has been filed with the Securities and Exchange Commission and is contained in a Statement of Additional Information ("SAI") dated December 31, 1996. The SAI is available free upon request to the Fund or Waddell & Reed, Inc., the Fund's underwriter, at the address or telephone number below. The SAI is incorporated by reference into this Prospectus and you will not be aware of all facts unless you read both this Prospectus and the SAI.

THE FUND MAY INVEST UP TO ALL OF ITS ASSETS IN BONDS ISSUED BY DOMESTIC OR FOREIGN ISSUERS RATED BELOW INVESTMENT GRADE, COMMONLY KNOWN AS "JUNK BONDS," WHICH ENTAIL GREATER RISKS, INCLUDING DEFAULT RISKS, THAN THOSE FOUND IN HIGHER RATED SECURITIES. INVESTORS SHOULD CAREFULLY CONSIDER THESE RISKS BEFORE INVESTING. SEE "ABOUT THE INVESTMENT PRINCIPLES OF THE FUND" INCLUDED IN THIS PROSPECTUS FOR A DISCUSSION OF THE RISKS ASSOCIATED WITH NON-INVESTMENT GRADE DEBT SECURITIES. SEE APPENDIX A FOR A DISCUSSION OF BOND RATINGS.

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

United High Income Fund II, Inc.  
Class A Shares

This Fund seeks as its primary goal a high level of current income. As a secondary goal, the Fund seeks capital growth when consistent with its primary goal. The Fund invests primarily in a diversified portfolio of high-yield, high-risk, fixed-income securities, the risks of which are, in the judgment of the Fund's investment manager, consistent with the Fund's goals.

This Prospectus describes one class of shares of the Fund -- Class A Shares.

Prospectus  
December 31, 1996

UNITED HIGH INCOME FUND II, INC.  
6300 Lamar Avenue  
P. O. Box 29217  
Shawnee Mission, Kansas  
66201-9217  
913-236-2000

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## An Overview of the Fund

**The Fund:** This Prospectus describes the Class A shares of United High Income Fund II, Inc., an open-end, diversified management investment company.

**Goals and Strategies:** United High Income Fund II, Inc. (the "Fund") seeks, as a primary goal, a high level of current income. As a secondary goal, the Fund seeks capital growth when consistent with its primary goal. There is no assurance that the Fund will achieve its goals. The Fund invests primarily in a diversified portfolio of high-yield, high-risk, fixed-income securities, the risks of which are, in the judgment of the Fund's investment manager, consistent with the Fund's goals. See "About the Investment Principles of the Fund" for further information.

**Management:** Waddell & Reed Investment Management Company ("WRIMCO") provides investment advice to the Fund and manages the Fund's investments. WRIMCO is a wholly-owned subsidiary of Waddell & Reed, Inc. WRIMCO, Waddell & Reed, Inc. and its predecessors have provided investment management services to registered investment companies since 1940. See "About the Management and Expenses of the Fund" for further information about management fees.

**Distributor:** Waddell & Reed, Inc. acts as principal underwriter and distributor of the shares of the Fund.

**Purchases:** You may buy Class A shares of the Fund through Waddell & Reed, Inc. and its account representatives. The price to buy a Class A share of the Fund is the net asset value of a Class A share plus a sales charge. See "About Your Account" for information on how to purchase Class A shares.

**Redemptions:** You may redeem your shares at net asset value. When you sell your shares, they may be worth more or less than what you paid for them. See "About Your Account" for a description of redemption and reinvestment procedures.

**Risk Considerations:** Investments in high-yield, high-risk securities ("junk bonds") may entail risks that are different or more pronounced than those involved in higher-rated securities. The value of the Fund's investments and the income generated will vary from day to day, generally reflecting changes in interest rates, market conditions and other company and economic news. Performance will also depend on WRIMCO's skill in selecting investments. See "About the Investment Principles of the Fund" for information about the risks associated with the Fund's investments.

## Expenses

Shareholder transaction expenses are charges you pay when you buy or sell shares of a fund.

Maximum sales load  
on purchases 5.75%  
(as a percentage of offering price)

Maximum sales load  
on reinvested  
dividends None

Deferred  
sales load None

Redemption fees None

Exchange fee None

Annual Fund operating expenses (as a percentage of average net assets).

Management fees 0.56%

12b-1 fees	0.15%	
Other expenses <sup>1</sup>	0.25%	
Total Fund operating expenses <sup>2</sup>		0.96%

Example: You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return<sup>3</sup> and (2) redemption at the end of each time period:

1 year	\$ 67
3 years	\$ 86
5 years	\$108
10 years	\$169

The purpose of this table is to assist you in understanding the various costs and expenses that a shareholder of the Class A shares of the Fund will bear directly or indirectly. The example should not be considered a representation of past or future expenses; actual expenses may be greater or lesser than those shown. For a more complete discussion of certain expenses and fees, see "Breakdown of Expenses."

<sup>1</sup>Expense information has been restated to reflect the current shareholder servicing fee which became effective April 1, 1996.  
<sup>2</sup>Retirement plan accounts may be subject to a \$2 fee imposed by the plan custodian for use of the Flexible Withdrawal Service.  
<sup>3</sup>Use of an assumed annual return of 5% is for illustration purposes only and is not a representation of the Fund's future performance, which may be greater or lesser.

Financial Highlights  
(Audited)

The following information has been audited by Price Waterhouse LLP, independent accountants, and should be read in conjunction with the financial statements and notes thereto, together with the report of Price Waterhouse LLP, included in the SAI.

For a Class A share outstanding throughout each period.\*

<TABLE>

	For the fiscal year ended September 30,									
	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	\$4.03	\$3.96	\$4.21	\$4.06	\$3.75	\$3.45	\$4.22	\$4.66	\$4.71	\$4.96
Income from investment operations:										
Net investment income	0.35	0.35	0.35	0.36	0.39	0.45	0.44	0.54	0.53	0.55
Net realized and unrealized gain (loss) on investments	0.11	0.07	(0.25)	0.15	0.31	0.30	(0.77)	(0.44)	(0.05)	(0.25)
Total from investment operations	0.46	0.42	0.10	0.51	0.70	0.75	(0.33)	0.10	0.48	0.30
Less dividends declared from net investment income	(0.35)	(0.35)	(0.35)	(0.36)	(0.39)	(0.45)	(0.44)	(0.54)	(0.53)	(0.55)
Net asset value, end of period	\$4.14	\$4.03	\$3.96	\$4.21	\$4.06	\$3.75	\$3.45	\$4.22	\$4.66	\$4.71
Total return**	11.90%	11.25%	2.31%	13.07%	19.31%	23.66%	-8.03%	1.96%	10.98%	5.89%
Net assets, end of period (000 omitted)	\$368,069	\$367,782	\$362,643	\$380,819	\$345,376	\$291,436	\$257,118	\$313,339	\$259,606	\$165,392
Ratio of expenses to average net assets	0.95%	0.89%	0.88%	0.80%	0.82%	0.89%	0.89%	0.83%	0.87%	0.88%
Ratio of net investment income to average net assets	8.60%	8.93%	8.41%	8.64%	9.79%	12.94%	11.74%	11.90%	11.45%	11.11%
Portfolio turnover rate	55.64%	26.82%	47.05%	69.24%	80.28%	53.88%	55.94%	122.30%	147.01%	178.30%

\*On January 12, 1996, the Fund began offering Class Y shares to the public. Fund shares outstanding prior to that date were designated Class A shares.

\*\*Total return calculated without taking into account the sales load deducted on an initial purchase.

</TABLE>

Performance

Mutual fund performance is commonly measured as total return. The Fund may also advertise its performance by showing yield and performance rankings.

Performance information is calculated and presented separately for each class of Fund shares.

#### Explanation of Terms

Total Return is the overall change in value of an investment in the Fund over a given period, assuming reinvestment of any dividends and other distributions. A cumulative total return reflects actual performance over a stated period of time. An average annual total return is a hypothetical rate of return that, if achieved annually, would have produced the same cumulative total return if performance had been constant over the entire period. Average annual total returns smooth out variations in performance; they are not the same as actual year-by-year results. Non-standardized total return may not reflect deduction of the applicable sales charge or may be for periods other than those required to be presented or may otherwise differ from standardized total return. Total return quotations that do not reflect the applicable sales charge will reflect a higher rate of return.

Yield refers to the income generated by an investment in the Fund over a given period of time, expressed as an annual percentage rate. The Fund's yield is based on a 30-day period ending on a specific date and is computed by dividing the Fund's net investment income per share earned during the period by the Fund's maximum offering price per share on the last day of the period.

Performance Rankings are comparisons of the Fund's performance to the performance of other selected mutual funds, selected recognized market indicators such as the Standard & Poor's 500 Stock Index and the Dow Jones Industrial Average, or non-market indices or averages of mutual fund industry groups. The Fund may quote its performance rankings and/or other information as published by recognized independent mutual fund statistical services or by publications of general interest. In connection with a ranking, the Fund may provide additional information, such as the particular category to which it relates, the number of funds in the category, the criteria upon which the ranking is based, and the effect of sales charges, fee waivers and/or expense reimbursements.

All performance information that the Fund advertises or includes in information provided to present or prospective shareholders is historical in nature and is not intended to represent or guarantee future results. The value of the Fund's shares when redeemed may be more or less than their original cost.

The Fund's recent performance and holdings will be detailed twice a year in the Fund's annual and semiannual reports, which are sent to all Fund shareholders.

#### About Waddell & Reed

Since 1937, Waddell & Reed has been helping people make the most of their financial future by helping them take advantage of various financial services. Today, Waddell & Reed has over 2500 account representatives located throughout the United States. Your primary contact in your dealings with Waddell & Reed will be your local account representative. However, the Waddell & Reed shareholder services department, which is part of the Waddell & Reed headquarters operations in Overland Park, Kansas, is available to assist you and your Waddell & Reed account representative. You may speak with a customer service representative by calling 913-236-2000.

#### About the Investment Principles of the Fund

##### Investment Goals and Principles

The primary goal of the Fund is to earn a high level of current income. As a secondary goal, the Fund seeks capital growth when consistent with its primary goal. The Fund seeks to achieve these goals by investing primarily in a diversified portfolio of high-yield, high-risk, fixed income securities, the risks of which are, in the judgment of WRIMCO, consistent with the Fund's goals. There is no assurance that the Fund will achieve its goals.

There are three main types of securities that the Fund owns: debt securities, preferred stock and common stock. The Fund may also own convertible securities. In general, the high income that the Fund seeks is paid by debt securities in the lower rating categories of the established rating services or unrated securities that are, in the opinion of WRIMCO, of similar quality to rated securities in these categories; these are securities rated BBB or lower by Standard & Poor's Ratings Services ("S&P") or Baa or lower by Moody's Investors Service, Inc. ("MIS") and unrated securities. S&P and MIS ratings are described in Appendix A.

WRIMCO may look at a number of factors in selecting securities for the

Fund's portfolio. These include an issuer's past, current and estimated future (i) financial strength, (ii) cash flow, (iii) management, (iv) borrowing requirements, and (v) responsiveness to changes in interest rates and business conditions. When WRIMCO believes that a full or partial temporary defensive position is desirable, due to present or anticipated market or economic conditions, WRIMCO may take any one or more of the following steps with respect to up to all of the assets in the Fund's portfolio: (i) shortening the average maturity of the Fund's debt portfolio; (ii) holding cash or cash equivalents (short-term investments, such as commercial paper and certificates of deposit) in varying amounts designed for defensive purposes; and (iii) emphasizing high-grade debt securities. Going defensive in any one or more of these manners might reduce the yield on the Fund's portfolio. As an alternative to taking a temporary defensive position or in order to more quickly participate in anticipated market changes or market conditions, the Fund may invest in options and futures.

#### Risk Considerations

There are risks inherent in any investment. The Fund is subject to varying degrees of market risk, financial risk and, in some cases, prepayment risk. Market risk is the potential for fluctuations in the price of the security because of market factors. Because of market risks, you should anticipate that the share price of the Fund will fluctuate. Financial risk is based on the financial situation of the issuer. The financial risk of the Fund depends on the credit quality of the underlying securities. Prepayment risk is the possibility that, during periods of falling interest rates, a debt security with a high stated interest rate will be prepaid prior to its expected maturity date.

Certain types of instruments in which the Fund may invest, and certain strategies WRIMCO may employ in pursuit of the Fund's goals, involve special risks. Lower-quality debt securities (commonly called "junk bonds") are considered to be speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness. The market prices of these securities may fluctuate more than higher-quality securities and may decline significantly in periods of general economic difficulty. Foreign securities and foreign currencies may involve risks relating to currency fluctuations, political or economic conditions in the foreign country, and the potentially less stringent investor protection and disclosure standards of foreign markets. These factors could make foreign investments, especially those in developing countries, more volatile.

The Fund can use various techniques to increase or decrease its exposure to changing security prices, interest rates, or other factors that affect security values. These techniques may involve derivative instruments, including options, futures contracts, options on futures contracts, indexed securities, stripped securities and mortgage-backed securities. If WRIMCO judges market conditions incorrectly or employs a strategy that does not correlate well with the Fund's investments, these techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These techniques may increase the volatility of the Fund and may involve a small investment of cash relative to the magnitude of the risk assumed. In addition, these techniques could result in a loss if the counterparty to the transaction does not perform as promised or if there is not a liquid secondary market to close out a position that the Fund has entered into. See "Risks of Derivative Instruments" for further information on the risks of investing in these instruments.

#### Securities and Investment Practices

The following pages contain more detailed information about types of instruments in which the Fund may invest and strategies WRIMCO may employ in pursuit of the Fund's investment goals. A summary of risks associated with these instrument types and investment practices is included as well.

WRIMCO might not buy all of these instruments or use all of these techniques to the full extent permitted by the Fund's investment policies and restrictions unless it believes that doing so will help the Fund achieve its goals.

Certain of the investment policies and restrictions of the Fund are also stated below. A fundamental policy of the Fund may not be changed without the approval of the shareholders of the Fund. Operating policies may be changed by the Board of Directors without the approval of the affected shareholders. The goals of the Fund are fundamental policies. Unless otherwise indicated, the types of securities and other assets in which the Fund may invest and other policies are operating policies.

Policies and limitations are typically considered at the time of purchase; the sale of instruments is usually not required in the event of a subsequent change in circumstances.

Please see the SAI for further information concerning the following



instruments and associated risks and the Fund's investment policies and restrictions.

**Equity Securities.** Equity securities represent an ownership interest in an issuer. This ownership interest often gives the Fund the right to vote on measures affecting the issuer's organization and operations. Although common stocks and other equity securities have a history of long-term growth in value, their prices tend to fluctuate in the short term, particularly those of smaller companies. The equity securities in which the Fund invests may include preferred stock that converts to common stock either automatically or after a specified period of time or at the option of the issuer.

**Policies and Restrictions:** As a fundamental policy, the Fund may not purchase, or otherwise voluntarily acquire, any common stocks if, as a result, more than 20% of its total assets would consist of common stocks. The Fund does not intend to invest more than 4% of its total assets in non-dividend-paying common stocks.

**Debt Securities.** Bonds and other debt instruments are used by issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest, and must repay the amount borrowed at maturity. Some debt securities, such as zero coupon bonds, do not pay current interest, but are purchased at a discount from their face values. The debt securities in which the Fund invests may include debt securities whose performance is linked to a specified equity security or securities index.

Debt securities have varying levels of sensitivity to changes in interest rates and varying degrees of quality. As a general matter, however, when interest rates rise, the values of fixed-rate debt securities fall and, conversely, when interest rates fall, the values of fixed-rate debt securities rise. The values of floating and adjustable-rate debt securities are not as sensitive to changes in interest rates as the values of fixed-rate debt securities. Longer-term bonds are generally more sensitive to interest rate changes than shorter-term bonds.

U.S. Government Securities are high-quality instruments issued or guaranteed as to principal or interest by the U.S. Treasury or by an agency or instrumentality of the U.S. Government. Not all U.S. Government Securities are backed by the full faith and credit of the United States. Some are backed by the right of the issuer to borrow from the U.S. Treasury; others are backed by discretionary authority of the U.S. Government to purchase the agencies' obligations; while others are supported only by the credit of the instrumentality. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment.

Zero coupon bonds do not make interest payments; instead, they are sold at a deep discount from their face value and are redeemed at face value when they mature. Because zero coupon bonds do not pay current income, their prices can be very volatile when interest rates change. In calculating its income each year, the Fund takes into account as income a portion of the difference between a zero coupon bond's purchase price and its face value.

Lower-quality debt securities (commonly called "junk bonds") are considered to be speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness. The market prices of these securities may fluctuate more than high-quality securities and may decline significantly in periods of general economic difficulty. While the market for high-yield, high-risk corporate debt securities has been in existence for many years and has weathered previous economic downturns, the 1980s brought a dramatic increase in the use of such securities to fund highly-leveraged corporate acquisitions and restructurings. Past experience may not provide an accurate indication of the future performance of the high-yield, high-risk bond market, especially during periods of economic recession. The market for lower-rated debt securities may be thinner and less active than that for higher-rated debt securities, which can adversely affect the prices at which the former are sold. Adverse publicity and changing investor perceptions may decrease the values and liquidity of lower-rated debt securities, especially in a thinly-traded market. Valuation becomes more difficult and judgment plays a greater role in valuing lower-rated debt securities than with respect to securities for which more external sources of quotations and last sale information are available. Since the risk of default is higher for lower-rated debt securities, WRIMCO's research and credit analysis are an especially important part of managing securities of this type held by the Fund. WRIMCO continuously monitors the issuers of lower-rated debt securities in the Fund's portfolio in an attempt to determine if the issuers will have sufficient cash flow and profits to meet required principal and interest payments. The Fund may choose, at its expense or in conjunction with others, to pursue litigation or otherwise to exercise its rights as a security holder to seek to protect the interests of security holders if it determines this to be in the best interest of the Fund's shareholders.

Subject to its investment restrictions, the Fund may invest in debt securities rated in any rating category of the established rating services, including securities rated in the lowest rating category (such as those rated D by S&P and C by MIS). In addition, the Fund will treat unrated securities judged by WRIMCO to be of equivalent quality to a rated security to be equivalent to securities having that rating. Debt securities rated D by S&P or C by MIS are in payment default or are regarded as having extremely poor prospects of ever attaining any real investment standing. Debt securities rated at least BBB by S&P or Baa by MIS are considered to be investment grade securities. Securities rated BBB or Baa may have speculative characteristics.

While credit ratings are only one factor WRIMCO relies on in evaluating high-yield debt securities, certain risks are associated with credit ratings. Credit ratings evaluate the safety of principal and interest payments, not market value risk. Credit ratings for individual securities may change from time to time, and the Fund may retain a portfolio security whose rating has been changed.

Policies and Restrictions: At least 80% of the Fund's total assets normally will be invested to seek a high level of current income.

Preferred Stock is also rated by S&P and MIS, as described in Appendix A. The Fund may invest in preferred stock rated in any rating category by an established rating service and unrated preferred stock judged by WRIMCO to be of equivalent quality.

Convertible Securities. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities generally have higher yields than common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities, are less subject to fluctuation in value than the underlying stock because they have fixed income characteristics, and provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

Foreign Securities and foreign currencies can involve significant risks in addition to the risks inherent in U.S. investments. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Foreign securities markets generally have less trading volume and less liquidity than U.S. markets and prices on some foreign markets can be highly volatile. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. In addition, the costs of foreign investing, including withholding taxes, brokerage commissions and custodial costs, are generally higher than for U.S. investments.

Foreign markets may offer less protection to investors than U.S. markets. Foreign issuers, brokers, and securities markets may be subject to less government supervision. Foreign security trading practices, including those involving the release of assets in advance of payment, may involve increased risks in the event of a failed trade or the insolvency of a broker-dealer, and may involve substantial delays. It may also be difficult to enforce legal rights in foreign countries.

Investing abroad also involves different political and economic risks. Foreign investments may be affected by actions of foreign governments adverse to the interests of U.S. investors, including the possibility of expropriation or nationalization of assets, confiscatory taxation, restrictions on U.S. investment or on the ability to repatriate assets or convert currency into U.S. dollars, or other government intervention. There may be a greater possibility of default by foreign governments or foreign government-sponsored enterprises. Investments in foreign countries also involve a risk of local political, economic, or social instability, military action or unrest, or adverse diplomatic developments. There is no assurance that WRIMCO will be able to anticipate these potential events or counter their effects.

The considerations noted above generally are intensified for investments in

developing countries. A developing country is a nation that, in WRIMCO's opinion, is likely to experience long-term gross domestic product growth above that expected to occur in the United States, the United Kingdom, France, Germany, Italy, Japan and Canada. Developing countries may have relatively unstable governments, economies based on only a few industries, and securities markets that trade a small number of securities.

Certain foreign securities impose restrictions on transfer within the United States or to U.S. persons. Although securities subject to transfer restrictions may be marketable abroad, they may be less liquid than foreign securities of the same class that are not subject to such restrictions.

**Policies and Restrictions:** The Fund may purchase an unlimited amount of foreign securities. The Fund may not hold foreign currency except in connection with the purchase or sale of such foreign securities. The Fund will not invest more than 25% of its total assets in securities issued by the government of any one foreign country.

**Options, Futures and Other Strategies.** The Fund may use certain options and indexed securities to attempt to enhance income or yield or may attempt to reduce the overall risk of its investments by using certain options, futures contracts, and certain other strategies described herein. The strategies described below may be used in an attempt to manage certain risks of the Fund's investments that can affect fluctuation in its net asset value.

The Fund's ability to use these strategies may be limited by market conditions, regulatory limits and tax considerations. The Fund might not use any of these strategies, and there can be no assurance that any strategy that is used will succeed. The risks associated with such strategies are described below. Also see the SAI for more information on these instruments and strategies and their risk considerations.

**Options.** The Fund may engage in certain strategies involving options to attempt to enhance the Fund's income or yield or to attempt to reduce the overall risk of its investments. A call option gives the purchaser the right to buy, and obligates the writer to sell, the underlying investment at the agreed upon exercise price during the option period. A put option gives the purchaser the right to sell, and obligates the writer to buy, the underlying investment at the agreed upon exercise price during the option period. Purchasers of options pay an amount, known as a premium, to the option writer in exchange for the right under the option contract.

Options offer large amounts of leverage, which will result in the Fund's net asset value being more sensitive to changes in the value of the related investment. There is no assurance that a liquid secondary market will exist for exchange-listed options. The market for options that are not listed on an exchange may be less active than the market for exchange-listed options. The Fund will be able to close a position in an option it has written only if there is a market for the put or call. If the Fund is not able to enter into a closing transaction on an option it has written, it will be required to maintain the securities, or cash in the case of an option on an index, subject to the call or the collateral underlying the put until a closing purchase transaction can be entered into or the option expires. Because index options are settled in cash, the Fund cannot provide in advance for its potential settlement obligations on a call it has written on an index by holding the underlying securities. The Fund bears the risk that the value of the securities it holds will vary from the value of the index.

**Policies and Restrictions:** As a fundamental policy, the Fund may purchase and write (sell) put and call options only on debt securities, common stocks, broadly-based stock indices (i.e., include stocks that are not limited to issuers in any particular industry or similar industries), and the options on futures contracts described below, subject to certain restrictions that are set forth in the SAI.

As a fundamental policy, the Fund may write calls on securities only if the calls are covered calls (i.e., the Fund must own the related investments or other investments suitable for escrow arrangements).

**Futures Contracts and Options on Futures Contracts.** When the Fund purchases a futures contract, it incurs an obligation to take delivery of a specified amount of the obligation underlying the contract at a specified time in the future for a specified price. When the Fund sells a futures contract, it incurs an obligation to deliver the specified amount of the underlying obligation at a specified time in return for an agreed upon price.

When the Fund writes an option on a futures contract, it becomes obligated, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time during the term of the option. If the Fund has written a call, it assumes a short futures position. If it has written a put, it assumes a long futures position. When the Fund purchases an option on a

futures contract, it acquires a right in return for the premium it pays to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put).

**Policies and Restrictions:** As a fundamental policy, the Fund may only buy and sell futures contracts relating to debt securities and futures contracts on broadly-based stock indices and options thereon.

The Fund intends to use futures contracts and options thereon only to attempt to hedge against market risks that could adversely affect the value of its portfolio.

**Indexed Securities.** The Fund may purchase indexed securities, which are securities the value of which varies in relation to the value of other securities, securities indices, currencies, precious metals or other commodities, or other financial indicators. Indexed securities typically, but not always, are debt securities or deposits whose value at maturity or coupon rate is determined by reference to a specific instrument or statistic. The performance of indexed securities depends to a great extent on the performance of the security, currency, or other instrument to which they are indexed, and may also be influenced by interest rate changes in the United States and abroad. At the same time, indexed securities are subject to the credit risks associated with the issuer of the security, and their values may decline substantially if the issuer's creditworthiness deteriorates. Indexed securities may be more volatile than the underlying instruments.

**Policies and Restrictions:** The Fund does not intend to invest more than 25% of its total assets in indexed securities.

**Mortgage-Backed Securities** may include pools of mortgages, such as collateralized mortgage obligations, and stripped mortgage-backed securities. The value of these securities may be significantly affected by changes in interest rates, the market's perception of the issuers, and the creditworthiness of the parties involved.

The yield characteristics of mortgage-backed securities differ from those of traditional debt securities. Among the major differences are that interest and principal payments are made more frequently on mortgage-backed securities and that principal may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. As a result, if the Fund purchases these securities at a premium, a prepayment rate that is faster than expected will reduce yield to maturity while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Conversely, if the Fund purchases these securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce, yield to maturity. Accelerated prepayments on securities purchased by the Fund at a premium also impose a risk of loss of principal because the premium may not have been fully amortized at the time the principal is repaid in full.

Timely payment of principal and interest on pass-through securities of the Government National Mortgage Association (but not the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association) is guaranteed by the full faith and credit of the United States. This is not a guarantee against market decline of the value of these securities or shares of the Fund. It is possible that the availability and marketability (i.e., liquidity) of these securities could be adversely affected by actions of the U.S. Government to tighten the availability of its credit.

**Policies and Restrictions:** The Fund intends to invest less than 5% of its total assets in mortgage-backed securities.

**Stripped Securities** are the separate income or principal components of a debt instrument. These involve risks that are similar to those of other debt securities, although they may be more volatile. The prices of stripped mortgage-backed securities may be particularly affected by changes in interest rates.

**Policies and Restrictions:** The Fund intends to invest less than 5% of its total assets in stripped securities.

**Risks of Derivative Instruments.** The use of options, futures contracts and options on futures contracts, and the investment in indexed securities, stripped securities and mortgage-backed securities involve special risks, including (i) possible imperfect or no correlation between price movements of the portfolio investments (held or intended to be purchased) involved in the transaction and price movements of the instruments involved in the transaction, (ii) possible lack of a liquid secondary market for any particular instrument at a particular time, (iii) the need for additional portfolio management skills and techniques, (iv) losses due to unanticipated market price movements, (v) the fact that, while such strategies can reduce the risk of loss, they can also reduce the

opportunity for gain, or even result in losses, by offsetting favorable price movements in investments involved in the transaction, (vi) incorrect forecasts by WRIMCO concerning interest rates or direction of price fluctuations of the investment involved in the transaction, which may result in the strategy being ineffective, (vii) loss of premiums paid by the Fund on options it purchases, and (viii) the possible inability of the Fund to purchase or sell a portfolio security at a time when it would otherwise be favorable for it to do so, or the possible need for the Fund to sell a portfolio security at a disadvantageous time, due to the need for the Fund to maintain "cover" or to segregate securities in connection with such transactions and the possible inability of the Fund to close out or liquidate its position.

For a hedging strategy to be completely effective, the price change of the hedging instrument must equal the price change of the investment being hedged. The risk of imperfect correlation of these price changes increases as the composition of the Fund's portfolio diverges from instruments underlying a hedging instrument. Such equal price changes are not always possible because the investment underlying the hedging instruments may not be the same investment that is being hedged. WRIMCO will attempt to create a closely correlated hedge but hedging activity may not be completely successful in eliminating market value fluctuation.

WRIMCO may use derivative instruments, including securities with embedded derivatives, for hedging purposes to adjust the risk characteristics of the Fund's portfolio of investments and may use some of these instruments to adjust the return characteristics of the Fund's portfolio of investments. An embedded derivative is a derivative that is part of another financial instrument. Embedded derivatives typically, but not always, are debt securities whose return of principal or interest, in part, is determined by reference to something that is not intrinsic to the security itself. The use of derivative techniques for speculative purposes can increase investment risk. If WRIMCO judges market conditions incorrectly or employs a strategy that does not correlate well with the Fund's investments, these techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These techniques may increase the volatility of the Fund and may involve a small investment of cash relative to the magnitude of the risk assumed. In addition, these techniques could result in a loss if the counterparty to the transaction does not perform as promised or if there is not a liquid secondary market to close out a position that the Fund has entered into.

The ordinary spreads between prices in the cash and futures markets, due to the differences in the natures of those markets, are subject to distortion. Due to the possibility of distortion, a correct forecast of general interest rate or stock market trends by WRIMCO may still not result in a successful transaction. WRIMCO may be incorrect in its expectations as to the extent of various interest rate movements or stock market movements or the time span within which the movements take place.

Options and futures transactions may increase portfolio turnover rates, which results in correspondingly greater commission expenses and transaction costs and may result in certain tax consequences. See the SAI for further information regarding these and other risks.

New financial products and risk management techniques continue to be developed. The Fund may use these instruments and techniques to the extent consistent with its goals, investment policies and regulatory requirements applicable to investment companies.

When-Issued and Delayed-Delivery Transactions are trading practices in which payment and delivery for the securities take place at a future date. The market value of a security could change during this period, which could affect the Fund's yield.

When purchasing securities on a delayed-delivery basis, the Fund assumes the rights and risks of ownership, including the risk of price and yield fluctuations. When the Fund has sold a security on a delayed-delivery basis, the Fund does not participate in further gains or losses with respect to the security. If the other party to a delayed-delivery transaction fails to deliver or pay for the securities, the Fund could miss a favorable price or yield opportunity, or could suffer a loss.

Repurchase Agreements. In a repurchase agreement, the Fund buys a security at one price and simultaneously agrees to sell it back at a higher price. Delays or losses could result if the other party to the agreement defaults or becomes insolvent.

Restricted Securities and Illiquid Investments. Restricted securities are securities that are subject to legal or contractual restrictions on resale. Restricted securities may be illiquid due to restrictions on their resale. Certain restricted securities may be determined to be liquid in accordance with guidelines adopted by the Fund's Board of Directors.

Illiquid investments may be difficult to sell promptly at an acceptable price. Difficulty in selling securities may result in a loss or may be costly to the Fund.

**Policies and Restrictions:** As a fundamental policy, the Fund may not purchase a security if, as a result, more than 10% of its net assets would consist of restricted securities.

The Fund may not purchase a security if, as a result, more than 10% of its net assets would consist of illiquid investments.

**Diversification.** Diversifying the Fund's investment portfolio can reduce the risks of investing. This may include limiting the amount of money invested in any one issuer or, on a broader scale, in any one industry.

**Policies and Restrictions:** As a fundamental policy, the Fund may not buy a security if, as a result, it would own more than 10% of the voting securities or any class of securities of an issuer, or if more than 5% of the Fund's total assets would be invested in securities of that issuer.

As a fundamental policy, the Fund may not buy a security if, as a result, more than 25% of the Fund's total assets would then be invested in securities of companies in any one industry.

**Borrowing.** If the Fund borrows money, its share price may be subject to greater fluctuation until the borrowing is paid off.

If the Fund makes additional investments while borrowings are outstanding, this may be considered a form of leverage.

**Policies and Restrictions:** As a fundamental policy, the Fund may borrow money only from banks, as a temporary measure or for extraordinary or emergency purposes but only up to 5% of its total assets. The Fund does not intend to borrow for temporary measures; however, it may borrow to cover redemptions or settlements of securities transactions. See the SAI for further information on the Fund's ability to borrow.

**Lending.** Securities loans may be made on a short-term or long-term basis for the purpose of increasing the Fund's income. This practice could result in a loss or a delay in recovering the Fund's securities. Loans will be made only to parties deemed by WRIMCO to be creditworthy.

**Policies and Restrictions:** As a fundamental policy, the Fund may not lend more than 10% of its assets at any one time, and such loans must be on a collateralized basis in accordance with applicable regulatory requirements.

Other Instruments may include warrants and securities of closed-end investment companies. As a shareholder in an investment company, the Fund would bear its pro rata share of that investment company's expenses, which could result in duplication of certain fees, including management and administrative fees.

**Policies and Restrictions:** As a fundamental policy, the Fund may invest up to 5% of its net assets in warrants. Warrants acquired in units or attached to other securities are not considered for purposes of computing this limitation.

As a fundamental policy, the Fund may buy shares of other investment companies that do not redeem their shares only if it does so in a regular transaction in the open market and only if not more than 10% of the Fund's total assets would be invested in these shares. The Fund does not intend to invest more than 5% of its assets in such securities.

The Fund will not purchase securities of unseasoned issuers (including predecessor companies), which have been in operation for less than three years, if the value of its investment in such securities would exceed 5% of its total assets.

#### About Your Account

The different ways to set up (register) your account are listed below.

#### Ways to Set Up Your Account

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Individual or Joint Tenants  
For your general investment needs

Individual accounts are owned by one person. Joint accounts have two or more owners (tenants).

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Business or Organization

For investment needs of corporations, associations, partnerships, institutions or other groups

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Retirement

To shelter your retirement savings from taxes

Retirement plans allow individuals to shelter investment income and capital gains from current taxes. In addition, contributions to these accounts may be tax deductible.

Individual Retirement Accounts (IRAs) allow anyone of legal age and under 70 1/2 with earned income to invest up to \$2,000 per tax year. For 1997, the maximum for an investor and his or her spouse is \$4,000 (\$2,000 per spouse or, if less, the couple's combined earned income for the taxable year.

Rollover IRAs retain special tax advantages for certain distributions from employer-sponsored retirement plans.

Simplified Employee Pension Plans (SEP - IRAs) provide small business owners or those with self-employed income (and their eligible employees) with many of the same advantages as a Keogh, but with fewer administrative requirements.

Keogh Plans allow self-employed individuals to make tax-deductible contributions for themselves up to 25% of their annual earned income, with a maximum of \$30,000 per year.

401(k) Programs allow employees of corporations of all sizes to contribute a percentage of their wages on a tax-deferred basis. These accounts need to be established by the administrator or trustee of the plan.

403(b) Custodial Accounts are available to employees of public school systems or certain types of charitable organizations.

457 Accounts allow employees of state and local governments and certain charitable organizations to contribute a portion of their compensation on a tax-deferred basis.

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Gifts or Transfers to a Minor

To invest for a child's education or other future needs

These custodial accounts provide a way to give money to a child and obtain tax benefits. An individual can give up to \$10,000 a year per child without paying Federal transfer tax. Depending on state laws, you can set up a custodial account under the Uniform Gifts to Minors Act ("UGMA") or the Uniform Transfers to Minors Act ("UTMA").

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Trust

For money being invested by a trust

The trust must be established before an account can be opened, or you may use a trust form made available by Waddell & Reed. Contact your Waddell & Reed account representative for the form.

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Buying Shares

You may buy shares of the Fund through Waddell & Reed, Inc. and its account representatives. To open your account you must complete and sign an application. Your Waddell & Reed account representative can help you with any questions you might have.

The price to buy a share of the Fund, called the offering price, is calculated every business day.

The offering price of a Class A share (price to buy one Class A share) is the Fund's Class A net asset value ("NAV") plus the sales charge shown in the table below.

	Sales Charge	Sales Charge
	as	as
	Approx.	Approx.
	Percent	Percent
	of	of
Size of Offering	Purchase Price	Amount Invested
-----		
Under		
\$100,000	5.75%	6.10%
\$100,000 to less than		
\$200,000	4.75	4.99
\$200,000 to less than		
\$300,000	3.50	3.63
\$300,000 to less than		
\$500,000	2.50	2.56
\$500,000 to less than		
\$1,000,000	1.50	1.52
\$1,000,000 to less than		
\$2,000,000	1.00	1.01
\$2,000,000 and over	0.00	0.00

The Fund's Class A NAV is the value of a single share. The Class A NAV is computed by adding, with respect to that class, the value of the Fund's investments, cash and other assets, subtracting its liabilities, and then dividing the result by the number of Class A shares outstanding.

The securities in the Fund's portfolio that are listed or traded on an exchange are valued primarily using market quotations or, if market quotations are not available, at their fair value in a manner determined in good faith by or at the direction of the Board of Directors. Bonds are generally valued according to prices quoted by a third-party pricing service. Short-term debt securities are valued at amortized cost, which approximates market value. Other assets are valued at their fair value by or at the direction of the Board of Directors.

The Fund is open for business each day the NYSE is open. The Fund normally calculates the NAVs of its shares as of the later of the close of business of the NYSE, normally 4 p.m. Eastern time, or the close of the regular session of any other securities or commodities exchange on which an option held by the Fund is traded.

The Fund may invest in securities listed on foreign exchanges which may trade on Saturdays or on customary U.S. national business holidays when the NYSE is closed. Consequently, the NAV of Fund shares may be significantly affected on days when the Fund does not price its shares and when you have no access to the Fund.

When you place an order to buy shares, your order will be processed at the next offering price calculated after your order is received and accepted. Note the following:

Orders are accepted only at the home office of Waddell & Reed, Inc.  
All of your purchases must be made in U.S. dollars.  
If you buy shares by check, and then sell those shares by any method other than by exchange to another fund in the United Group, the payment may be delayed for up to ten days to ensure that your previous investment has cleared.

When you sign your account application, you will be asked to certify that your Social Security or other taxpayer identification number is correct and whether you are subject to backup withholding for failing to report income to



the IRS.

Waddell & Reed, Inc. reserves the right to reject any purchase orders, including purchases by exchange, and it and the Fund reserve the right to discontinue offering Fund shares for purchase.

Lower sales charges are available by combining additional purchases of Class A shares of any of the funds in the United Group, to the extent otherwise permitted, except United Municipal Bond Fund, Inc., United Cash Management, Inc., United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc., with the NAV of Class A shares already held ("rights of accumulation") and by grouping all purchases of Class A shares made during a thirteen-month period ("Statement of Intention"). Class A shares of another fund purchased through a contractual plan may not be included unless the plan has been completed. Purchases by certain related persons may be grouped. Additional information and applicable forms are available from Waddell & Reed account representatives.

Class A shares may be purchased at NAV by the Directors and officers of the Fund, employees of Waddell & Reed, Inc., employees of their affiliates, account representatives of Waddell & Reed, Inc. and the spouse, children, parents, children's spouses and spouse's parents of each such Director, officer, employee and account representative. Purchases of Class A shares in certain retirement plans and certain trusts for these persons may also be made at NAV. Purchases of Class A shares in a 401(k) plan having 100 or more eligible employees and purchases of Class A shares in a 457 plan having 100 or more eligible employees may be made at NAV. Shares may also be issued at NAV in a merger, acquisition or exchange offer made pursuant to a plan of reorganization to which the Fund is a party.

#### Minimum Investments

To Open an Account \$500

For certain exchanges \$100

For certain retirement accounts and accounts opened with Automatic Investment Service \$50

For certain retirement accounts and accounts opened through payroll deductions for or by employees of WRIMCO, Waddell & Reed, Inc. and their affiliates \$25

#### To Add to an Account

For certain exchanges \$100

For Automatic Investment Service \$25

#### Adding to Your Account

Subject to the minimums described under "Minimum Investments," you can make additional investments of any amount at any time.

To add to your account, make your check payable to Waddell & Reed, Inc. Mail the check along with:

the detachable form that accompanies the confirmation of a prior purchase by you or your year-to-date statement; or

a letter stating your account number, the account registration and that you wish to purchase Class A shares of the Fund.

Mail to Waddell & Reed, Inc. at the address printed on your confirmation or year-to-date statement.

#### Selling Shares

You can arrange to take money out of your Fund account at any time by selling (redeeming) some or all of your shares.

The redemption price (price to sell one Class A share) is the Fund's Class A NAV.

To sell shares, your request must be made in writing.

Complete an Account Service Request form, available from your Waddell & Reed account representative, or write a letter of instruction with:

the name on the account registration;  
the Fund's name;  
the Fund account number;

the dollar amount or number of shares to be redeemed; and any other applicable requirements listed in the table below.

Deliver the form or your letter to your Waddell & Reed account representative, or mail it to:

Waddell & Reed, Inc.  
P. O. Box 29217  
Shawnee Mission, Kansas  
66201-9217

Unless otherwise instructed, Waddell & Reed will send a check to the address on the account.

#### Special Requirements for Selling Shares

Account Type	Special Requirements
Individual or Joint Tenant	The written instructions must be signed by all persons required to sign for transactions, exactly as their names appear on the account.
Sole Proprietorship	The written instructions must be signed by the individual owner of the business.
UGMA, UTMA	The custodian must sign the written instructions indicating capacity as custodian.
Retirement Account	The written instructions must be signed by a properly authorized person.
Trust	The trustee must sign the written instructions indicating capacity as trustee. If the trustee's name is not in the account registration, provide a currently certified copy of the trust document.
Business or Organization	At least one person authorized by corporate resolution to act on the account must sign the written instructions.
Conservator, Guardian or Other Fiduciary	The written instructions must be signed by the person properly authorized by court order to act in the particular fiduciary capacity.

When you place an order to sell shares, your shares will be sold at the next NAV calculated after receipt of a written request for redemption in good order by Waddell & Reed, Inc. at its home office. Note the following:

If more than one person owns the shares, each owner must sign the written request.

If you hold a certificate, it must be properly endorsed and sent to the Fund. If you recently purchased the shares by check, the Fund may delay payment of redemption proceeds. You may arrange for the bank upon which the purchase check was drawn to provide to the Fund telephone or written assurance, satisfactory to the Fund, that the check has cleared and been honored. If no such assurance is given, payment of the redemption proceeds on these shares will be delayed until the earlier of 10 days or the date the Fund is able to verify that your purchase check has cleared and been honored.

Redemptions may be suspended or payment dates postponed on days when the NYSE is closed (other than weekends or holidays), when trading on the NYSE is restricted, or as permitted by the Securities and Exchange Commission. Payment is normally made in cash, although under extraordinary conditions redemptions may be made in portfolio securities.

The Fund reserves the right to require a signature guarantee on certain redemption requests. This requirement is designed to protect you and Waddell & Reed from fraud. The Fund may require a signature guarantee in certain situations such as:

the request for redemption is made by a corporation, partnership or fiduciary;  
the request for redemption is made by someone other than the owner of record;  
or  
the check is being made payable to someone other than the owner of record.

The Fund will accept a signature guarantee from a national bank, a federally chartered savings and loan or a member firm of a national stock exchange or other eligible guarantor in accordance with procedures of the Fund's transfer agent. A notary public cannot provide a signature guarantee.

The Fund reserves the right to redeem at NAV all shares of the Fund owned or held by you having an aggregate NAV of less than \$500. The Fund will give you notice of its intention to redeem your shares and a 60-day opportunity to purchase a sufficient number of additional shares to bring the aggregate NAV of your shares to \$500.

You may reinvest without charge all or part of the amount you redeemed by sending to the Fund the amount you want to reinvest. The reinvested amounts must be received by the Fund within thirty days after the date of your redemption. You may do this only once as to Class A shares of the Fund.

Under the terms of the 401(k) prototype plan which Waddell & Reed, Inc. has available, the plan may have the right to make a loan to a plan participant by redeeming Fund shares held by the plan. Principal and interest payments on the loan made in accordance with the terms of the plan may be reinvested by the plan, without payment of a sales charge, in Class A shares of any of the funds in the United Group in which the plan may invest.

#### Shareholder Services

Waddell & Reed provides a variety of services to help you manage your account.

#### Personal Service

Your local Waddell & Reed account representative is available to provide personal service. Additionally, the Waddell & Reed Customer Services staff is available to respond promptly to your inquiries and requests.

#### Reports

Statements and reports sent to you include the following:

- confirmation statements (after every purchase, other than those purchases made through Automatic Investment Service, and after every exchange, transfer or redemption)
- year-to-date statements (quarterly)
- annual and semiannual reports (every six months)

To reduce expenses, only one copy of annual and semiannual reports will be mailed to your household, even if you have more than one account with the Fund. Call 913-236-2000 if you need copies of annual or semiannual reports or historical account information.

#### Exchanges

You may sell your Class A shares and buy Class A shares of other funds in the United Group. You may exchange only into funds that are legally registered for sale in your state of residence. Note that exchanges out of the Fund may have tax consequences for you. Before exchanging into a fund, read its prospectus.

The Fund reserves the right to terminate or modify these exchange privileges at any time, upon notice in certain instances.

#### Automatic Transactions

Flexible withdrawal service lets you set up monthly, quarterly, semiannual or annual redemptions from your account.

Regular Investment Plans allow you to transfer money into your Fund account automatically. While Regular Investment Plans do not guarantee a profit and will not protect you against loss in a declining market, they can be an excellent way to invest for retirement, a home, educational expenses and other long-term financial goals.

Certain restrictions and fees imposed by the plan custodian may also apply for retirement accounts. Speak with your Waddell & Reed account representative for more information.

#### Regular Investment Plans

#### Automatic Investment Service

To move money from your bank account to an existing Fund account

Minimum	Frequency
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**Funds Plus Service**

To move money from United Cash Management, Inc. to the Fund whether in the same or a different account

Minimum	Frequency
\$100	Monthly

**Distributions and Taxes****Distributions**

The Fund distributes substantially all of its net investment income and net capital gains to shareholders each year. Dividends are declared daily from the Fund's net investment income, which includes accrued interest, earned discount, dividends and other income earned on portfolio assets less expenses. Ordinarily, dividends are distributed monthly on the 27th day of the month or on the last business day prior to the 27th if the 27th falls on a weekend or a holiday. Net capital gains (and any net gains from foreign currency transactions) ordinarily are distributed in December. The Fund may make additional distributions if necessary to avoid Federal income or excise taxes on certain undistributed income and capital gains.

**Distribution Options.** When you open an account, specify on your application how you want to receive your distributions. The Fund offers three options:

1. **Share Payment Option.** Your dividend and capital gains distributions will be automatically paid in additional Class A shares of the Fund. If you do not indicate a choice on your application, you will be assigned this option.
2. **Income-Earned Option.** Your capital gains distributions will be automatically paid in Class A shares, but you will be sent a check for each dividend distribution.
3. **Cash Option.** You will be sent a check for your dividend and capital gains distributions.

For retirement accounts, all distributions are automatically paid in Class A shares.

**Taxes**

The Fund has qualified and intends to continue to qualify for treatment as a regulated investment company under the Internal Revenue Code of 1986, as amended, so that it will be relieved of Federal income tax on that part of its investment company taxable income (consisting generally of net investment income, net short-term capital gains and net gains from certain foreign currency transactions) and net capital gains (the excess of net long-term capital gains over net short-term capital losses) that are distributed to its shareholders.

There are certain tax requirements that the Fund must follow in order to avoid Federal taxation. In its effort to adhere to these requirements, the Fund may have to limit its investment activity in some types of instruments.

As with any investment, you should consider how your investment in the Fund will be taxed. If your account is not a tax-deferred retirement account, you should be aware of the following tax implications:

**Taxes on distributions.** Dividends from the Fund's investment company taxable income are generally taxable to you as ordinary income whether received in cash or paid in additional Fund shares. Distributions of the Fund's net capital gain, when designated as such, are taxable to you as long-term capital gain, whether received in cash or paid in additional Fund shares and regardless of the length of time you have owned your shares. The Fund notifies you after each calendar year-end as to the amounts of dividends and other distributions paid (or deemed paid) to you for that year. Under certain circumstances, the Fund may elect to permit shareholders to take a credit or deduction for foreign income taxes paid by the Fund. The Fund will notify you of any such election.

A portion of the dividends paid by the Fund, whether received in cash or paid in additional Fund shares, may be eligible for the dividends-received deduction allowed to corporations. The eligible portion may not exceed the aggregate dividends received by the Fund from U.S. corporations. However, dividends received by a corporate shareholder and deducted by it pursuant to the dividends-received deduction are subject indirectly to the alternative minimum tax.

Withholding. The Fund is required to withhold 31% of all dividends, capital gains distributions and redemption proceeds payable to individuals and certain other noncorporate shareholders who do not furnish the Fund with a correct taxpayer identification number. Withholding at that rate from dividends and capital gains distributions also is required for such shareholders who otherwise are subject to backup withholding.

Taxes on transactions. Your redemption of Fund shares will result in taxable gain or loss to you, depending on whether the redemption proceeds are more or less than your adjusted basis for the redeemed shares (which normally includes any sales charge paid). An exchange of Fund shares for shares of any other fund in the United Group generally will have similar tax consequences. However, special rules apply when you dispose of Fund shares through a redemption or exchange within ninety days after your purchase thereof and subsequently reacquire Fund shares or acquire shares of another fund in the United Group without paying a sales charge due to the thirty-day reinvestment privilege or exchange privilege. See "About Your Account." In these cases, any gain on the disposition of the original Fund shares would be increased, or loss decreased, by the amount of the sales charge you paid when those shares were acquired, and that amount will increase the adjusted basis of the shares subsequently acquired. In addition, if you purchase Fund shares within thirty days before or after redeeming other Fund shares (regardless of class) at a loss, part or all of that loss will not be deductible and will increase the basis of the newly-purchased shares.

The foregoing is only a summary of some of the important Federal tax considerations generally affecting the Fund and its shareholders; see the SAI for a more detailed discussion. There may be other Federal, state or local tax considerations applicable to a particular investor. You are urged to consult your own tax adviser.

#### About the Management and Expenses of the Fund

United High Income Fund II, Inc. is a mutual fund: an investment that pools shareholders' money and invests it toward a specified goal. In technical terms, the Fund is an open-end, diversified management investment company organized as a corporation under Maryland law on April 22, 1986.

The Fund is governed by a Board of Directors, which has overall responsibility for the management of its affairs. The majority of directors are not affiliated with Waddell & Reed, Inc.

The Fund has two classes of shares. Prior to January 12, 1996, the Fund offered only one class of shares to the public. Shares outstanding on that date were designated as Class A shares, which are offered by this Prospectus. In addition, the Fund has issued and outstanding Class Y shares which are offered by Waddell & Reed, Inc. through a separate prospectus. Class Y shares are designed for institutional investors. Class Y shares are not subject to a sales charge on purchases and are not subject to redemption fees. Class Y shares are not subject to a Rule 12b-1 fee. Additional information about Class Y shares may be obtained by calling 913-236-2000 or by writing to Waddell & Reed, Inc. at the address on the inside back cover of this Prospectus.

The Fund does not hold annual meetings of shareholders; however, certain significant corporate matters, such as the approval of a new investment advisory agreement or a change in a fundamental investment policy, which require shareholder approval will be presented to shareholders at a meeting called by the Board of Directors for such purpose.

Special meetings of shareholders may be called for any purpose upon receipt by the Fund of a request in writing signed by shareholders holding not less than 25% of all shares entitled to vote at such meeting, provided certain conditions stated in the Bylaws of the Fund are met. There will normally be no meeting of the shareholders for the purpose of electing directors until such time as less than a majority of directors holding office have been elected by shareholders, at which time the directors then in office will call a shareholders' meeting for the election of directors. To the extent that Section 16(c) of the Investment Company Act of 1940, as amended (the "1940 Act"), applies to the Fund, the directors are required to call a meeting of shareholders for the purpose of voting upon the question of removal of any director when requested in writing to do so by the shareholders of record of not less than 10% of the Fund's outstanding shares.

Each share (regardless of class) has one vote. All shares of the Fund vote together as a single class, except as to any matter for which a separate vote of any class is required by the 1940 Act, and except as to any matter which affects the interests of one or more particular classes, in which case only the shareholders of the affected classes are entitled to vote, each as a separate class. Shares are fully paid and nonassessable when purchased.

The Fund is managed by WRIMCO, subject to the authority of the Fund's Board of Directors. WRIMCO provides investment advice to the Fund and supervises the Fund's investments. Waddell & Reed, Inc. and its predecessors have served as investment manager to each of the registered investment companies in the United Group of Mutual Funds, except United Asset Strategy Fund, Inc., since 1940 or the inception of the company, whichever was later, and to TMK/United Funds, Inc. since that fund's inception, until January 8, 1992, when it assigned its duties as investment manager and assigned its professional staff for investment management services to WRIMCO. WRIMCO has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and United Asset Strategy Fund, Inc. since it commenced operations in March 1995.

Louise D. Rieke is primarily responsible for the day-to-day management of the portfolio of the Fund. Ms. Rieke has held her Fund responsibilities from the Fund's inception to January 1990 and from May 1992 to the present. She is Vice President of WRIMCO, Vice President of Waddell & Reed Asset Management company, an affiliate of WRIMCO, Vice President of the Fund and Vice President of other investment companies for which WRIMCO serves as investment manager. Ms. Rieke has served as the portfolio manager for investment companies managed by Waddell & Reed, Inc. and its successor, WRIMCO, since July 1986, and has been an employee of Waddell & Reed, Inc. and its successor, WRIMCO, since May 1971. Other members of WRIMCO's investment management department provide input on market outlook, economic conditions, investment research and other considerations relating to the Fund's investments.

Waddell & Reed, Inc. serves as the Fund's underwriter and as underwriter for each of the other funds in the United Group of Mutual Funds and Waddell & Reed Funds, Inc. and acts as the principal underwriter and distributor for variable life insurance and variable annuity policies issued by United Investors Life Insurance Company, for which TMK/United Funds, Inc. is the underlying investment vehicle.

Waddell & Reed Services Company acts as transfer agent ("Shareholder Servicing Agent") for the Fund and processes the payments of dividends. Waddell & Reed Services Company also acts as agent ("Accounting Services Agent") in providing bookkeeping and accounting services and assistance to the Fund and pricing daily the value of its shares.

WRIMCO and Waddell & Reed Services Company are subsidiaries of Waddell & Reed, Inc. Waddell & Reed, Inc. is a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company, and an indirect subsidiary of United Investors Management Company, a holding company, and Torchmark Corporation, a holding company.

WRIMCO places transactions for the portfolio of the Fund and in doing so may consider sales of shares of the Fund and other funds it manages as a factor in the selection of brokers to execute portfolio transactions.

#### Breakdown of Expenses

Like all mutual funds, the Fund pays fees related to its daily operations. Expenses paid out of the Fund's assets are reflected in its share price or dividends; they are neither billed directly to shareholders nor deducted from shareholder accounts.

The Fund pays a management fee to WRIMCO for providing investment advice and supervising its investments. The Fund also pays other expenses, which are explained below.

#### Management Fee

The management fee of the Fund is calculated by adding a group fee to a specific fee. It is accrued and paid to WRIMCO daily.

The specific fee is computed on the Fund's net asset value as of the close of business each day at the annual rate of .15 of 1% of its net assets. The group fee is a pro rata participation based on the relative net asset size of the Fund in the group fee computed each day on the combined net asset values of all the funds in the United Group at the annual rates shown in the following table:

#### Group Fee Rate

	Annual
Group Net	Group
Asset Level	Fee Rate
(all dollars	For Each

in millions) -----	Level -----
From \$0 to \$750	.51 of 1%
From \$750 to \$1,500	.49 of 1%
From \$1,500 to \$2,250	.47 of 1%
From \$2,250 to \$3,000	.45 of 1%
From \$3,000 to \$3,750	.43 of 1%
From \$3,750 to \$7,500	.40 of 1%
From \$7,500 to \$12,000	.38 of 1%
Over \$12,000	.36 of 1%

Growth in assets of the United Group assures a lower group fee rate.

The combined net asset values of all of the funds in the United Group were approximately \$14.7 billion as of September 30, 1996. Management fees for the fiscal year ended September 30, 1996 were 0.56% of the Fund's average net assets.

#### Other Expenses

While the management fee is a significant component of the Fund's annual operating costs, the Fund has other expenses as well.

The Fund pays the Accounting Services Agent a monthly fee based on the average net assets of the Fund for accounting services. With respect to its Class A shares, the Fund pays the Shareholder Servicing Agent a monthly fee for each Class A shareholder account that was in existence at any time during the month, and a fee for each account on which a dividend or distribution had a record date during the month.

The Fund has adopted a Service Plan pursuant to Rule 12b-1 of the 1940 Act with respect to its Class A shares. Under the Plan, the Fund may pay monthly a fee to Waddell & Reed, Inc. in an amount not to exceed .25% of the Fund's average annual net assets of its Class A shares. The fee is to be paid to reimburse Waddell & Reed, Inc. for amounts it expends in connection with the provision of personal services to Class A shareholders and/or maintenance of Class A shareholder accounts. In particular, the Service Plan and a related Service Agreement between the Fund and Waddell & Reed, Inc. contemplate that these expenditures may include costs and expenses incurred by Waddell & Reed, Inc. and its affiliates in compensating, training and supporting registered account representatives, sales managers and/or other appropriate personnel in providing personal services to Class A shareholders and/or maintaining Class A shareholder accounts; increasing services provided to Class A shareholders by office personnel located at field sales offices; engaging in other activities useful in providing personal services to Class A shareholders and/or the maintenance of Class A shareholder accounts; and in compensating broker-dealers who may regularly sell Class A shares, and other third parties, for providing Class A shareholder services and/or maintaining Class A shareholder accounts.

The total expenses for the fiscal year ended September 30, 1996 for the Fund's Class A shares were 0.95% of the average net assets of the Fund's Class A shares.

The Fund cannot precisely predict what its portfolio turnover rate will be, but the Fund may have a high portfolio turnover. A higher turnover will increase transaction and commission costs and could generate taxable income or loss.

#### APPENDIX A

The following are descriptions of some of the ratings of securities which the Fund may use. The Fund may also use ratings provided by other nationally recognized statistical rating organizations in determining the securities eligible for investment.

## DESCRIPTION OF BOND RATINGS

Standard & Poor's Ratings Services. An S&P corporate bond rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment of creditworthiness may take into consideration obligors such as guarantors, insurers or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished to S&P by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

The ratings are based, in varying degrees, on the following considerations:

1. Likelihood of default -- capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
2. Nature of and provisions of the obligation;
3. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA -- Debt rated AAA has the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.

AA -- Debt rated AA also qualifies as high quality debt. Capacity to pay interest and repay principal is very strong, and debt rated AA differs from AAA issues only in small degree.

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

BBB -- Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, CC, C - Debt rated BB, B, CCC, CC and C is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

BB -- Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B -- Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC -- Debt rated CCC has a currently indefinable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

CC -- The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C -- The rating C is typically applied to debt subordinated to senior debt



which is assigned an actual or implied CCC- debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

CI -- The rating CI is reserved for income bonds on which no interest is being paid.

D -- Debt rated D is in payment default. It is used when interest payments or principal payments are not made on a due date even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace periods. The D rating will also be used upon a filing of a bankruptcy petition if debt service payments are jeopardized.

Plus (+) or Minus (-) -- To provide more detailed indications of credit quality, the ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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

Debt Obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Bond Investment Quality Standards: Under present commercial bank regulations issued by the Comptroller of the Currency, bonds rated in the top four categories (AAA, AA, A, BBB, commonly known as "investment grade" ratings) are generally regarded as eligible for bank investment. In addition, the laws of various states governing legal investments may impose certain rating or other standards for obligations eligible for investment by savings banks, trust companies, insurance companies and fiduciaries generally.

Moody's Investors Service, Inc. A brief description of the applicable MIS rating symbols and their meanings follows:

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

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

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

Baa -- Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Some bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

NOTE: Bonds within the above categories which possess the strongest investment attributes are designated by the symbol "1" following the rating.

Ba -- Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B -- Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa -- Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca -- Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C -- Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

#### DESCRIPTION OF PREFERRED STOCK RATINGS

Standard & Poor's Ratings Services. An S&P preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock dividends and any applicable sinking fund obligations. A preferred stock rating differs from a bond rating inasmuch as it is assigned to an equity issue, which issue is intrinsically different from, and subordinated to, a debt issue. Therefore, to reflect this difference, the preferred stock rating symbol will normally not be higher than the debt rating symbol assigned to, or that would be assigned to, the senior debt of the same issuer.

The preferred stock ratings are based on the following considerations:

1. Likelihood of payment - capacity and willingness of the issuer to meet the timely payment of preferred stock dividends and any applicable sinking fund requirements in accordance with the terms of the obligation;
2. Nature of, and provisions of, the issue;
3. Relative position of the issue in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA -- This is the highest rating that may be assigned by S&P to a preferred stock issue and indicates an extremely strong capacity to pay the preferred stock obligations.

AA -- A preferred stock issue rated AA also qualifies as a high-quality fixed income security. The capacity to pay preferred stock obligations is very strong, although not as overwhelming as for issues rated AAA.

A -- An issue rated A is backed by a sound capacity to pay the preferred stock obligations, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB -- An issue rated BBB is regarded as backed by an adequate capacity to pay the preferred stock obligations. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to make payments for a preferred stock in this category than for issues in the 'A' category.

BB, B, CCC -- Preferred stock rated BB, B, and CCC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay preferred stock obligations. BB indicates the lowest degree of speculation and CCC the highest degree of speculation. While such issues will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

CC -- The rating CC is reserved for a preferred stock issue in arrears on dividends or sinking fund payments but that is currently paying.

C -- A preferred stock rated C is a non-paying issue.

D -- A preferred stock rated D is a non-paying issue with the issuer in default on debt instruments.

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

Plus (+) or minus (-) -- To provide more detailed indications of preferred stock quality, the rating from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

A preferred stock rating is not a recommendation to purchase, sell, or hold a security inasmuch as it does not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished to S&P by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Moody's Investors Service, Inc. Because of the fundamental differences between preferred stocks and bonds, a variation of MIS' familiar bond rating symbols is used in the quality ranking of preferred stock. The symbols are designed to avoid comparison with bond quality in absolute terms. It should always be borne in mind that preferred stock occupies a junior position to bonds within a particular capital structure and that these securities are rated within the universe of preferred stocks.

Note: MIS applies numerical modifiers 1, 2 and 3 in each rating classification; the modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Preferred stock rating symbols and their definitions are as follows:

aaa -- An issue which is rated aaa is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

aa -- An issue which is rated aa is considered a high-grade preferred stock. This rating indicates that there is a reasonable assurance the earnings and asset protection will remain relatively well-maintained in the foreseeable future.

a -- An issue which is rated a is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the aaa and aa classification, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.

baa -- An issue which is rated baa is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.

ba -- An issue which is rated ba is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.

b -- An issue which is rated b generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.

caa -- An issue which is rated caa is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.

ca -- An issue which is rated ca is speculative in a high degree and is likely to be in arrears on dividends with little likelihood of eventual payments.

c -- This is the lowest rated class of preferred or preference stock. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

United High Income Fund II, Inc.

Custodian	Underwriter
UMB Bank, n.a.	Waddell & Reed, Inc.
Kansas City, Missouri	6300 Lamar Avenue
	P. O. Box 29217
Legal Counsel	Shawnee Mission, Kansas
Kirkpatrick & Lockhart LLP	66201-9217
1800 Massachusetts Avenue, N. W.	(913) 236-2000
Washington, D. C. 20036	
	Shareholder Servicing Agent
Independent Accountants	Waddell & Reed
Deloitte & Touche LLP	Services Company
Kansas City, Missouri	6300 Lamar Avenue
	P. O. Box 29217
Investment Manager	Shawnee Mission, Kansas
Waddell & Reed Investment	66201-9217
Management Company	(913) 236-2000
6300 Lamar Avenue	
P. O. Box 29217	Accounting Services Agent
Shawnee Mission, Kansas	Waddell & Reed
66201-9217	Services Company
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P. O. Box 29217  
Shawnee Mission, Kansas  
66201-9217  
(913) 236-2000

Our INTERNET address is:  
<http://www.waddell.com>

United High Income Fund II, Inc.  
Class A Shares  
PROSPECTUS  
December 31, 1996

The United Group of Mutual Funds  
United Asset Strategy Fund, Inc.  
United Cash Management, Inc.  
United Continental Income Fund, Inc.  
United Funds, Inc.  
    United Bond Fund  
    United Income Fund  
    United Accumulative Fund  
    United Science and Technology Fund  
United Gold & Government Fund, Inc.  
United Government Securities Fund, Inc.  
United High Income Fund, Inc.  
United High Income Fund II, Inc.  
United International Growth Fund, Inc.  
United Municipal Bond Fund, Inc.  
United Municipal High Income Fund, Inc.  
United New Concepts Fund, Inc.  
United Retirement Shares, Inc.  
United Vanguard Fund, Inc.

NUP1015(12-96)

printed on recycled paper

Please read this Prospectus before investing, and keep it on file for future reference. It sets forth concisely the information about the Fund that you ought to know before investing.

Additional information has been filed with the Securities and Exchange Commission and is contained in a Statement of Additional Information ("SAI") dated December 31, 1996. The SAI is available free upon request to the Fund or Waddell & Reed, Inc., the Fund's underwriter, at the address or telephone number below. The SAI is incorporated by reference into this Prospectus and you will not be aware of all facts unless you read both this Prospectus and the SAI.

THE FUND MAY INVEST UP TO ALL OF ITS ASSETS IN BONDS ISSUED BY DOMESTIC OR FOREIGN ISSUERS RATED BELOW INVESTMENT GRADE, COMMONLY KNOWN AS "JUNK BONDS," WHICH ENTAIL GREATER RISKS, INCLUDING DEFAULT RISKS, THAN THOSE FOUND IN HIGHER RATED SECURITIES. INVESTORS SHOULD CAREFULLY CONSIDER THESE RISKS BEFORE INVESTING. SEE "ABOUT THE INVESTMENT PRINCIPLES OF THE FUND" INCLUDED IN THIS PROSPECTUS FOR A DISCUSSION OF THE RISKS ASSOCIATED WITH NON-INVESTMENT GRADE DEBT SECURITIES. SEE APPENDIX A FOR A DISCUSSION OF BOND RATINGS.

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

United High Income Fund II, Inc.  
Class Y Shares

This Fund seeks as its primary goal a high level of current income. As a secondary goal, the Fund seeks capital growth when consistent with its primary goal. The Fund invests primarily in a diversified portfolio of high-yield, high-risk, fixed income securities, the risks on which are, in the judgment of the Fund's investment manager, consistent with the Fund's goals.

This Prospectus describes one class of shares of the Fund -- Class Y Shares.

Prospectus  
December 31, 1996

UNITED HIGH INCOME FUND II, INC.  
6300 Lamar Avenue  
P. O. Box 29217

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An Overview of the Fund

The Fund: This Prospectus describes the Class Y shares of United High Income Fund II, Inc., an open-end, diversified management investment company.

Goals and Strategies: United High Income Fund II, Inc. (the "Fund") seeks, as a primary goal, a high level of current income. As a secondary goal, the Fund seeks capital growth when consistent with its primary goal. There is no assurance that the Fund will achieve its goals. The Fund invests primarily in a diversified portfolio of high-yield, high-risk, fixed-income securities, the risks of which are, in the judgment of the Fund's investment manager, consistent with the Fund's goals. See "About the Investment Principles of the Fund" for further information.

Management: Waddell & Reed Investment Management Company ("WRIMCO") provides investment advice to the Fund and manages the Fund's investments. WRIMCO is a wholly-owned subsidiary of Waddell & Reed, Inc. WRIMCO, Waddell & Reed, Inc. and its predecessors have provided investment management services to registered investment companies since 1940. See "About the Management and Expenses of the Fund" for further information about management fees.

Distributor: Waddell & Reed, Inc. acts as principal underwriter and distributor of the shares of the Fund.

Purchases: You may buy Class Y shares of the Fund through Waddell & Reed, Inc. and its account representatives. The price to buy a Class Y share of the Fund is the net asset value of a Class Y share. There is no sales charge incurred upon purchase of Class Y shares of the Fund. See "About Your Account" for information on how to purchase Class Y shares.

Redemptions: You may redeem your shares at net asset value. When you sell your shares, they may be worth more or less than what you paid for them. See "About

Your Account" for a description of redemption procedures.

Risk Considerations: Investments in high-yield, high-risk securities ("junk bonds") may entail risks that are different or more pronounced than those involved in higher-rated securities. The value of the Fund's investments and the income generated will vary from day to day, generally reflecting changes in interest rates, market conditions and other company and economic news. Performance will also depend on WRIMCO's skill in selecting investments. See "About the Investment Principles of the Fund" for information about the risks associated with the Fund's investments.

#### Expenses

Shareholder transaction expenses are charges you pay when you buy or sell shares of a fund.

Maximum sales load  
on purchases None

Maximum sales load  
on reinvested  
dividends None

Deferred  
sales load None

Redemption fees None

Exchange fee None

Annual Fund operating  
expenses (as a percentage of average net assets).4

Management fees 0.56%  
12b-1 fees None  
Other expenses 0.23%  
Total Fund  
operating expenses 0.79%

Example: You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return<sup>5</sup> and (2) redemption at the end of each time period:

1 year \$ 8  
3 years \$25

The purpose of this table is to assist you in understanding the various costs and expenses that a shareholder of the Class Y shares of the Fund will bear directly or indirectly. The example should not be considered a representation of past or future expenses; actual expenses may be greater or lesser than those shown. For a more complete discussion of certain expenses and fees, see "Breakdown of Expenses."

<sup>4</sup>Expense ratios are based on the management fees and other Fund-level expenses of the Fund for the fiscal year ended September 30, 1996, and the expenses attributable to the Class Y shares that are anticipated for the current year based on annualization of the Class Y expenses incurred during the fiscal year ended September 30, 1996. Actual expenses may be greater or lesser than those shown.

<sup>5</sup>Use of an assumed annual return of 5% is for illustration purposes only and is not a representation of the Fund's future performance, which may be greater or lesser.

#### Financial Highlights

(Audited)

The following information has been audited by Price Waterhouse LLP, independent accountants, and should be read in conjunction with the financial statements and notes thereto, together with the report of Price Waterhouse LLP, included in the SAI.

For a Class Y share outstanding throughout the period:

For the  
period  
from 2/27/96  
through

Net asset value, beginning of period	\$4.15
-----	
Income from investment operations:	
Net investment income .....	0.21
Net realized and unrealized loss on investments...	(0.01)
-----	
Total from investment operations .....	0.20
-----	
Less dividends declared from net investment income.....	(0.21)
-----	
Net asset value, end of period .....	\$4.14
=====	
Total return .....	5.00%
Net assets, end of period (000 omitted) .....	\$1,650
Ratio of expenses to average net assets .....	0.77%**
Ratio of net investment income to average net assets .....	8.83%**
Portfolio turnover rate .....	55.64%**

\*On January 12, 1996, the Fund began offering Class Y shares to the public. Fund shares outstanding prior to that date were designated Class A shares.

\*\*Annualized.

#### Performance

Mutual fund performance is commonly measured as total return. The Fund may also advertise its performance by showing yield and performance rankings. Performance information is calculated and presented separately for each class of Fund shares.

#### Explanation of Terms

Total Return is the overall change in value of an investment in the Fund over a given period, assuming reinvestment of any dividends and other distributions. A cumulative total return reflects actual performance over a stated period of time. An average annual total return is a hypothetical rate of return that, if achieved annually, would have produced the same cumulative total return if performance had been constant over the entire period. Average annual total returns smooth out variations in performance; they are not the same as actual year-by-year results. Non-standardized total return may be for periods other than those required to be presented or may otherwise differ from standardized total return.

Yield refers to the income generated by an investment in the Fund over a given period of time, expressed as an annual percentage rate. The Fund's yield is based on a 30-day period ending on a specific date and is computed by dividing the Fund's net investment income per share earned during the period by the Fund's maximum offering price per share on the last day of the period.

Performance Rankings are comparisons of the Fund's performance to the performance of other selected mutual funds, selected recognized market indicators such as the Standard & Poor's 500 Stock Index and the Dow Jones Industrial Average, or non-market indices or averages of mutual fund industry groups. The Fund may quote its performance rankings and/or other information as published by recognized independent mutual fund statistical services or by publications of general interest. In connection with a ranking, the Fund may provide additional information, such as the particular category to which it relates, the number of funds in the category, the criteria upon which the ranking is based, and the effect of sales charges, fee waivers and/or expense reimbursements.

All performance information that the Fund advertises or includes in information provided to present or prospective shareholders is historical in nature and is not intended to represent or guarantee future results. The value of the Fund's shares when redeemed may be more or less than their original cost.

The Fund's recent performance and holdings will be detailed twice a year in the Fund's annual and semiannual reports, which are sent to all Fund shareholders.

#### About Waddell & Reed

Since 1937, Waddell & Reed has been helping people make the most of their financial future by helping them take advantage of various financial services. Today, Waddell & Reed has over 2500 account representatives located throughout the United States. Your primary contact in your dealings with Waddell & Reed will be your local account representative. However, the Waddell & Reed shareholder services department, which is part of the Waddell & Reed headquarters operations in Overland Park, Kansas, is available to assist you and your Waddell & Reed account representative. You may speak with a customer service representative by calling 913-236-2000.

#### About the Investment Principles of the Fund

##### Investment Goals and Principles

The primary goal of the Fund is to earn a high level of current income. As a secondary goal, the Fund seeks capital growth when consistent with its primary goal. The Fund seeks to achieve these goals by investing primarily in a diversified portfolio of high-yield, high-risk, fixed income securities, the risks of which are, in the judgment of WRIMCO, consistent with the Fund's goals. There is no assurance that the Fund will achieve its goals.

There are three main types of securities that the Fund owns: debt securities, preferred stock and common stock. The Fund may also own convertible securities. In general, the high income that the Fund seeks is paid by debt securities in the lower rating categories of the established rating services or unrated securities that are, in the opinion of WRIMCO, of similar quality to rated securities in these categories; these are securities rated BBB or lower by Standard & Poor's Ratings Services ("S&P") or Baa or lower by Moody's Investors Service, Inc. ("MIS") and unrated securities. S&P and MIS ratings are described in Appendix A.

WRIMCO may look at a number of factors in selecting securities for the Fund's portfolio. These include an issuer's past, current and estimated future (i) financial strength, (ii) cash flow, (iii) management, (iv) borrowing requirements, and (v) responsiveness to changes in interest rates and business conditions. When WRIMCO believes that a full or partial temporary defensive position is desirable, due to present or anticipated market or economic conditions, WRIMCO may take any one or more of the following steps with respect to up to all of the assets in the Fund's portfolio: (i) shortening the average maturity of the Fund's debt portfolio; (ii) holding cash or cash equivalents (short-term investments, such as commercial paper and certificates of deposit) in varying amounts designed for defensive purposes; and (iii) emphasizing high-grade debt securities. Going defensive in any one or more of these manners might reduce the yield on the Fund's portfolio. As an alternative to taking a temporary defensive position or in order to more quickly participate in anticipated market changes or market conditions, the Fund may invest in options and futures.

##### Risk Considerations

There are risks inherent in any investment. The Fund is subject to varying degrees of market risk, financial risk and, in some cases, prepayment risk. Market risk is the potential for fluctuations in the price of the security because of market factors. Because of market risks, you should anticipate that the share price of the Fund will fluctuate. Financial risk is based on the financial situation of the issuer. The financial risk of the Fund depends on the credit quality of the underlying securities. Prepayment risk is the possibility that, during periods of falling interest rates, a debt security with a high stated interest rate will be prepaid prior to its expected maturity date.

Certain types of instruments in which the Fund may invest, and certain strategies WRIMCO may employ in pursuit of the Fund's goals, involve special risks. Lower-quality debt securities (commonly called "junk bonds") are considered to be speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness. The market prices of these securities may fluctuate more than higher-quality securities and may decline significantly in periods of general economic difficulty. Foreign



securities and foreign currencies may involve risks relating to currency fluctuations, political or economic conditions in the foreign country, and the potentially less stringent investor protection and disclosure standards of foreign markets. These factors could make foreign investments, especially those in developing countries, more volatile.

The Fund can use various techniques to increase or decrease its exposure to changing security prices, interest rates, or other factors that affect security values. These techniques may involve derivative instruments, including options, futures contracts, options on futures contracts, indexed securities, stripped securities and mortgage-backed securities. If WRIMCO judges market conditions incorrectly or employs a strategy that does not correlate well with the Fund's investments, these techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These techniques may increase the volatility of the Fund and may involve a small investment of cash relative to the magnitude of the risk assumed. In addition, these techniques could result in a loss if the counterparty to the transaction does not perform as promised or if there is not a liquid secondary market to close out a position that the Fund has entered into. See "Risks of Derivative Instruments" for further information on the risks of investing in these instruments.

#### Securities and Investment Practices

The following pages contain more detailed information about types of instruments in which the Fund may invest and strategies WRIMCO may employ in pursuit of the Fund's investment goals. A summary of risks associated with these instrument types and investment practices is included as well.

WRIMCO might not buy all of these instruments or use all of these techniques to the full extent permitted by the Fund's investment policies and restrictions unless it believes that doing so will help the Fund achieve its goals.

Certain of the investment policies and restrictions of the Fund are also stated below. A fundamental policy of the Fund may not be changed without the approval of the shareholders of the Fund. Operating policies may be changed by the Board of Directors without the approval of the affected shareholders. The goals of the Fund are fundamental policies. Unless otherwise indicated, the types of securities and other assets in which the Fund may invest and other policies are operating policies.

Policies and limitations are typically considered at the time of purchase; the sale of instruments is usually not required in the event of a subsequent change in circumstances.

Please see the SAI for further information concerning the following instruments and associated risks and the Fund's investment policies and restrictions.

**Equity Securities.** Equity securities represent an ownership interest in an issuer. This ownership interest often gives the Fund the right to vote on measures affecting the issuer's organization and operations. Although common stocks and other equity securities have a history of long-term growth in value, their prices tend to fluctuate in the short term, particularly those of smaller companies. The equity securities in which the Fund invests may include preferred stock that converts to common stock either automatically or after a specified period of time or at the option of the issuer.

**Policies and Restrictions:** As a fundamental policy, the Fund may not purchase, or otherwise voluntarily acquire, any common stocks if, as a result, more than 20% of its total assets would consist of common stocks. The Fund does not intend to invest more than 4% of its total assets in non-dividend-paying common stocks.

**Debt Securities.** Bonds and other debt instruments are used by issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest, and must repay the amount borrowed at maturity. Some debt securities, such as zero coupon bonds, do not pay current interest, but are purchased at a discount from their face values. The debt securities in which the Fund invests may include debt securities whose performance is linked to a specified equity security or securities index.

Debt securities have varying levels of sensitivity to changes in interest rates and varying degrees of quality. As a general matter, however, when interest rates rise, the values of fixed-rate debt securities fall and, conversely, when interest rates fall, the values of fixed-rate debt securities rise. The values of floating and adjustable-rate debt securities are not as sensitive to changes in interest rates as the values of fixed-rate debt securities. Longer-term bonds are generally more sensitive to interest rate changes than shorter-term bonds.

U.S. Government Securities are high-quality instruments issued or guaranteed as to principal or interest by the U.S. Treasury or by an agency or instrumentality of the U.S. Government. Not all U.S. Government Securities are backed by the full faith and credit of the United States. Some are backed by the right of the issuer to borrow from the U.S. Treasury; others are backed by discretionary authority of the U.S. Government to purchase the agencies' obligations; while others are supported only by the credit of the instrumentality. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment.

Zero coupon bonds do not make interest payments; instead, they are sold at a deep discount from their face value and are redeemed at face value when they mature. Because zero coupon bonds do not pay current income, their prices can be very volatile when interest rates change. In calculating its income each year, the Fund takes into account as income a portion of the difference between a zero coupon bond's purchase price and its face value.

Lower-quality debt securities (commonly called "junk bonds") are considered to be speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness. The market prices of these securities may fluctuate more than high-quality securities and may decline significantly in periods of general economic difficulty. While the market for high-yield, high-risk corporate debt securities has been in existence for many years and has weathered previous economic downturns, the 1980s brought a dramatic increase in the use of such securities to fund highly-leveraged corporate acquisitions and restructurings. Past experience may not provide an accurate indication of the future performance of the high-yield, high-risk bond market, especially during periods of economic recession. The market for lower-rated debt securities may be thinner and less active than that for higher-rated debt securities, which can adversely affect the prices at which the former are sold. Adverse publicity and changing investor perceptions may decrease the values and liquidity of lower-rated debt securities, especially in a thinly-traded market. Valuation becomes more difficult and judgment plays a greater role in valuing lower-rated debt securities than with respect to securities for which more external sources of quotations and last sale information are available. Since the risk of default is higher for lower-rated debt securities, WRIMCO's research and credit analysis are an especially important part of managing securities of this type held by the Fund. WRIMCO continuously monitors the issuers of lower-rated debt securities in the Fund's portfolio in an attempt to determine if the issuers will have sufficient cash flow and profits to meet required principal and interest payments. The Fund may choose, at its expense or in conjunction with others, to pursue litigation or otherwise to exercise its rights as a security holder to seek to protect the interests of security holders if it determines this to be in the best interest of the Fund's shareholders.

Subject to its investment restrictions, the Fund may invest in debt securities rated in any rating category of the established rating services, including securities rated in the lowest rating category (such as those rated D by S&P and C by MIS). In addition, the Fund will treat unrated securities judged by WRIMCO to be of equivalent quality to a rated security to be equivalent to securities having that rating. Debt securities rated D by S&P or C by MIS are in payment default or are regarded as having extremely poor prospects of ever attaining any real investment standing. Debt securities rated at least BBB by S&P or Baa by MIS are considered to be investment grade securities. Securities rated BBB or Baa may have speculative characteristics.

While credit ratings are only one factor WRIMCO relies on in evaluating high-yield debt securities, certain risks are associated with credit ratings. Credit ratings evaluate the safety of principal and interest payments, not market value risk. Credit ratings for individual securities may change from time to time, and the Fund may retain a portfolio security whose rating has been changed.

Policies and Restrictions: At least 80% of the Fund's total assets normally will be invested to seek a high level of current income.

Preferred Stock is also rated by S&P and MIS, as described in Appendix A. The Fund may invest in preferred stock rated in any rating category by an established rating service and unrated preferred stock judged by WRIMCO to be of equivalent quality.

Convertible Securities. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is

redeemed, converted or exchanged. Convertible securities generally have higher yields than common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities, are less subject to fluctuation in value than the underlying stock because they have fixed income characteristics, and provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

Foreign Securities and foreign currencies can involve significant risks in addition to the risks inherent in U.S. investments. The value of securities denominated in or indexed to foreign currencies, and of dividends and interest from such securities, can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Foreign securities markets generally have less trading volume and less liquidity than U.S. markets and prices on some foreign markets can be highly volatile. Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may be more difficult to obtain reliable information regarding an issuer's financial condition and operations. In addition, the costs of foreign investing, including withholding taxes, brokerage commissions and custodial costs, are generally higher than for U.S. investments.

Foreign markets may offer less protection to investors than U.S. markets. Foreign issuers, brokers, and securities markets may be subject to less government supervision. Foreign security trading practices, including those involving the release of assets in advance of payment, may involve increased risks in the event of a failed trade or the insolvency of a broker-dealer, and may involve substantial delays. It may also be difficult to enforce legal rights in foreign countries.

Investing abroad also involves different political and economic risks. Foreign investments may be affected by actions of foreign governments adverse to the interests of U.S. investors, including the possibility of expropriation or nationalization of assets, confiscatory taxation, restrictions on U.S. investment or on the ability to repatriate assets or convert currency into U.S. dollars, or other government intervention. There may be a greater possibility of default by foreign governments or foreign government-sponsored enterprises. Investments in foreign countries also involve a risk of local political, economic, or social instability, military action or unrest, or adverse diplomatic developments. There is no assurance that WRIMCO will be able to anticipate these potential events or counter their effects.

The considerations noted above generally are intensified for investments in developing countries. A developing country is a nation that, in WRIMCO's opinion, is likely to experience long-term gross domestic product growth above that expected to occur in the United States, the United Kingdom, France, Germany, Italy, Japan and Canada. Developing countries may have relatively unstable governments, economies based on only a few industries, and securities markets that trade a small number of securities.

Certain foreign securities impose restrictions on transfer within the United States or to U.S. persons. Although securities subject to transfer restrictions may be marketable abroad, they may be less liquid than foreign securities of the same class that are not subject to such restrictions.

**Policies and Restrictions:** The Fund may purchase an unlimited amount of foreign securities. The Fund may not hold foreign currency except in connection with the purchase or sale of such foreign securities. The Fund will not invest more than 25% of its total assets in securities issued by the government of any one foreign country.

**Options, Futures and Other Strategies.** The Fund may use certain options and indexed securities to attempt to enhance income or yield or may attempt to reduce the overall risk of its investments by using certain options, futures contracts, and certain other strategies described herein. The strategies described below may be used in an attempt to manage certain risks of the Fund's investments that can affect fluctuation in its net asset value.

The Fund's ability to use these strategies may be limited by market conditions, regulatory limits and tax considerations. The Fund might not use any of these strategies, and there can be no assurance that any strategy that is used will succeed. The risks associated with such strategies are described below. Also see the SAI for more information on these instruments and strategies and their risk considerations.

**Options.** The Fund may engage in certain strategies involving options to attempt to enhance the Fund's income or yield or to attempt to reduce the overall risk of its investments. A call option gives the purchaser the right to

buy, and obligates the writer to sell, the underlying investment at the agreed upon exercise price during the option period. A put option gives the purchaser the right to sell, and obligates the writer to buy, the underlying investment at the agreed upon exercise price during the option period. Purchasers of options pay an amount, known as a premium, to the option writer in exchange for the right under the option contract.

Options offer large amounts of leverage, which will result in the Fund's net asset value being more sensitive to changes in the value of the related investment. There is no assurance that a liquid secondary market will exist for exchange-listed options. The market for options that are not listed on an exchange may be less active than the market for exchange-listed options. The Fund will be able to close a position in an option it has written only if there is a market for the put or call. If the Fund is not able to enter into a closing transaction on an option it has written, it will be required to maintain the securities, or cash in the case of an option on an index, subject to the call or the collateral underlying the put until a closing purchase transaction can be entered into or the option expires. Because index options are settled in cash, the Fund cannot provide in advance for its potential settlement obligations on a call it has written on an index by holding the underlying securities. The Fund bears the risk that the value of the securities it holds will vary from the value of the index.

**Policies and Restrictions:** As a fundamental policy, the Fund may purchase and write (sell) put and call options only on debt securities, common stocks, broadly-based stock indices (i.e., include stocks that are not limited to issuers in any particular industry or similar industries), and the options on futures contracts described below, subject to certain restrictions that are set forth in the SAI.

As a fundamental policy, the Fund may write calls on securities only if the calls are covered calls (i.e., the Fund must own the related investments or other investments suitable for escrow arrangements).

**Futures Contracts and Options on Futures Contracts.** When the Fund purchases a futures contract, it incurs an obligation to take delivery of a specified amount of the obligation underlying the contract at a specified time in the future for a specified price. When the Fund sells a futures contract, it incurs an obligation to deliver the specified amount of the underlying obligation at a specified time in return for an agreed upon price.

When the Fund writes an option on a futures contract, it becomes obligated, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time during the term of the option. If the Fund has written a call, it assumes a short futures position. If it has written a put, it assumes a long futures position. When the Fund purchases an option on a futures contract, it acquires a right in return for the premium it pays to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put).

**Policies and Restrictions:** As a fundamental policy, the Fund may only buy and sell futures contracts relating to debt securities and futures contracts on broadly-based stock indices and options thereon.

The Fund intends to use futures contracts and options thereon only to attempt to hedge against market risks that could adversely affect the value of its portfolio.

**Indexed Securities.** The Fund may purchase indexed securities, which are securities the value of which varies in relation to the value of other securities, securities indices, currencies, precious metals or other commodities, or other financial indicators. Indexed securities typically, but not always, are debt securities or deposits whose value at maturity or coupon rate is determined by reference to a specific instrument or statistic. The performance of indexed securities depends to a great extent on the performance of the security, currency, or other instrument to which they are indexed, and may also be influenced by interest rate changes in the United States and abroad. At the same time, indexed securities are subject to the credit risks associated with the issuer of the security, and their values may decline substantially if the issuer's creditworthiness deteriorates. Indexed securities may be more volatile than the underlying instruments.

**Policies and Restrictions:** The Fund does not intend to invest more than 25% of its total assets in indexed securities.

**Mortgage-Backed Securities** may include pools of mortgages, such as collateralized mortgage obligations, and stripped mortgage-backed securities. The value of these securities may be significantly affected by changes in interest rates, the market's perception of the issuers, and the creditworthiness of the parties involved.

The yield characteristics of mortgage-backed securities differ from those of traditional debt securities. Among the major differences are that interest and principal payments are made more frequently on mortgage-backed securities and that principal may be prepaid at any time because the underlying mortgage loans generally may be prepaid at any time. As a result, if the Fund purchases these securities at a premium, a prepayment rate that is faster than expected will reduce yield to maturity while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Conversely, if the Fund purchases these securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce, yield to maturity. Accelerated prepayments on securities purchased by the Fund at a premium also impose a risk of loss of principal because the premium may not have been fully amortized at the time the principal is repaid in full.

Timely payment of principal and interest on pass-through securities of the Government National Mortgage Association (but not the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association) is guaranteed by the full faith and credit of the United States. This is not a guarantee against market decline of the value of these securities or shares of the Fund. It is possible that the availability and marketability (i.e., liquidity) of these securities could be adversely affected by actions of the U.S. Government to tighten the availability of its credit.

**Policies and Restrictions:** The Fund intends to invest less than 5% of its total assets in mortgage-backed securities.

Stripped Securities are the separate income or principal components of a debt instrument. These involve risks that are similar to those of other debt securities, although they may be more volatile. The prices of stripped mortgage-backed securities may be particularly affected by changes in interest rates.

**Policies and Restrictions:** The Fund intends to invest less than 5% of its total assets in stripped securities.

**Risks of Derivative Instruments.** The use of options, futures contracts and options on futures contracts, and the investment in indexed securities, stripped securities and mortgage-backed securities involve special risks, including (i) possible imperfect or no correlation between price movements of the portfolio investments (held or intended to be purchased) involved in the transaction and price movements of the instruments involved in the transaction, (ii) possible lack of a liquid secondary market for any particular instrument at a particular time, (iii) the need for additional portfolio management skills and techniques, (iv) losses due to unanticipated market price movements, (v) the fact that, while such strategies can reduce the risk of loss, they can also reduce the opportunity for gain, or even result in losses, by offsetting favorable price movements in investments involved in the transaction, (vi) incorrect forecasts by WRIMCO concerning interest rates or direction of price fluctuations of the investment involved in the transaction, which may result in the strategy being ineffective, (vii) loss of premiums paid by the Fund on options it purchases, and (viii) the possible inability of the Fund to purchase or sell a portfolio security at a time when it would otherwise be favorable for it to do so, or the possible need for the Fund to sell a portfolio security at a disadvantageous time, due to the need for the Fund to maintain "cover" or to segregate securities in connection with such transactions and the possible inability of the Fund to close out or liquidate its position.

For a hedging strategy to be completely effective, the price change of the hedging instrument must equal the price change of the investment being hedged. The risk of imperfect correlation of these price changes increases as the composition of the Fund's portfolio diverges from instruments underlying a hedging instrument. Such equal price changes are not always possible because the investment underlying the hedging instruments may not be the same investment that is being hedged. WRIMCO will attempt to create a closely correlated hedge but hedging activity may not be completely successful in eliminating market value fluctuation.

WRIMCO may use derivative instruments, including securities with embedded derivatives, for hedging purposes to adjust the risk characteristics of the Fund's portfolio of investments and may use some of these instruments to adjust the return characteristics of the Fund's portfolio of investments. An embedded derivative is a derivative that is part of another financial instrument. Embedded derivatives typically, but not always, are debt securities whose return of principal or interest, in part, is determined by reference to something that is not intrinsic to the security itself. The use of derivative techniques for speculative purposes can increase investment risk. If WRIMCO judges market conditions incorrectly or employs a strategy that does not correlate well with the Fund's investments, these techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These techniques may increase the volatility of the Fund and may involve a small investment of cash

relative to the magnitude of the risk assumed. In addition, these techniques could result in a loss if the counterparty to the transaction does not perform as promised or if there is not a liquid secondary market to close out a position that the Fund has entered into.

The ordinary spreads between prices in the cash and futures markets, due to the differences in the natures of those markets, are subject to distortion. Due to the possibility of distortion, a correct forecast of general interest rate or stock market trends by WRIMCO may still not result in a successful transaction. WRIMCO may be incorrect in its expectations as to the extent of various interest rate movements or stock market movements or the time span within which the movements take place.

Options and futures transactions may increase portfolio turnover rates, which results in correspondingly greater commission expenses and transaction costs and may result in certain tax consequences. See the SAI for further information regarding these and other risks.

New financial products and risk management techniques continue to be developed. The Fund may use these instruments and techniques to the extent consistent with its goals, investment policies and regulatory requirements applicable to investment companies.

When-Issued and Delayed-Delivery Transactions are trading practices in which payment and delivery for the securities take place at a future date. The market value of a security could change during this period, which could affect the Fund's yield.

When purchasing securities on a delayed-delivery basis, the Fund assumes the rights and risks of ownership, including the risk of price and yield fluctuations. When the Fund has sold a security on a delayed-delivery basis, the Fund does not participate in further gains or losses with respect to the security. If the other party to a delayed-delivery transaction fails to deliver or pay for the securities, the Fund could miss a favorable price or yield opportunity, or could suffer a loss.

Repurchase Agreements. In a repurchase agreement, the Fund buys a security at one price and simultaneously agrees to sell it back at a higher price. Delays or losses could result if the other party to the agreement defaults or becomes insolvent.

Restricted Securities and Illiquid Investments. Restricted securities are securities that are subject to legal or contractual restrictions on resale. Restricted securities may be illiquid due to restrictions on their resale. Certain restricted securities may be determined to be liquid in accordance with guidelines adopted by the Fund's Board of Directors.

Illiquid investments may be difficult to sell promptly at an acceptable price. Difficulty in selling securities may result in a loss or may be costly to the Fund.

Policies and Restrictions: As a fundamental policy, the Fund may not purchase a security if, as a result, more than 10% of its net assets would consist of restricted securities.

The Fund may not purchase a security if, as a result, more than 10% of its net assets would consist of illiquid investments.

Diversification. Diversifying the Fund's investment portfolio can reduce the risks of investing. This may include limiting the amount of money invested in any one issuer or, on a broader scale, in any one industry.

Policies and Restrictions: As a fundamental policy, the Fund may not buy a security if, as a result, it would own more than 10% of the voting securities or any class of securities of an issuer, or if more than 5% of the Fund's total assets would be invested in securities of that issuer.

As a fundamental policy, the Fund may not buy a security if, as a result, more than 25% of the Fund's total assets would then be invested in securities of companies in any one industry.

Borrowing. If the Fund borrows money, its share price may be subject to greater fluctuation until the borrowing is paid off.

If the Fund makes additional investments while borrowings are outstanding, this may be considered a form of leverage.

Policies and Restrictions: As a fundamental policy, the Fund may borrow money only from banks, as a temporary measure or for extraordinary or emergency purposes but only up to 5% of its total assets. The Fund does not intend to borrow for temporary measures; however, it may borrow to cover redemptions or

settlements of securities transactions. See the SAI for further information on the Fund's ability to borrow.

Lending. Securities loans may be made on a short-term or long-term basis for the purpose of increasing the Fund's income. This practice could result in a loss or a delay in recovering the Fund's securities. Loans will be made only to parties deemed by WRIMCO to be creditworthy.

Policies and Restrictions: As a fundamental policy, the Fund may not lend more than 10% of its assets at any one time, and such loans must be on a collateralized basis in accordance with applicable regulatory requirements.

Other Instruments may include warrants and securities of closed-end investment companies. As a shareholder in an investment company, the Fund would bear its pro rata share of that investment company's expenses, which could result in duplication of certain fees, including management and administrative fees.

Policies and Restrictions: As a fundamental policy, the Fund may invest up to 5% of its net assets in warrants. Warrants acquired in units or attached to other securities are not considered for purposes of computing this limitation.

As a fundamental policy, the Fund may buy shares of other investment companies that do not redeem their shares only if it does so in a regular transaction in the open market and only if not more than 10% of the Fund's total assets would be invested in these shares. The Fund does not intend to invest more than 5% of its assets in such securities.

The Fund will not purchase securities of unseasoned issuers (including predecessor companies), which have been in operation for less than three years, if the value of its investment in such securities would exceed 5% of its total assets.

#### About Your Account

Class Y shares are designed for institutional investors. Class Y shares are available for purchase by:

participants of employee benefit plans established under section 403(b) or section 457, or qualified under section 401, including 401(k) plans, of the Internal Revenue Code of 1986, as amended (the "Code"), when the plan has 100 or more eligible employees and holds the shares in an omnibus account on the Fund's records;

banks, trust institutions, investment fund administrators and other third parties investing for their own accounts or for the accounts of their customers where such investments for customer accounts are held in an omnibus account on the Fund's records;

government entities or authorities and corporations whose investment within the first twelve months after initial investment is \$10 million or more; and

certain retirement plans and trusts for employees and account representatives of Waddell & Reed, Inc. and its affiliates.

#### Buying Shares

You may buy shares of the Fund through Waddell & Reed, Inc. and its account representatives. To open your account you must complete and sign an application. Your Waddell & Reed account representative can help you with any questions you might have.

The price to buy a share of the Fund, called the offering price, is calculated every business day.

The offering price of a Class Y share (price to buy one Class Y share) is the Fund's Class Y net asset value ("NAV"). The Fund's Class Y shares are sold without a sales charge.

To purchase by wire, you must first obtain an account number by calling 1-800-366-2520, then mail a completed application to Waddell & Reed, Inc., P. O. Box 29217, Shawnee Mission, Kansas 66201-9217, or fax it to 913-236-5044. Instruct your bank to wire the amount you wish to invest to UMB Bank, n.a., ABA Number 101000695, W&R Underwriter Account Number 0007978, FBO Customer Name and Account Number.

To purchase by check, make your check payable to Waddell & Reed, Inc. Mail the check, along with your completed application, to Waddell & Reed, Inc., P.O. Box 29217, Shawnee Mission, Kansas 66201-9217.

The Fund's Class Y NAV is the value of a single share. The Class Y NAV is computed by adding, with respect to that class, the value of the Fund's investments, cash and other assets, subtracting its liabilities, and then dividing the result by the number of Class Y shares outstanding.

The securities in the Fund's portfolio that are listed or traded on an exchange are valued primarily using market quotations or, if market quotations are not available, at their fair value in a manner determined in good faith by or at the direction of the Board of Directors. Bonds are generally valued according to prices quoted by a third-party pricing service. Short-term debt securities are valued at amortized cost, which approximates market value. Other assets are valued at their fair value by or at the direction of the Board of Directors.

The Fund is open for business each day the New York Stock Exchange (the "NYSE") is open. The Fund normally calculates the NAVs of its shares as of the later of the close of business of the NYSE, normally 4 p.m. Eastern time, or the close of the regular session of any other securities or commodities exchange on which an option held by the Fund is traded.

The Fund may invest in securities listed on foreign exchanges which may trade on Saturdays or on customary U.S. national business holidays when the NYSE is closed. Consequently, the NAV of Fund shares may be significantly affected on days when the Fund does not price its shares and when you have no access to the Fund.

When you place an order to buy shares, your order will be processed at the next offering price calculated after your order is received and accepted. Note the following:

Orders are accepted only at the home office of Waddell & Reed, Inc.  
All of your purchases must be made in U.S. dollars.  
If you buy shares by check, and then sell those shares by any method other than by exchange to another fund in the United Group, the payment may be delayed for up to ten days to ensure that your previous investment has cleared.  
The Fund does not issue certificates representing Class Y shares of the Fund.

When you sign your account application, you will be asked to certify that your Social Security or other taxpayer identification number is correct and whether you are subject to backup withholding for failing to report income to the IRS.

Waddell & Reed, Inc. reserves the right to reject any purchase orders, including purchases by exchange, and it and the Fund reserve the right to discontinue offering Fund shares for purchase.

#### Minimum Investments

##### To Open an Account

For a government entity or authority or for a corporation: \$10 million  
(within  
first  
twelve  
months)

For other  
investors: Any amount

##### Adding to Your Account

You can make additional investments of any amount at any time.

To add to your account by wire: Instruct your bank to wire the amount you wish to invest, along with the account number and registration, to UMB Bank, n.a., ABA Number 101000695, W&R Underwriter Account Number 0007978, FBO Customer Name and Account Number.

To add to your account by mail: Make your check payable to Waddell & Reed, Inc. Mail the check along with a letter stating your account number, the account registration and that you wish to purchase Class Y shares of the Fund to:

Waddell & Reed, Inc.  
P. O. Box 29217  
Shawnee Mission, Kansas 66201-9217

##### Selling Shares



You can arrange to take money out of your Fund account at any time by selling (redeeming) some or all of your shares.

The redemption price (price to sell one Class Y share) is the Fund's Class Y NAV.

To sell shares by telephone or fax: If you have elected this method in your application or by subsequent authorization, call 1-800-366-5465 or fax your request to 913-236-5044 and give your instructions to redeem shares and make payment by wire to your pre-designated bank account or by check to you at the address on the account.

To sell shares by written request: Complete an Account Service Request form, available from your Waddell & Reed account representative, or write a letter of instruction with:

the name on the account registration;  
the Fund's name;  
the Fund account number;  
the dollar amount or number of shares to be redeemed; and  
any other applicable requirements listed in the table below.

Deliver the form or your letter to your Waddell & Reed account representative, or mail it to:

Waddell & Reed, Inc.  
P. O. Box 29217  
Shawnee Mission, Kansas  
66201-9217

Unless otherwise instructed, Waddell & Reed will send a check to the address on the account.

#### Special Requirements for Selling Shares

Account Type	Special Requirements
Retirement Account	The written instructions must be signed by a properly authorized person.
Trust	The trustee must sign the written instructions indicating capacity as trustee. If the trustee's name is not in the account registration, provide a currently certified copy of the trust document.
Business or Organization	At least one person authorized by corporate resolution to act on the account must sign the written instructions.

When you place an order to sell shares, your shares will be sold at the next NAV calculated after receipt of a written request for redemption in good order by Waddell & Reed, Inc. at its home office. Note the following:

If more than one person owns the shares, each owner must sign the written request.  
If you recently purchased the shares by check, the Fund may delay payment of redemption proceeds. You may arrange for the bank upon which the purchase check was drawn to provide to the Fund telephone or written assurance, satisfactory to the Fund, that the check has cleared and been honored. If no such assurance is given, payment of the redemption proceeds on these shares will be delayed until the earlier of 10 days or the date the Fund is able to verify that your purchase check has cleared and been honored.  
Redemptions may be suspended or payment dates postponed on days when the NYSE is closed (other than weekends or holidays), when trading on the NYSE is restricted, or as permitted by the Securities and Exchange Commission.  
Payment is normally made in cash, although under extraordinary conditions redemptions may be made in portfolio securities.

The Fund reserves the right to require a signature guarantee on certain redemption requests. This requirement is designed to protect you and Waddell & Reed from fraud. The Fund may require a signature guarantee in certain situations such as:

the request for redemption is made by a corporation, partnership or fiduciary;  
the request for redemption is made by someone other than the owner of record;  
or  
the check is being made payable to someone other than the owner of record.

The Fund will accept a signature guarantee from a national bank, a federally chartered savings and loan or a member firm of a national stock exchange or other eligible guarantor in accordance with procedures of the Fund's transfer agent. A notary public cannot provide a signature guarantee.

The Fund reserves the right to redeem at NAV all shares of the Fund owned or held by you having an aggregate NAV of less than \$500. The Fund will give you notice of its intention to redeem your shares and a 60-day opportunity to purchase a sufficient number of additional shares to bring the aggregate NAV of your shares to \$500.

#### Telephone Transactions

The Fund and its agents will not be liable for following instructions communicated by telephone that they reasonably believe to be genuine. The Fund will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. If the Fund fails to do so, the Fund may be liable for losses due to unauthorized or fraudulent instructions. Current procedures relating to instructions communicated by telephone include tape recording instructions, requiring personal identification and providing written confirmations of transactions effected pursuant to such instructions.

#### Shareholder Services

Waddell & Reed provides a variety of services to help you manage your account.

#### Personal Service

Your local Waddell & Reed account representative is available to provide personal service. Additionally, the Waddell & Reed Customer Services staff is available to respond promptly to your inquiries and requests.

#### Reports

Statements and reports sent to you include the following:

confirmation statements (after every purchase, exchange, transfer or redemption)  
year-to-date statements (quarterly)  
annual and semiannual reports (every six months)

To reduce expenses, only one copy of most annual and semiannual reports will be mailed to your household, even if you have more than one account with the Fund. Call 913-236-2000 if you need copies of annual or semiannual reports or historical account information.

#### Exchanges

You may sell your Class Y shares and buy Class Y shares of other funds in the United Group. You may exchange only into funds that are legally registered for sale in your state of residence. Note that exchanges out of the Fund may have tax consequences for you. Before exchanging into a fund, read its prospectus.

The Fund reserves the right to terminate or modify these exchange privileges at any time, upon notice in certain instances.

#### Distributions and Taxes

##### Distributions

The Fund distributes substantially all of its net investment income and net capital gains to shareholders each year. Dividends are declared daily from the Fund's net investment income, which includes accrued interest, earned discount, dividends and other income earned on portfolio assets less expenses. Ordinarily, dividends are distributed monthly, on the 27th day of the month or on the last business day prior to the 27th if the 27th falls on a weekend or a holiday. Net capital gains (and any net gains from foreign currency transactions) ordinarily are distributed in December. The Fund may make additional distributions if necessary to avoid Federal income or excise taxes on certain undistributed income and capital gains.

**Distribution Options.** When you open an account, specify on your application how you want to receive your distributions. The Fund offers three options:

1. **Share Payment Option.** Your dividend and capital gains distributions will be automatically paid in additional Class Y shares of the Fund. If you do not indicate a choice on your application, you will be assigned this

option.

2. Income-Earned Option. Your capital gains distributions will be automatically paid in Class Y shares, but you will be sent a check for each dividend distribution.
3. Cash Option. You will be sent a check for your dividend and capital gains distributions.

For retirement accounts, all distributions are automatically paid in Class Y shares.

#### Taxes

The Fund has qualified and intends to continue to qualify for treatment as a regulated investment company under the Code so that it will be relieved of Federal income tax on that part of its investment company taxable income (consisting generally of net investment income, net short-term capital gains and net gains from certain foreign currency transactions) and net capital gains (the excess of net long-term capital gain over net short-term capital loss) that are distributed to its shareholders.

There are tax requirements that the Fund must follow in order to avoid Federal taxation. In its effort to adhere to these requirements, the Fund may have to limit its investment activity in some types of instruments.

As with any investment, you should consider how your investment in the Fund will be taxed. If your account is not a tax-deferred retirement account, you should be aware of the following tax implications:

**Taxes on distributions.** Dividends from the Fund's investment company taxable income are taxable to you as ordinary income whether received in cash or paid in additional Fund shares. Distributions of the Fund's net capital gain, when designated as such, are taxable to you as long-term capital gain, whether received in cash or reinvested in additional Fund shares and regardless of the length of time you have owned your shares. The Fund notifies you after each calendar year-end as to the amounts of dividends and distributions paid (or deemed paid) to you for that year. Under certain circumstances, the Fund may elect to permit shareholders to take a credit or deduction for foreign income taxes paid by the Fund. The Fund will notify you of any such election.

A portion of the dividends paid by the Fund, whether received in cash or paid in additional Fund shares, may be eligible for the dividends-received deduction allowed to corporations. The eligible portion may not exceed the aggregate dividends received by the Fund from U.S. corporations. However, dividends received by a corporate shareholder and deducted by it pursuant to the dividends-received deduction are subject indirectly to the alternative minimum tax.

**Withholding.** The Fund is required to withhold 31% of all dividends, capital gains distributions and redemption proceeds payable to individuals and certain other noncorporate shareholders who do not furnish the Fund with a correct taxpayer identification number. Withholding at that rate from dividends and capital gains distributions also is required for such shareholders who otherwise are subject to backup withholding.

**Taxes on transactions.** Your redemption of Fund shares will result in taxable gain or loss to you, depending on whether the redemption proceeds are more or less than your adjusted basis for the redeemed shares. An exchange of Fund shares for shares of any other fund in the United Group generally will have similar tax consequences. In addition, if you purchase Fund shares within thirty days before or after redeeming other Fund shares (regardless of class) at a loss, part or all of that loss will not be deductible and will increase the basis of the newly-purchased shares.

The foregoing is only a summary of some of the important Federal tax considerations generally affecting the Fund and its shareholders; see the SAI for a more detailed discussion. There may be other Federal, state or local tax considerations applicable to a particular investor. You are urged to consult your own tax adviser.

#### About the Management and Expenses of the Fund

United High Income Fund II, Inc. is a mutual fund: an investment that pools shareholders' money and invests it toward a specified goal. In technical terms, the Fund is an open-end, diversified management investment company organized as a corporation under Maryland law on April 22, 1986.

The Fund is governed by a Board of Directors, which has overall responsibility for the management of its affairs. The majority of directors are

not affiliated with Waddell & Reed, Inc.

The Fund has two classes of shares. In addition to the Class Y shares offered by this Prospectus, the Fund has issued and outstanding Class A shares which are offered by Waddell & Reed, Inc. through a separate Prospectus. Prior to January 12, 1996, the Fund offered only one class of shares to the public. Shares outstanding on that date were designated as Class A shares. Class A shares are subject to a sales charge on purchases but are not subject to redemption fees. Class A shares are subject to a Rule 12b-1 fee at an annual rate of up to 0.25% of the Fund's average net assets attributable to Class A shares. Additional information about Class A shares may be obtained by calling 913-236-2000 or by writing to Waddell & Reed, Inc. at the address on the inside back cover of the Prospectus.

The Fund does not hold annual meetings of shareholders; however, certain significant corporate matters, such as the approval of a new investment advisory agreement or a change in a fundamental investment policy, which require shareholder approval will be presented to shareholders at a meeting called by the Board of Directors for such purpose.

Special meetings of shareholders may be called for any purpose upon receipt by the Fund of a request in writing signed by shareholders holding not less than 25% of all shares entitled to vote at such meeting, provided certain conditions stated in the Bylaws of the Fund are met. There will normally be no meeting of the shareholders for the purpose of electing directors until such time as less than a majority of directors holding office have been elected by shareholders, at which time the directors then in office will call a shareholders' meeting for the election of directors. To the extent that Section 16(c) of the Investment Company Act of 1940, as amended (the "1940 Act"), applies to the Fund, the directors are required to call a meeting of shareholders for the purpose of voting upon the question of removal of any director when requested in writing to do so by the shareholders of record of not less than 10% of the Fund's outstanding shares.

Each share (regardless of class) has one vote. All shares of the Fund vote together as a single class, except as to any matter for which a separate vote of any class is required by the 1940 Act, and except as to any matter which affects the interests of one or more particular classes, in which case only the shareholders of the affected classes are entitled to vote, each as a separate class. Shares are fully paid and nonassessable when purchased.

#### WRIMCO and Its Affiliates

The Fund is managed by WRIMCO, subject to the authority of the Fund's Board of Directors. WRIMCO provides investment advice to the Fund and supervises the Fund's investments. Waddell & Reed, Inc. and its predecessors have served as investment manager to each of the registered investment companies in the United Group of Mutual Funds, except United Asset Strategy Fund, Inc., since 1940 or the inception of the company, whichever was later, and to TMK/United Funds, Inc. since that fund's inception, until January 8, 1992, when it assigned its duties as investment manager and assigned its professional staff for investment management services to WRIMCO. WRIMCO has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and United Asset Strategy Fund, Inc. since it commenced operations in March 1995.

Louise D. Rieke is primarily responsible for the day-to-day management of the portfolio of the Fund. Ms. Rieke has held her Fund responsibilities from the Fund's inception to January 1990 and from May 1992 to the present. She is Vice President of WRIMCO, Vice President of Waddell & Reed Asset Management Company, an affiliate of WRIMCO, Vice President of the Fund, and Vice President of other investment companies for which WRIMCO serves as investment manager. Ms. Rieke has served as the portfolio manager for investment companies managed by Waddell & Reed, Inc. and its successor, WRIMCO, since July 1986 and has been an employee of Waddell & Reed, Inc. and its successor, WRIMCO, since May 1971. Other members of WRIMCO's investment management department provide input on market outlook, economic conditions, investment research and other considerations relating to the Fund's investments.

Waddell & Reed, Inc. serves as the Fund's underwriter and as underwriter for each of the other funds in the United Group of Mutual Funds and Waddell & Reed Funds, Inc. and acts as the principal underwriter and distributor for variable life insurance and variable annuity policies issued by United Investors Life Insurance Company, for which TMK/United Funds, Inc. is the underlying investment vehicle.

Waddell & Reed Services Company acts as transfer agent ("Shareholder Servicing Agent") for the Fund and processes the payments of dividends. Waddell & Reed Services Company also acts as agent ("Accounting Services Agent") in providing bookkeeping and accounting services and assistance to the Fund and pricing daily the value of its shares.

WRIMCO and Waddell & Reed Services Company are subsidiaries of Waddell & Reed, Inc. Waddell & Reed, Inc. is a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company, and an indirect subsidiary of United Investors Management Company, a holding company, and Torchmark Corporation, a holding company.

WRIMCO places transactions for the portfolio of the Fund and in doing so may consider sales of shares of the Fund and other funds it manages as a factor in the selection of brokers to execute portfolio transactions.

#### Breakdown of Expenses

Like all mutual funds, the Fund pays fees related to its daily operations. Expenses paid out of the Fund's assets are reflected in its share price or dividends; they are neither billed directly to shareholders nor deducted from shareholder accounts.

The Fund pays a management fee to WRIMCO for providing investment advice and supervising its investments. The Fund also pays other expenses, which are explained below.

#### Management Fee

The management fee of the Fund is calculated by adding a group fee to a specific fee. It is accrued and paid to WRIMCO daily.

The specific fee is computed on the Fund's net asset value as of the close of business each day at the annual rate of .15 of 1% of its net assets. The group fee is a pro rata participation based on the relative net asset size of the Fund in the group fee computed each day on the combined net asset values of all the funds in the United Group at the annual rates shown in the following table:

#### Group Fee Rate

Group Net Asset Level (all dollars in millions) -----	Annual Group Fee Rate For Each Level -----
From \$0 to \$750	.51 of 1%
From \$750 to \$1,500	.49 of 1%
From \$1,500 to \$2,250	.47 of 1%
From \$2,250 to \$3,000	.45 of 1%
From \$3,000 to \$3,750	.43 of 1%
From \$3,750 to \$7,500	.40 of 1%
From \$7,500 to \$12,000	.38 of 1%
Over \$12,000	.36 of 1%

Growth in assets of the United Group assures a lower group fee rate.

The combined net asset values of all of the funds in the United Group were approximately \$14.7 billion as of September 30, 1996. Management fees for the fiscal year ended September 30, 1996 were 0.56% of the Fund's average net assets.

#### Other Expenses

While the management fee is a significant component of the Fund's annual operating costs, the Fund has other expenses as well.

The Fund pays the Accounting Services Agent a monthly fee based on the average net assets of the Fund for accounting services. With respect to its Class Y shares, the Fund pays the Shareholder Servicing Agent a monthly fee

based on the average daily net assets of the class for the preceding month.

The Fund also pays other expenses, such as fees and expenses of certain directors, audit and outside legal fees, costs of materials sent to shareholders, taxes, brokerage commissions, interest, insurance premiums, custodian fees, fees payable by the Fund under federal or other securities laws and to the Investment Company Institute, and extraordinary expenses including litigation and indemnification relative to litigation.

The Fund cannot precisely predict what its portfolio turnover rate will be, but the Fund may have a high portfolio turnover. A higher turnover will increase transaction and commission costs and could generate taxable income or loss.

#### APPENDIX A

The following are descriptions of some of the ratings of securities which the Fund may use. The Fund may also use ratings provided by other nationally recognized statistical rating organizations in determining the securities eligible for investment.

#### DESCRIPTION OF BOND RATINGS

Standard & Poor's Ratings Services. An S&P corporate bond rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment of creditworthiness may take into consideration obligors such as guarantors, insurers or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished to S&P by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

The ratings are based, in varying degrees, on the following considerations:

1. Likelihood of default -- capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
2. Nature of and provisions of the obligation;
3. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA -- Debt rated AAA has the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.

AA -- Debt rated AA also qualifies as high quality debt. Capacity to pay interest and repay principal is very strong, and debt rated AA differs from AAA issues only in small degree.

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

BBB -- Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, CC, C - Debt rated BB, B, CCC, CC and C is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

BB -- Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB

rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B -- Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC -- Debt rated CCC has a currently indefinable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

CC -- The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C -- The rating C is typically applied to debt subordinated to senior debt which is assigned an actual or implied CCC- debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

CI -- The rating CI is reserved for income bonds on which no interest is being paid.

D -- Debt rated D is in payment default. It is used when interest payments or principal payments are not made on a due date even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace periods. The D rating will also be used upon a filing of a bankruptcy petition if debt service payments are jeopardized.

Plus (+) or Minus (-) -- To provide more detailed indications of credit quality, the ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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

Debt Obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Bond Investment Quality Standards: Under present commercial bank regulations issued by the Comptroller of the Currency, bonds rated in the top four categories (AAA, AA, A, BBB, commonly known as "investment grade" ratings) are generally regarded as eligible for bank investment. In addition, the laws of various states governing legal investments may impose certain rating or other standards for obligations eligible for investment by savings banks, trust companies, insurance companies and fiduciaries generally.

Moody's Investors Service, Inc. A brief description of the applicable MIS rating symbols and their meanings follows:

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

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

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

Baa -- Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured.

Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Some bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

NOTE: Bonds within the above categories which possess the strongest investment attributes are designated by the symbol "1" following the rating.

Ba -- Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B -- Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa -- Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca -- Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C -- Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

#### DESCRIPTION OF PREFERRED STOCK RATINGS

Standard & Poor's Ratings Services. An S&P preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock dividends and any applicable sinking fund obligations. A preferred stock rating differs from a bond rating inasmuch as it is assigned to an equity issue, which issue is intrinsically different from, and subordinated to, a debt issue. Therefore, to reflect this difference, the preferred stock rating symbol will normally not be higher than the debt rating symbol assigned to, or that would be assigned to, the senior debt of the same issuer.

The preferred stock ratings are based on the following considerations:

1. Likelihood of payment - capacity and willingness of the issuer to meet the timely payment of preferred stock dividends and any applicable sinking fund requirements in accordance with the terms of the obligation;
2. Nature of, and provisions of, the issue;
3. Relative position of the issue in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA -- This is the highest rating that may be assigned by S&P to a preferred stock issue and indicates an extremely strong capacity to pay the preferred stock obligations.

AA -- A preferred stock issue rated AA also qualifies as a high-quality fixed income security. The capacity to pay preferred stock obligations is very strong, although not as overwhelming as for issues rated AAA.

A -- An issue rated A is backed by a sound capacity to pay the preferred stock obligations, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB -- An issue rated BBB is regarded as backed by an adequate capacity to pay the preferred stock obligations. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to make payments for a preferred stock in this category than for issues in the 'A' category.

BB, B, CCC -- Preferred stock rated BB, B, and CCC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay preferred stock obligations. BB indicates the lowest degree of speculation and CCC the highest degree of speculation. While such issues will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

CC -- The rating CC is reserved for a preferred stock issue in arrears on dividends or sinking fund payments but that is currently paying.



C -- A preferred stock rated C is a non-paying issue.

D -- A preferred stock rated D is a non-paying issue with the issuer in default on debt instruments.

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

Plus (+) or minus (-) -- To provide more detailed indications of preferred stock quality, the rating from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

A preferred stock rating is not a recommendation to purchase, sell, or hold a security inasmuch as it does not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished to S&P by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Moody's Investors Service, Inc. Because of the fundamental differences between preferred stocks and bonds, a variation of MIS' familiar bond rating symbols is used in the quality ranking of preferred stock. The symbols are designed to avoid comparison with bond quality in absolute terms. It should always be borne in mind that preferred stock occupies a junior position to bonds within a particular capital structure and that these securities are rated within the universe of preferred stocks.

Note: MIS applies numerical modifiers 1, 2 and 3 in each rating classification; the modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Preferred stock rating symbols and their definitions are as follows:

aaa -- An issue which is rated aaa is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

aa -- An issue which is rated aa is considered a high-grade preferred stock. This rating indicates that there is a reasonable assurance the earnings and asset protection will remain relatively well-maintained in the foreseeable future.

a -- An issue which is rated a is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the aaa and aa classification, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.

baa -- An issue which is rated baa is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.

ba -- An issue which is rated ba is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.

b -- An issue which is rated b generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.

caa -- An issue which is rated caa is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.

ca -- An issue which is rated ca is speculative in a high degree and is likely to be in arrears on dividends with little likelihood of eventual payments.

c -- This is the lowest rated class of preferred or preference stock. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

United High Income Fund II, Inc.

Custodian	Underwriter
UMB Bank, n.a.	Waddell & Reed, Inc.
Kansas City, Missouri	6300 Lamar Avenue
	P. O. Box 29217
Legal Counsel	Shawnee Mission, Kansas
Kirkpatrick & Lockhart LLP	66201-9217
1800 Massachusetts Avenue,	(913) 236-2000
N. W.	
Washington, D. C. 20036	Shareholder Servicing Agent
Independent Accountants	Waddell & Reed
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Investment Manager	Shawnee Mission, Kansas
Waddell & Reed Investment	66201-9217
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	(913) 236-2000

Our INTERNET address is:  
<http://www.waddell.com>

United High Income Fund II, Inc.  
Class Y Shares  
PROSPECTUS  
December 31, 1996

The United Group of Mutual Funds  
United Asset Strategy Fund, Inc.  
United Cash Management, Inc.  
United Continental Income Fund, Inc.  
United Funds, Inc.  
United Bond Fund  
United Income Fund  
United Accumulative Fund  
United Science and Technology Fund  
United Gold & Government Fund, Inc.  
United Government Securities Fund, Inc.  
United High Income Fund, Inc.  
United High Income Fund II, Inc.  
United International Growth Fund, Inc.  
United Municipal Bond Fund, Inc.  
United Municipal High Income Fund, Inc.  
United New Concepts Fund, Inc.  
United Retirement Shares, Inc.  
United Vanguard Fund, Inc.

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printed on recycled paper

UNITED HIGH INCOME FUND II, INC.

6300 Lamar Avenue

P. O. Box 29217

Shawnee Mission, Kansas 66201-9217

(913) 236-2000

December 31, 1996

STATEMENT OF ADDITIONAL INFORMATION

This Statement of Additional Information (the "SAI") is not a

prospectus. Investors should read this SAI in conjunction with a prospectus ("Prospectus") for the Class A shares or the Class Y shares, as applicable, of United High Income Fund II, Inc. (the "Fund"), dated December 31, 1996, which may be obtained from the Fund or its underwriter, Waddell & Reed, Inc., at the address or telephone number shown above.

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#### PERFORMANCE INFORMATION

Waddell & Reed, Inc., the Fund's underwriter, or the Fund may, from time to time, publish the Fund's total return information, yield information and/or performance information in advertisements and sales materials.

##### Total Return

An average annual total return quotation is computed by finding the average annual compounded rates of return over the one-, five-, and ten-year periods that would equate the initial amount invested to the ending redeemable value. Standardized total return information is calculated by assuming an initial \$1,000 investment and, for Class A shares, from which the maximum sales load of 5.75% is deducted. All dividends and distributions are assumed to be reinvested in shares of the applicable class at net asset value for the class as of the day the dividend or distribution is paid. No sales load is charged on reinvested dividends or distributions on Class A shares. The formula used to calculate the total return for a particular class of the Fund is:

$$P(1 + T)^n = ERV$$

Where : P = \$1,000 initial payment  
 T = Average annual total return  
 n = Number of years

ERV = Ending redeemable value of the \$1,000 investment for the periods shown.

Non-standardized performance information may also be presented. For example, the Fund may also compute total return for its Class A shares without deduction of the sales load in which case the same formula noted above will be used but the entire amount of the \$1,000 initial payment will be assumed to have been invested. If the sales charge applicable to Class A shares were reflected, it would reduce the performance quoted for that class.

The average annual total return quotations for Class A shares as of September 30, 1996, which is the most recent balance sheet included in this SAI, for the periods shown were as follows:

	With Sales Load Deducted	Without Sales Load Deducted
One year period from October 1, 1995 to September 30, 1996:	5.47%	11.90%
Five-year period from October 1, 1991 to September 30, 1996:	10.12	11.43
Ten-year period from October 1, 1986 to September 30, 1996:	8.24	8.88

Prior to January 12, 1996, the Fund offered only one class of shares to the public. Shares outstanding on that date were designated as Class A shares. Since that date, Class Y shares of the Fund have been available to certain institutional investors.

The aggregate total return quotation for Class Y shares as of September 30, 1996, which is the most recent balance sheet included in this SAI, for the period shown was as follows:

Period from February 27, 1996\* to  
September 30, 1996: 5.00%

\*United High Income Fund II, Inc. first issued Class Y shares on February 27, 1996.

The Fund may also quote unaveraged or cumulative total return for a class which reflects the change in value of an investment in that class over a stated period of time. Cumulative total return will be calculated according to the formula indicated above but without averaging the rate for the number of years in the period.

#### Yield

A yield quoted for a class of the Fund is computed by dividing the net investment income per share of that class earned during the period for which the yield is shown by the maximum offering price per share of that class on the last day of that period according to the following formula:

$$\text{Yield} = 2 \left( \frac{a - b}{cd} + 1 \right)^{\frac{6}{\text{cd}}} - 1$$

Where, with respect to a particular class of the Fund:

- a = dividends and interest earned during the period.
- b = expenses accrued for the period (net of reimbursements).
- c = the average daily number of shares of the class outstanding during the period that were entitled to receive dividends.
- d = the maximum offering price per share of the class on the last day of the period.

The yield for Class A shares of the Fund computed according to the formula for the 30-day period ended on September 30, 1996, the date of the most recent balance sheet included in this SAI, is 7.23%. The yield for Class Y shares of the Fund computed according to the formula for the 30-day period ended on September 30, 1996, the date of the most recent balance sheet included in this SAI, is 7.99%.

Change in yields primarily reflect different interest rates received by the Fund as its portfolio securities change. Yield is also affected by portfolio quality, portfolio maturity, type of securities held and operating expenses of the applicable class.

#### Performance Rankings

Waddell & Reed, Inc. or the Fund also may from time to time publish in advertisements or sales material performance rankings as published by recognized independent mutual fund statistical services such as Lipper Analytical Services, Inc., or by publications of general interest such as Forbes, Money, The Wall Street Journal, Business Week, Barron's, Fortune or Morningstar Mutual Fund Values. Each class of the Fund may also compare its performance to that of other selected mutual funds or selected recognized market indicators such as the Standard & Poor's 500 Stock Index and the Dow Jones Industrial Average. Performance information may be quoted numerically or presented in a table, graph or other illustration.

All performance information that the Fund advertises or includes in sales material is historical in nature and is not intended to represent or guarantee future results. The value of a Fund's shares when redeemed may be more or less than their original cost.

#### GOALS AND INVESTMENT POLICIES

The goals and investment policies of the Fund are described in the Prospectus, which refers to the following investment methods and practices.

#### Securities -- General

The Fund may invest in securities including common stock, preferred stock, debt securities and convertible securities, as described in the Prospectus. These securities may include the following described securities from time to time.

The Fund may purchase debt securities whose principal amount at maturity is dependent upon the performance of a specified equity security. The issuer of such debt securities, typically an investment banking firm, is unaffiliated with the issuer of the equity security to whose performance the debt security is linked. Equity-linked debt securities differ from ordinary debt securities in that the principal amount received at maturity is not fixed, but is based on the price of the linked equity security at the time the debt security matures. The performance of equity-linked debt securities depends primarily on the performance of the linked equity security and may also be influenced by interest rate changes. In addition, although the debt securities are typically adjusted for diluting events such as stock splits, stock dividends and certain other events affecting the market value of the linked equity security, the debt securities are not adjusted for subsequent issuances of the linked equity security for cash. Such an issuance could adversely affect the price of the debt security. In addition to the equity risk relating to the linked equity security, such debt securities are also subject to credit risk with regard to the issuer of the debt security. In general, however, such debt securities are less volatile than the equity securities to which they are linked.

The Fund may also invest in a type of convertible preferred stock that pays a cumulative, fixed dividend that is senior to, and expected to be in excess of, the dividends paid on the common stock of the issuer. At the mandatory conversion date, the preferred stock is converted into not more than one share of the issuer's common stock at the "call price" that was established at the time the preferred stock was issued. If the price per share of the related common stock on the mandatory conversion date is less than the call price, the holder of the preferred stock will nonetheless receive only one share of common stock for each share of preferred stock (plus cash in the amount of any accrued but unpaid dividends). At any time prior to the mandatory conversion date, the issuer may redeem the preferred stock upon issuing to the holder a number of shares of common stock equal to the call price of the preferred stock in effect on the date of redemption divided by the market value of the common stock, with such market value typically determined one or two trading days prior to the date notice of redemption is given. The issuer must also pay the holder of the preferred stock cash in an amount equal to any accrued but unpaid dividends on the preferred stock. This convertible preferred stock is subject to the same market risk as the common stock of the issuer, except to the extent that such risk is mitigated by the higher dividend paid on the preferred stock. The opportunity for equity appreciation afforded by an investment in such convertible preferred stock, however, is limited, because in the event the market value of the issuer's common stock increases to or above the call price of the preferred stock, the issuer may (and would be expected to) call the preferred stock for redemption at the call price. This convertible preferred stock is also subject to credit risk with regard to the ability of the issuer to pay the dividend established upon issuance of the preferred stock. Generally, convertible preferred stock is less volatile than the related common stock of the issuer.

#### Specific Securities and Investment Practices

##### Common Stocks

As a fundamental policy, the Fund will not purchase, or otherwise voluntarily acquire, any common stocks unless, after such purchase or acquisition, not more than 20% of the value of its total assets would be invested in common stocks. This 20% limit includes common stocks acquired on conversion of convertible securities, on exercise of warrants or call options, or in any other voluntary manner. It does not include premiums paid or received in connection with put or call options, or the amount of any margin deposits as to options or futures contracts. If the Fund is invested up to 20% in common stocks, it may still purchase or sell futures and options relating to common stocks. The common stocks that the Fund purchases will be selected to try to achieve either a combination of the Fund's primary and secondary goals, in which case they will be dividend-paying, or its secondary goal, in which case they may not be dividend-paying; however, the Fund does not intend to invest more than 4% of its total assets in non-dividend-paying common stocks.

##### U.S. Government Securities

Securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities ("U.S. Government Securities") include Treasury Bills (which mature within one year of the date they are issued), Treasury Notes (which have maturities of one to ten years) and Treasury Bonds (which generally have maturities of more than 10 years). All such Treasury securities are backed by the full faith and credit of the United States.

U.S. Government agencies and instrumentalities that issue or guarantee securities include, but are not limited to, the Federal Housing Administration, Federal National Mortgage Association, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association, General Services Administration, Central Bank for

Cooperatives, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Farm Credit Banks, Maritime Administration, the Tennessee Valley Authority, the Resolution Funding Corporation, and the Student Loan Marketing Association.

Securities issued or guaranteed by U.S. Government agencies and instrumentalities are not always supported by the full faith and credit of the United States. Some, such as securities issued by the Federal Home Loan Banks, are backed by the right of the agency or instrumentality to borrow from the Treasury. Others, such as securities issued by the Federal National Mortgage Association, are supported only by the credit of the instrumentality and by a pool of mortgage assets. If the securities are not backed by the full faith and credit of the United States, the owner of the securities must look principally to the agency issuing the obligation for repayment and may not be able to assert a claim against the United States in the event that the agency or instrumentality does not meet its commitment.

U.S. Government Securities may include mortgage-backed securities issued by U.S. Government agencies or instrumentalities including, but not limited to, those issued by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae"). These mortgage-backed securities include "pass-through" securities and "participation certificates." Another type of mortgage-backed security is a collateralized mortgage obligation ("CMO"). See "Mortgage-Backed Securities." Timely payment of principal and interest on Ginnie Mae pass-throughs is guaranteed by the full faith and credit of the United States. Freddie Mac and Fannie Mae are both instrumentalities of the U.S. Government, but their obligations are not backed by the full faith and credit of the United States. It is possible that the availability and the marketability (i.e., liquidity) of the securities discussed in this section could be adversely affected by actions of the U.S. Government to tighten the availability of its credit.

#### Zero Coupon Bonds

A broker-dealer creates a derivative zero by separating the interest and principal components of a U.S. Treasury security and selling them as two individual securities. CATS (Certificates of Accrual on Treasury Securities), TIGRs (Treasury Investment Growth Receipts), and TRs (Treasury Receipts) are examples of derivative zeros.

The Federal Reserve Bank creates STRIPS (Separate Trading of Registered Interest and Principal of Securities) by separating the interest and principal components of an outstanding U.S. Treasury security and selling them as individual securities. Bonds issued by the Resolution Funding Corporation (REFCORP) and the Financing Corporation (FICO) can also be separated in this fashion. Original issue zeros are zero coupon securities originally issued by the U.S. Government, a government agency or a corporation in zero coupon form.

#### Mortgage-Backed Securities

A mortgage-backed security may be an obligation of the issuer backed by a mortgage or pool of mortgages or a direct interest in an underlying pool of mortgages. Mortgage-backed securities are based on different types of mortgages including those on commercial real estate or residential properties. Some mortgage-backed securities, such as collateralized mortgage obligations, make payments of both principal and interest at a variety of intervals; others make semiannual interest payments at a predetermined rate and repay principal at maturity (like a typical bond). Pass-through securities and participation certificates represent pools of mortgages that are assembled, with interests sold in the pool; the assembly is made by an "issuer," such as a mortgage banker, commercial bank or savings and loan association, which assembles the mortgages in the pool and passes through payments of principal and interest for a fee payable to it. Payments of principal and interest by individual mortgagors are passed through to the holders of the interest in the pool. Monthly or other regular payments on pass-through securities and participation certificates include payments of principal (including prepayments on mortgages in the pool) rather than only interest payments.

The Fund may purchase mortgage-backed securities issued by both government and non-government entities such as banks, mortgage lenders, or other financial institutions. Other types of mortgage-backed securities will likely be developed in the future, and the Fund may invest in them if Waddell & Reed Investment Management Company ("WRIMCO"), the Fund's investment manager, determines they are consistent with the Fund's goals and investment policies.

The value of mortgage-backed securities may change due to shifts in the market's perception of issuers. In addition, regulatory or tax changes may adversely affect the mortgage securities market as a whole. Non-government mortgage-backed securities may offer higher yields than those issued by government entities, but also may be subject to greater price changes than government issues. Mortgage-backed securities are subject to prepayment risk.

Prepayment, which occurs when unscheduled or early payments are made on the underlying mortgages, may shorten the effective maturities of these securities and may lower their total returns.

#### Stripped Mortgage-Backed Securities

Stripped mortgage-backed securities are created when a U.S. Government agency or a financial institution separates the interest and principal components of a mortgage-backed security and sells them as individual securities. The holder of the "principal-only" security ("PO") receives the principal payments made by the underlying mortgage-backed security, while the holder of the "interest-only" security ("IO") receives interest payments from the same underlying security.

The prices of stripped mortgage-backed securities may be particularly affected by changes in interest rates. As interest rates fall, prepayment rates tend to increase, which tends to reduce prices of IOs and increase prices of POs. Rising interest rates can have the opposite effect. The Fund intends to invest less than 5% of its total assets in stripped securities.

#### Variable or Floating Rate Instruments

Variable or floating rate instruments (including notes purchased directly from issuers) bear variable or floating interest rates and may carry rights that permit holders to demand payment of the unpaid principal balance plus accrued interest from the issuers or certain financial intermediaries on dates prior to their stated maturities. Floating rate securities have interest rates that change whenever there is a change in a designated base rate while variable rate instruments provide for a specified periodic adjustment in the interest rate. These formulas are designed to result in a market value for the instrument that approximates its par value.

#### Foreign Securities and Currency

The Fund may purchase foreign securities without limitation. The Fund will not speculate in foreign currencies, but may briefly hold foreign currencies in connection with the purchase or sale of foreign securities.

WRIMCO believes that there are investment opportunities as well as risks in investing in foreign securities. Individual foreign economies may differ favorably or unfavorably from the U.S. economy or each other in such matters as gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. Individual foreign companies may also differ favorably or unfavorably from domestic companies in the same industry. Foreign currencies may be stronger or weaker than the U.S. dollar or than each other. WRIMCO believes that the Fund's ability to invest a substantial portion of its assets abroad might enable it to take advantage of these differences and strengths where they are favorable.

Further, an investment in foreign securities may be affected by changes in currency rates and in exchange control regulations (i.e., currency blockage). The Fund may bear a transaction charge in connection with the exchange of currency. There may be less publicly available information about a foreign company than about a domestic company. Foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. Most foreign stock markets have substantially less volume than the New York Stock Exchange (the "NYSE") and securities of some foreign companies are less liquid and more volatile than securities of comparable domestic companies. There is generally less government regulation of stock exchanges, brokers and listed companies than in the United States. In addition, with respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, political or social instability or diplomatic developments that could adversely affect investments in securities of issuers located in those countries. If it should become necessary, the Fund would normally encounter greater difficulties in commencing a lawsuit against the issuer of a foreign security than it would against a U.S. issuer.

#### Restricted Securities

Restricted securities are subject to legal or contractual restrictions on resale because they are not registered under the Securities Act of 1933, as amended (the "1933 Act"). Restricted securities generally can be sold in privately negotiated transactions, pursuant to an exemption from registration under the 1933 Act, or in a registered public offering. Where registration is required, the Fund may be obligated to pay all or part of the registration expense and a considerable period may elapse between the time it decides to seek registration and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to seek registration of the security.

There are risks associated with investment in restricted securities in that there can be no assurance of a ready market for resale. Also, the contractual restrictions on resale might prevent the Fund from reselling the securities at a time when such sale would be desirable. Restricted securities that are traded in foreign markets are often subject to restrictions that prohibit resale to U.S. persons or entities or permit sales only to foreign broker-dealers who agree to limit their resale to such persons or entities. The buyer of such securities must enter into an agreement that, usually for a limited period of time, it will resell such securities subject to such restrictions. Restricted securities in which the Fund seeks to invest need not be listed or admitted to trading on a foreign or domestic exchange and may be less liquid than listed securities. See "Illiquid Investments" below.

#### Lending Securities

One of the ways in which the Fund may try to realize income is by lending its securities. If the Fund does this, the borrower pays the Fund an amount equal to the dividends or interest on the securities that the Fund would have received if it had not loaned the securities. The Fund also receives additional compensation.

Any securities loan that the Fund makes must be collateralized in accordance with applicable regulatory requirements (the "Guidelines"). This policy can only be changed by shareholder vote. Under the present Guidelines, the collateral must consist of cash, U.S. Government Securities or bank letters of credit, at least equal in value to the market value of the securities loaned on each day that the loan is outstanding. If the market value of the loaned securities exceeds the value of the collateral, the borrower must add more collateral so that it at least equals the market value of the securities loaned. If the market value of the securities decreases, the borrower is entitled to return of the excess collateral.

There are two methods of receiving compensation for making loans. The first is to receive a negotiated loan fee from the borrower. This method is available for all three types of collateral. The second method, which is not available when letters of credit are used as collateral, is for the Fund to receive interest on the investment of the cash collateral or to receive interest on the U.S. Government Securities used as collateral. Part of the interest received in either case may be shared with the borrower.

The letters of credit that the Fund may accept as collateral are agreements by banks (other than the borrowers of the Fund's securities), entered into at the request of the borrower and for its account and risk, under which the banks are obligated to pay to the Fund, while the letter is in effect, amounts demanded by the Fund if the demand meets the terms of the letter. The Fund's right to make this demand secures the borrower's obligations to it. The terms of any such letters and the creditworthiness of the banks providing them (which might include the Fund's custodian bank) must be satisfactory to the Fund. Under the Fund's current securities lending procedures, the Fund may lend securities only to broker-dealers and financial institutions deemed creditworthy by WRIMCO. The Fund will make loans only under rules of the NYSE, which presently require the borrower to give the securities back to the Fund within five business days after the Fund gives notice to do so. If the Fund loses its voting rights on securities loaned, it will have the securities returned to it in time to vote them if a material event affecting the investment is to be voted on. The Fund may pay reasonable finder's, administrative and custodian fees in connection with loans of securities.

There may be risks of delay in receiving additional collateral from the borrower if the market value of the securities loaned increases, risks of delay in recovering the securities loaned or even loss of rights in the collateral should the borrower of the securities fail financially.

Some, but not all, of these rules are necessary to meet requirements of certain laws relating to securities loans. These rules will not be changed unless the change is permitted under these requirements. These requirements do not cover the present rules, which may be changed without shareholder vote, as to: (i) whom securities may be loaned, (ii) the investment of cash collateral, or (iii) voting rights.

#### Repurchase Agreements

The Fund may purchase securities subject to repurchase agreements. The Fund will not enter into a repurchase transaction that will cause more than 10% of its net assets to be invested in illiquid investments, which include repurchase agreements not terminable within seven days. See "Illiquid Investments." A repurchase agreement is an instrument under which the Fund purchases a security and the seller (normally a commercial bank or broker-dealer) agrees, at the time of purchase, that it will repurchase the security at a specified time and price. The amount by which the resale price is greater



than the purchase price reflects an agreed-upon market interest rate effective for the period of the agreement. The return on the securities subject to the repurchase agreement may be more or less than the return on the repurchase agreement.

The majority of the repurchase agreements in which the Fund would engage are overnight transactions, and the delivery pursuant to the resale typically will occur within one to five days of the purchase. The primary risk is that the Fund may suffer a loss if the seller fails to pay the agreed-upon amount on the delivery date and that amount is greater than the resale price of the underlying securities and other collateral held by the Fund. In the event of bankruptcy or other default by the seller, there may be possible delays and expenses in liquidating the underlying securities or other collateral, decline in their value and loss of interest. The return on such collateral may be more or less than that from the repurchase agreement. The Fund's repurchase agreements will be structured so as to fully collateralize the loans, i.e., the value of the underlying securities, which will be held by the Fund's custodian bank or by a third party that qualifies as a custodian under Section 17(f) of the Investment Company Act of 1940, as amended (the "1940 Act"), is and, during the entire term of the agreement, will remain at least equal to the value of the loan, including the accrued interest earned thereon. Repurchase agreements are entered into only with those entities approved by WRIMCO on the basis of criteria established by the Board of Directors.

#### When-Issued and Delayed-Delivery Transactions

The Fund may purchase securities in which it may invest on a when-issued or delayed-delivery basis or sell them on a delayed-delivery basis. The securities so purchased or sold by the Fund are subject to market fluctuation; their value may be less or more when delivered than the purchase price paid or received. For example, delivery to the Fund and payment by the Fund in the case of a purchase by it, or delivery by the Fund and payment to it in the case of a sale by the Fund, may take place a month or more after the date of the transaction. The purchase or sale price is fixed on the transaction date. The Fund will enter into when-issued or delayed-delivery transactions in order to secure what is considered to be an advantageous price and yield at the time of entering into the transaction. No interest accrues to the Fund until delivery and payment is completed. When the Fund makes a commitment to purchase securities on a when-issued or delayed-delivery basis, it will record the transaction and thereafter reflect the value of the securities in determining its net asset value per share. The securities sold by the Fund on a delayed-delivery basis are also subject to market fluctuation; their value when the Fund delivers them may be more than the purchase price the Fund receives. When the Fund makes a commitment to sell securities on a delayed basis, it will record the transaction and thereafter value the securities at the sales price in determining the Fund's net asset value per share.

Ordinarily the Fund purchases securities on a when-issued or delayed-delivery basis with the intention of actually taking delivery of the securities. However, before the securities are delivered to the Fund and before it has paid for them (the "settlement date"), the Fund could sell the securities if WRIMCO decided it was advisable to do so for investment reasons. The Fund will hold aside or segregate cash or other securities, other than those purchased on a when-issued or delayed-delivery basis, at least equal to the amount it will have to pay on the settlement date; these other securities may, however, be sold at or before the settlement date to pay the purchase price of the when-issued or delayed-delivery securities.

#### Illiquid Investments

The Fund has an operating policy, which may be changed without shareholder approval, which provides that the Fund may not invest more than 10% of its net assets in illiquid investments. Investments currently considered to be illiquid include: (i) repurchase agreements not terminable within seven days; (ii) restricted securities not determined to be liquid pursuant to guidelines established by the Fund's Board of Directors; (iii) securities for which market quotations are not readily available; and (iv) over-the-counter ("OTC") options and their underlying collateral. The assets used as cover for OTC options written by the Fund will be considered illiquid unless the OTC options are sold to qualified dealers who agree that the Fund may repurchase any OTC option it writes at a maximum price to be calculated by a formula set forth in the option agreement. The cover for an OTC option written subject to this procedure would be considered illiquid only to the extent that the maximum repurchase price under the formula exceeds the intrinsic value of the option.

#### Indexed Securities

The Fund may purchase securities the value of which varies in relation to the value of other securities, securities indices, currencies, precious metals or other commodities, or other financial indicators. Indexed securities typically, but not always, are debt securities or deposits whose value at

maturity or coupon rate is determined by reference to a specific instrument or statistic. Gold-indexed securities, for example, typically provide for a maturity value that depends on the price of gold, resulting in a security whose price tends to rise and fall together with gold prices. Currency-indexed securities typically are short-term to intermediate-term debt securities whose maturity values or interest rates are determined by reference to the values of one or more specified foreign currencies, and may offer higher yields than U.S. dollar-denominated securities of equivalent issuers. Currency-indexed securities may be positively or negatively indexed; that is, their maturity value may increase when the specified currency value increases, resulting in a security that performs similarly to a foreign-denominated instrument, or their maturity value may decline when foreign currencies increase, resulting in a security whose price characteristics are similar to a put on the underlying currency. Currency-indexed securities may also have prices that depend on the values of a number of different foreign currencies relative to each other.

Recent issuers of indexed securities have included banks, corporations, and certain U.S. Government agencies. Certain indexed securities that are not traded on an established market may be deemed illiquid.

#### Warrants

As a fundamental policy, the Fund may not invest more than 5% of its net assets, valued at the lower of cost or market, in warrants. Warrants acquired in units or attached to other securities are not considered for purposes of computing this limitation.

Warrants are options to purchase equity securities at specific prices valid for a specific period of time. The prices do not necessarily move parallel to the prices of the underlying securities. Warrants have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer. Warrants are highly volatile and, therefore, more susceptible to a sharp decline in value than the underlying security might be. They are also generally less liquid than an investment in the underlying shares.

#### Real Estate

As an operating policy, the Fund may not invest in real estate; however, the Fund may invest in securities (other than limited partnership interests) issued by companies engaged in such business, including real estate investment trusts.

#### Options, Futures and Other Strategies

General. As discussed in the Prospectus, WRIMCO may use certain options to attempt to enhance income or yield or may attempt to reduce overall risk of its investments by using certain options and futures contracts (sometimes referred to as "futures"). Options and futures are sometimes referred to collectively as "Financial Instruments." The Fund's ability to use a particular Financial Instrument may be limited by its investment limitations or operating policies. See "Investment Restrictions."

Hedging strategies can be broadly categorized as "short hedges" and "long hedges." A short hedge is a purchase or sale of a Financial Instrument intended partially or fully to offset potential declines in the value of one or more investments held in the Fund's portfolio. Thus, in a short hedge the Fund takes a position in a Financial Instrument whose price is expected to move in the opposite direction of the price of the investment being hedged.

Conversely, a long hedge is a purchase or sale of a Financial Instrument intended partially or fully to offset potential increases in the acquisition cost of one or more investments that the Fund intends to acquire. Thus, in a long hedge the Fund takes a position in a Financial Instrument whose price is expected to move in the same direction as the price of the prospective investment being hedged. A long hedge is sometimes referred to as an anticipatory hedge. In an anticipatory hedge transaction, the Fund does not own a corresponding security and, therefore, the transaction does not relate to a security the Fund owns. Rather, it relates to a security that the Fund intends to acquire. If the Fund does not complete the hedge by purchasing the security it anticipated purchasing, the effect on the Fund's portfolio is the same as if the transaction were entered into for speculative purposes.

Financial Instruments on securities generally are used to attempt to hedge against price movements in one or more particular securities positions that the Fund owns or intends to acquire. Financial Instruments on indices, in contrast, generally are used to attempt to hedge against price movements in market sectors in which the Fund has invested or expects to invest. Financial Instruments on debt securities may be used to hedge either individual securities or broad debt market sectors.

The use of Financial Instruments is subject to applicable regulations of

the Securities and Exchange Commission (the "SEC"), the several exchanges upon which they are traded, the Commodity Futures Trading Commission (the "CFTC"). In addition, the Fund's ability to use Financial Instruments will be limited by tax considerations. See "Taxes."

In addition to the instruments, strategies and risks described below and in the Prospectus, WRIMCO expects to discover additional opportunities in connection with options, futures contracts, options on futures contracts and other similar or related techniques. These new opportunities may become available as WRIMCO develops new techniques, as regulatory authorities broaden the range of permitted transactions and as new options, futures contracts, options on futures contracts or other techniques are developed. WRIMCO may utilize these opportunities to the extent that they are consistent with the Fund's goals and permitted by the Fund's investment limitations and applicable regulatory authorities. The Fund's Prospectus or SAI will be supplemented to the extent that new products or techniques involve materially different risks than those described below or in the Prospectus.

**Special Risks.** The use of Financial Instruments involves special considerations and risks, certain of which are described below. Risks pertaining to particular Financial Instruments are described in the sections that follow.

(1) Successful use of most Financial Instruments depends upon WRIMCO's ability to predict movements of the overall securities and interest rate markets, which requires different skills than predicting changes in the prices of individual securities. There can be no assurance that any particular strategy will succeed.

(2) There might be imperfect correlation, or even no correlation, between price movements of a Financial Instrument and price movements of the investments being hedged. For example, if the value of a Financial Instrument used in a short hedge increased by less than the decline in value of the hedged investment, the hedge would not be fully successful. Such a lack of correlation might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which Financial Instruments are traded. The effectiveness of hedges using Financial Instruments on indices will depend on the degree of correlation between price movements in the index and price movements in the securities being hedged.

Because there are a limited number of types of exchange-traded options and futures contracts, it is likely that the standardized contracts available will not match the Fund's current or anticipated investments exactly. The Fund may invest in options and futures contracts based on securities with different issuers, maturities, or other characteristics from the securities in which it typically invests, which involves a risk that the options or futures position will not track the performance of the Fund's other investments.

Options and futures prices can also diverge from the prices of their underlying instruments, even if the underlying instruments match the Fund's investments well. Options and futures prices are affected by such factors as current and anticipated short-term interest rates, changes in volatility of the underlying instrument, and the time remaining until expiration of the contract, which may not affect security prices the same way. Imperfect correlation may also result from differing levels of demand in the options and futures markets and the securities markets, from structural differences in how options and futures and securities are traded, or from imposition of daily price fluctuation limits or trading halts. The Fund may purchase or sell options and futures contracts with a greater or lesser value than the securities it wishes to hedge or intends to purchase in order to attempt to compensate for differences in volatility between the contract and the securities, although this may not be successful in all cases. If price changes in the Fund's options or futures positions are poorly correlated with its other investments, the positions may fail to produce anticipated gains or result in losses that are not offset by gains in other investments.

(3) If successful, the above-discussed strategies can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements. However, such strategies can also reduce opportunity for gain by offsetting the positive effect of favorable price movements. For example, if the Fund entered into a short hedge because WRIMCO projected a decline in the price of a security in the Fund's portfolio, and the price of that security increased instead, the gain from that increase might be wholly or partially offset by a decline in the price of the Financial Instrument. Moreover, if the price of the Financial Instrument declined by more than the increase in the price of the security, the Fund could suffer a loss. In either such case, the Fund would have been in a better position had it not attempted to hedge at all.

(4) As described below, the Fund might be required to maintain assets as "cover," maintain segregated accounts or make margin payments when it takes positions in Financial Instruments involving obligations to third parties (i.e.,

Financial Instruments other than purchased options). If the Fund were unable to close out its positions in such Financial Instruments, it might be required to continue to maintain such assets or accounts or make such payments until the position expired or matured. These requirements might impair the Fund's ability to sell a portfolio security or make an investment at a time when it would otherwise be favorable to do so, or require that the Fund sell a portfolio security at a disadvantageous time. The Fund's ability to close out a position in a Financial Instrument prior to expiration or maturity depends on the existence of a liquid secondary market or, in the absence of such a market, the ability and willingness of the other party to the transaction ("counterparty") to enter into a transaction closing out the position. Therefore, there is no assurance that any position can be closed out at a time and price that is favorable to the Fund.

Cover. Transactions using Financial Instruments, other than purchased options, expose the Fund to an obligation to another party. The Fund will not enter into any such transactions unless it owns either (1) an offsetting ("covered") position in securities or other options or futures contracts, or (2) cash and liquid assets with a value, marked-to-market daily, sufficient to cover its potential obligations to the extent not covered as provided in (1) above. The Fund will comply with SEC guidelines regarding cover for these instruments and will, if the guidelines so require, set aside cash or liquid assets in a segregated account with its custodian in the prescribed amount as determined daily.

Assets used as cover or held in a segregated account cannot be sold while the position in the corresponding Financial Instrument is open, unless they are replaced with other appropriate assets. As a result, the commitment of a large portion of the Fund's assets to cover or segregated accounts could impede portfolio management or the Fund's ability to meet redemption requests or other current obligations.

Options. The Fund may purchase call options ("calls") and write (i.e., sell) calls only if: (i) the investments to which the call relates (the "related investments") are (a) debt securities, (b) common stocks, or (c) "broadly-based" stock indices (i.e., include stocks that are not limited to issuers in any particular industry or similar industries), and (ii) in the case of calls written by the Fund, such calls are (except for calls on stock indices and futures) covered, i.e., the Fund owns the related investments (or other investments suitable for escrow arrangements) while the call is outstanding. The Fund may purchase put options ("puts") or write (i.e., sell) puts only if the related investment is one of those listed above as to calls. The Fund may also purchase and sell the options on futures contracts described below. The above limitations on the puts and calls the Fund may write or purchase are fundamental policies, i.e., rules that may only be changed by a shareholder vote. The Fund has no fundamental policies as to percentage limitations on its purchase and sale of options.

The purchase of call options serves as a long hedge, and the purchase of put options serves as a short hedge. Writing put or call options can enable the Fund to enhance income or yield by reason of the premiums paid by the purchasers of such options. However, if the market price of the security underlying a put option declines to less than the exercise price of the option, minus the premium received, the Fund would expect to suffer a loss.

Writing call options can also serve as a limited short hedge, because declines in the value of the hedged investment would be offset to the extent of the premium received for writing the option. However, if the security appreciates to a price higher than the exercise price of the call option, it can be expected that the option will be exercised and the Fund will be obligated to sell the security at less than its market value.

Writing put options can serve as a limited long hedge because increases in the value of the hedged investment would be offset to the extent of the premium received for writing the option. However, if the security depreciates to a price lower than the exercise price of the put option, it can be expected that the put option will be exercised and the Fund will be obligated to purchase the security at more than its market value. If the put option is an OTC option, the securities or other assets used as cover would be considered illiquid to the extent described under "Illiquid Investments."

The value of an option position will reflect, among other things, the current market value of the underlying investment, the time remaining until expiration, the relationship of the exercise price to the market price of the underlying investment, the historical price volatility of the underlying investment and general market conditions. Options that expire unexercised have no value.

The Fund may effectively terminate its right or obligation under an option

by entering into a closing transaction. For example, the Fund may terminate its obligation under a call or put option that it had written by purchasing an identical call or put option; this is known as a closing purchase transaction. Conversely, the Fund may terminate a position in a put or call option it had purchased by writing an identical put or call option; this is known as a closing sale transaction. Closing transactions permit the Fund to realize profits or limit losses on an option position prior to its exercise or expiration.

A type of put that the Fund may purchase is an "optional delivery standby commitment," which is entered into by parties selling debt securities to the Fund. An optional delivery standby commitment gives the Fund the right to sell the security back to the seller on specified terms. This right is provided as an inducement to purchase the security.

**Risks of Options on Securities.** The Fund is authorized to purchase and sell both listed and OTC options. Exchange markets for options on debt securities exist, but these instruments are primarily traded on the OTC market. Exchange-traded options in the United States are issued by a clearing organization affiliated with the exchange on which the option is listed that, in effect, guarantees completion of every exchange-traded option transaction. In contrast, OTC options are contracts between the Fund and its counterparty (usually a securities dealer or a bank) with no clearing organization guarantee. Thus, when the Fund purchases an OTC option, it relies on the counterparty from whom it purchased the option to make or take delivery of the underlying investment upon exercise of the option. Failure by the counterparty to do so would result in the loss of any premium paid by the Fund as well as the loss of any expected benefit of the transaction. WRIMCO will evaluate the ability to enter into closing purchase transactions in unlisted options prior to writing them.

The Fund's ability to establish and close out positions in exchange-listed options depends on the existence of a liquid market. However, there can be no assurance that such a market will exist at any particular time. Closing transactions can be made for OTC options only by negotiating directly with the counterparty, or by a transaction in the secondary market if any such market exists. Although the Fund will enter into OTC options only with major dealers in unlisted options, there is no assurance that the Fund will in fact be able to close out an OTC option position at a favorable price prior to expiration. WRIMCO will evaluate the ability to enter into closing purchase transactions on unlisted options prior to writing them. In the event of insolvency of the counterparty, the Fund might be unable to close out an OTC option position at any time prior to its expiration.

If the Fund were unable to effect a closing transaction for an option it had purchased, it would have to exercise the option to realize any profit. The inability to enter into a closing purchase transaction for a covered call option written by the Fund could cause material losses because the Fund would be unable to sell the investment used as cover for the written option until the option expires or is exercised.

**Options on Stock Indices.** The Fund is permitted to write and purchase options on broadly-based stock indices. Broadly-based stock indices include stocks that are not limited to issuers in any particular industry or similar industries. The Fund may write options on stock indices to generate income. The Fund may also purchase calls on stock indices to hedge against anticipated increases in the price of securities it wishes to acquire and purchase puts on stock indices to hedge against anticipated declines in the market value of its portfolio securities.

Puts and calls on stock indices are similar to puts and calls on securities or futures contracts except that all settlements are in cash and gain or loss depends on changes in the broad-based index in question rather than on price movements in individual securities or futures contracts. When the Fund writes a call on a stock index, it receives a premium and agrees that, prior to the expiration date, the purchaser of the call, upon exercise of the call, will receive from the Fund an amount of cash if the closing level of the stock index upon which the call is based is greater than the exercise price of the call. The amount of cash is equal to the difference between the closing price of the index and the exercise price of the call times a specified multiple (the "multiplier"), which determines the total dollar value for each point of such difference. When the Fund buys a call on a stock index, it pays a premium and has the same rights as to a writer of such call as are indicated above. When the Fund buys a put on a stock index, it pays a premium and has the right, prior to the expiration date, to require the seller of the put, upon the Fund's exercise of the put, to deliver to the Fund an amount of cash if the closing level of the stock index upon which the put is based is less than the exercise price of the put, which amount of cash is determined by the multiplier, as described above for calls. When the Fund writes a put on a stock index, it receives a premium and the purchaser has the right, prior to the expiration date, to require the Fund to deliver to it an amount of cash equal to the difference between the closing level of the stock index and the exercise price

times the multiplier if the closing level is less than the exercise price.

**Risks of Options on Stock Indices.** The risks of investment in options on stock indices may be greater than options on securities. Because stock index options are settled in cash, when the Fund writes a call on a stock index it cannot provide in advance for its potential settlement obligations by acquiring and holding the underlying securities. The Fund can offset some of the risk of writing a call index option by holding a diversified portfolio of stocks similar to those on which the underlying index is based. However, the Fund cannot, as a practical matter, acquire and hold a portfolio containing exactly the same stocks as underlie the index and, as a result, bears a risk that the value of the securities held will vary from the value of the index.

Even if the Fund could assemble a stock portfolio that exactly reproduced the composition of the underlying index, it still would not be fully covered from a risk standpoint because of the "timing risk" inherent in writing index options. When an index option is exercised, the amount of cash that the holder is entitled to receive is determined by the difference between the exercise price and the closing index level on the date when the option is exercised. As with other kinds of options, the Fund as the call writer will not learn that it has been assigned until the next business day at the earliest. The time lag between exercise and notice of assignment poses no risk for the writer of a covered call on a specific underlying security, such as common stock, because there the writer's obligation is to deliver the underlying security, not to pay its value as of a fixed time in the past. So long as the writer already owns the underlying security, it can satisfy its settlement obligations by simply delivering it, and the risk that its value may have declined since the exercise date is borne by the exercising holder. In contrast, even if the writer of an index call holds stocks that exactly match the composition of the underlying index, it will not be able to satisfy its assignment obligations by delivering those stocks against payment of the exercise price. Instead, it will be required to pay cash in an amount based on the closing index value on the exercise date. By the time it learns that it has been assigned, the index may have declined, with a corresponding decline in the value of its stock portfolio. This "timing risk" is an inherent limitation on the ability of index call writers to cover their risk exposure by holding stock positions.

If the Fund has purchased an index option and exercises it before the closing index value for that day is available, it runs the risk that the level of the underlying index may subsequently change. If such a change causes the exercised option to fall out-of-the-money, the Fund will be required to pay the difference between the closing index value and the exercise price of the option (times the applicable multiplier) to the assigned writer.

**Futures Contracts and Options Thereon.** The Fund may buy and sell futures contracts, but only futures contracts relating to debt securities ("Debt Futures") and futures contracts on broadly-based stock indices (i.e., include stocks that are not limited to issuers in any particular industry or similar industries) ("Stock Index Futures"), and may also buy and sell options on Debt Futures and Stock Index Futures. The limitation on buying and selling futures contracts and options on futures contracts to the futures described above is a fundamental policy that may only be changed by a shareholder vote. The Fund has no other fundamental policies as to its use of futures and options thereon and, thus, no fundamental policy as to a percentage limitation thereon; see below, however, as to limitations relating to the CFTC.

The purchase of futures or call options on futures can serve as a long hedge, and the sale of futures or the purchase of put options on futures can serve as a short hedge. Writing call options on futures contracts can serve as a limited short hedge, using a strategy similar to that used for writing call options on securities or indices. Similarly, writing put options on futures contracts can serve as a limited long hedge.

Futures strategies also can be used to manage the average duration of the Fund's fixed-income portfolio. If WRIMCO wishes to shorten the average duration of the Fund's fixed-income portfolio, the Fund may sell a futures contract or a call option thereon, or purchase a put option on that futures contract. If WRIMCO wishes to lengthen the average duration of the Fund's fixed-income portfolio, the Fund may buy a futures contract or a call option thereon, or sell a put option thereon.

No price is paid upon entering into a futures contract. Instead, at the inception of a futures contract the Fund is required to deposit "initial margin" consisting of cash or U.S. Government Securities in an amount generally equal to 10% or less of the contract value. Margin must also be deposited when writing a call or put option on a futures contract, in accordance with applicable exchange rules. Unlike margin in securities transactions, initial margin on futures contracts does not represent a borrowing, but rather is in the nature of a performance bond or good-faith deposit that is returned to the Fund at the termination of the transaction if all contractual obligations have been satisfied. Under certain circumstances, such as periods of high volatility, the

Fund may be required by an exchange to increase the level of its initial margin payment, and initial margin requirements might be increased generally in the future by regulatory action.

Subsequent "variation margin" payments are made to and from the futures broker daily as the value of the futures position varies, a process known as "marking-to-market." Variation margin does not involve borrowing, but rather represents a daily settlement of the Fund's obligations to or from a futures broker. When the Fund purchases an option on a future, the premium paid plus transaction costs is all that is at risk. In contrast, when the Fund purchases or sells a futures contract or writes a call or put option thereon, it is subject to daily variation margin calls that could be substantial in the event of adverse price movements. If the Fund has insufficient cash to meet daily variation margin requirements, it might need to sell securities at a time when such sales are disadvantageous.

Purchasers and sellers of futures contracts and options on futures can enter into offsetting closing transactions, similar to closing transactions on options, by selling or purchasing, respectively, an instrument identical to the instrument purchased or sold. Positions in futures and options on futures may be closed only on an exchange or board of trade that provides a secondary market. The Fund intends to enter into futures and options on futures only on exchanges or boards of trade where there appears to be a liquid secondary market. However, there can be no assurance that such a market will exist for a particular contract at a particular time. In such event, it may not be possible to close a futures contract or options position.

Under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract or an option on a futures contract can vary from the previous day's settlement price; once that limit is reached, no trades may be made that day at a price beyond the limit. Daily price limits do not limit potential losses because prices could move to the daily limit for several consecutive days with little or no trading, thereby preventing liquidation of unfavorable positions.

If the Fund were unable to liquidate a futures contract or options on futures position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk with respect to the position. In addition, except in the case of purchased options, the Fund would continue to be required to make daily variation margin payments and might be required to maintain the position being hedged by the future or option or to maintain cash or securities in a segregated account.

As an operating policy, to the extent that the Fund enters into futures contracts or options on futures contracts, in each case other than for bona fide hedging purposes (as defined by the CFTC), the aggregate initial margin and premiums required to establish those positions (excluding the amount by which options are "in-the-money" at the time of purchase) will not exceed 5% of the liquidation value of the Fund's portfolio, after taking into account unrealized profits and unrealized losses on any contracts the Fund has entered into. (In general, a call option on a futures contract is "in-the-money" if the value of the underlying futures contract exceeds the strike, i.e., exercise, price of the call; a put option on a futures contract is "in-the-money" if the value of the underlying futures contract is exceeded by the strike price of the put.) This policy does not limit to 5% the percentage of the Fund's assets that are at risk in futures contracts and options on futures contracts.

Risk of Futures Contracts and Options Thereon. The ordinary spreads between prices in the cash and futures markets (including the options on futures market), due to the differences in the natures of those markets, are subject to the following factors, which may create distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close future contracts through offsetting transactions, which could distort the normal relationship between the cash and futures markets. Second, the liquidity of the futures market depends on participants entering into offsetting transactions rather than making or taking delivery. To the extent participants decide to make or take delivery, liquidity in the futures market could be reduced, thus producing distortion. Third, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market may cause temporary price distortions. Due to the possibility of distortion, a correct forecast of general interest or stock market trends by WRIMCO may still not result in a successful transaction.

WRIMCO may be incorrect in its expectations as to the extent of various interest rate movements or stock market movements or the time span within which the movements take place.

Stock Index Futures. The risk of imperfect correlation between movements

in the price of Stock Index Futures and movements in the price of the securities that are the subject of the hedge increases as the composition of the Fund's common stock portfolio diverges from the common stocks included in the applicable index. The price of the Stock Index Future may move more than or less than the price of the securities being hedged. If the price of the Stock Index Future moves less than the price of the securities that are the subject of the hedge, the hedge will not be fully effective but, if the price of the securities being hedged has moved in an unfavorable direction, the Fund would be in a better position than if it had not hedged at all. If the price of the securities being hedged has moved in a favorable direction, this advantage will be partially offset by the futures contract. If the price of the futures contract moves more than the price of the securities, the Fund will experience either a loss or a gain on the future that will not be completely offset by movements in the price of the securities that are the subject of the hedge. To compensate for the imperfect correlation of movements in the price of the securities being hedged and movements in the price of the Stock Index Futures, the Fund may buy or sell Stock Index Futures in a greater dollar amount than the dollar amount of the securities being hedged if the historical volatility of the prices of such securities being hedged is more than the historical volatility of the prices of the securities included in the index. It is also possible that, where the Fund has sold Stock Index Futures to hedge its common stocks against decline in the market, the market may advance and the value of securities held in the portfolio may decline. If this occurred, the Fund would lose money on the futures contracts and also experience a decline in value in its portfolio securities. However, while this could occur for a very brief period or to a very small degree, over time the value of a diversified portfolio of securities will tend to move in the same direction as the market indices upon which the futures are based.

Where Stock Index Futures are purchased to hedge against a possible increase in the price of securities before the Fund is able to invest in them in an orderly fashion, it is possible that the market may decline instead. If the Fund then concludes not to invest in them at that time because of concern as to possible further market decline or for other reasons, it will realize loss on the futures contracts that is not offset by a reduction in the price of the common stocks it had anticipated purchasing.

Combined Positions. The Fund may purchase and write options in combination with each other, or in combination with futures contracts, to adjust the risk and return characteristics of its overall position. For example, the Fund may purchase a put option and write a call option on the same underlying instrument, in order to construct a combined position whose risk and return characteristics are similar to selling a futures contract. Another possible combined position would involve writing a call option at one strike price and buying a call option at a lower price, in order to reduce the risk of the written call option in the event of a substantial price increase. Because combined options positions involve multiple trades, they result in higher transaction costs and may be more difficult to open and close out.

Turnover. The Fund's options and futures activities may affect its turnover rate and brokerage commission payments. The exercise of calls or puts written by the Fund, and the sale or purchase of futures contracts, may cause it to sell or purchase related investments, thus increasing its turnover rate. Once the Fund has received an exercise notice on an option it has written, it cannot effect a closing transaction in order to terminate its obligation under the option and must deliver or receive the underlying securities at the exercise price. The exercise of puts purchased by the Fund may also cause the sale of related investments, also increasing turnover; although such exercise is within the Fund's control, holding a protective put might cause it to sell the related investments for reasons that would not exist in the absence of the put. The Fund will pay a brokerage commission each time it buys or sells a put or call or purchases or sells a futures contract. Such commissions may be higher than those that would apply to direct purchases or sales.

#### Investment Restrictions

Certain of the Fund's investment restrictions are described in the Prospectus. The following are fundamental policies and, together with certain restrictions described in the Prospectus, cannot be changed without shareholder approval. Under these additional restrictions, the Fund may not:

- (i) Buy commodities or commodity contracts; however, it may buy and sell options and futures as permitted by any other fundamental policy, whether or not any such option or future is considered to be a commodity or a commodity contract;
- (ii) Invest in mineral related programs or leases;
- (iii) Buy the securities of a company if it would then own more than 10% of the voting securities or any class of securities of that company; or buy the securities of any company if more than 5% of the Fund's total assets



(valued at market value) would then be invested in that company; or buy the securities of companies in any one industry if more than 25% of the Fund's total assets would then be invested in companies in that industry;

- (iv) Buy shares of other investment companies that redeem their shares. The Fund may buy shares of investment companies that do not redeem their shares if it does so in a regular transaction in the open market and then does not have more than one tenth (i.e., 10%) of its total assets in these shares; the Fund may also buy these shares as part of a merger or consolidation;
- (v) Invest for the purpose of exercising control or management of other companies;
- (vi) Buy or continue to hold securities of a company if the Fund's Directors or officers or certain others who own more than .5 of 1% of the shares of that company own in the aggregate more than 5% of the shares of that company;
- (vii) Participate on a joint, or a joint and several, basis in any trading account in any securities;
- (viii) Sell securities short or buy securities on margin; also, the Fund may not engage in arbitrage transactions; however, the Fund may make margin deposits in connection with any of the financial instruments it is permitted to buy or sell in accordance with any other fundamental policies;
- (ix) Engage in the underwriting of securities, except to the extent it may be deemed to be an underwriter in connection with the sale of restricted securities; however, the Fund will not purchase restricted securities if as a result of such purchase more than 10% of its assets would be invested in such securities;
- (x) Borrow for investment purposes, that is, to purchase securities or mortgage or pledge any of its assets; this does not prohibit the escrow arrangements contemplated by the writing of covered call options. The Fund may borrow money from banks as a temporary measure or for extraordinary or emergency purposes but only up to 5% of its total assets; or
- (xi) Make loans other than certain limited types of loans; the Fund may buy debt securities which have been sold to the public; it may also buy other obligations customarily acquired by institutional investors; this can be considered to be making loans. The Fund may also enter into repurchase agreements (see "Repurchase Agreements" above) and lend its securities (see "Lending Securities" above).

#### Portfolio Turnover

A portfolio turnover rate is, in general, the percentage computed by taking the lesser of purchases or sales of portfolio securities for a year and dividing it by the monthly average of the market value of such securities during the year, excluding certain short-term securities. The Fund's turnover rate may vary greatly from year to year as well as within a particular year and may be affected by cash requirements for the redemption of its shares.

The Fund's portfolio turnover rate for the fiscal years ended September 30, 1996 and 1995 was 55.64% and 26.82%, respectively.

#### INVESTMENT MANAGEMENT AND OTHER SERVICES

##### The Management Agreement

The Fund has an Investment Management Agreement (the "Management Agreement") with Waddell & Reed, Inc. On January 8, 1992, subject to the authority of the Fund's Board of Directors, Waddell & Reed, Inc. assigned the Management Agreement and all related investment management duties (and related professional staff) to WRIMCO, a wholly-owned subsidiary of Waddell & Reed, Inc. Under the Management Agreement, WRIMCO is employed to supervise the investments of the Fund and provide investment advice to the Fund. The address of WRIMCO and Waddell & Reed, Inc. is 6300 Lamar Avenue, P.O. Box 29217, Shawnee Mission, Kansas 66201-9217. Waddell & Reed, Inc. is the Fund's underwriter.

The Management Agreement permits Waddell & Reed, Inc. or an affiliate of Waddell & Reed, Inc. to enter into a separate agreement for transfer agency services ("Shareholder Servicing Agreement") and a separate agreement for accounting services ("Accounting Services Agreement") with the Fund. The Management Agreement contains detailed provisions as to the matters to be considered by the Fund's Board of Directors prior to approving any Shareholder

Servicing Agreement or Accounting Services Agreement.

Torchmark Corporation and United Investors Management Company

WRIMCO is a wholly-owned subsidiary of Waddell & Reed, Inc. Waddell & Reed, Inc. is a wholly-owned subsidiary of Waddell & Reed Financial Services, Inc., a holding company. Waddell & Reed Financial Services, Inc. is a wholly-owned subsidiary of United Investors Management Company. United Investors Management Company is a wholly-owned subsidiary of Torchmark Corporation. Torchmark Corporation is a publicly-held company. The address of Torchmark Corporation and United Investors Management Company is 2001 Third Avenue South, Birmingham, Alabama 35233.

Waddell & Reed, Inc. and its predecessors served as investment manager to each of the registered investment companies in the United Group of Mutual Funds, except United Asset Strategy Fund, Inc., since 1940 or the company's inception date, whichever was later, and to TMK/United Funds, Inc. since that fund's inception, until January 8, 1992 when it assigned its duties as investment manager for these funds (and the related professional staff) to WRIMCO. WRIMCO has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and United Asset Strategy Fund, Inc. since it commenced operations in March 1995. Waddell & Reed, Inc. serves as principal underwriter for the investment companies in the United Group of Mutual Funds and Waddell & Reed Funds, Inc. and acts as principal underwriter and distributor for variable life insurance and variable annuity policies issued by United Investors Life Insurance Company for which TMK/United Funds, Inc. is the underlying investment vehicle.

Shareholder Services

Under the Shareholder Servicing Agreement entered into between the Fund and Waddell & Reed Services Company (the "Agent"), a subsidiary of Waddell & Reed, Inc., the Agent performs shareholder servicing functions, including the maintenance of shareholder accounts, the issuance, transfer and redemption of shares, distribution of dividends and payment of redemptions, the furnishing of related information to the Fund and handling of shareholder inquiries. A new Shareholder Servicing Agreement, or amendments to the existing one, may be approved by the Fund's Board of Directors without shareholder approval.

Accounting Services

Under the Accounting Services Agreement entered into between the Fund and the Agent, the Agent provides the Fund with bookkeeping and accounting services and assistance, including maintenance of the Fund's records, pricing of the Fund's shares, and preparation of prospectuses for existing shareholders, proxy statements and certain reports. A new Accounting Services Agreement, or amendments to an existing one, may be approved by the Fund's Board of Directors without shareholder approval.

Payments by the Fund for Management, Accounting and Shareholder Services

Under the Management Agreement, for WRIMCO's management services, the Fund pays WRIMCO a fee as described in the Prospectus. The management fees paid by the Fund to WRIMCO during the Fund's fiscal years ended September 30, 1996, 1995 and 1994 were \$2,048,451, \$2,021,032 and \$2,157,608, respectively.

For purposes of calculating the daily fee the Fund does not include money owed to it by Waddell & Reed, Inc. for shares which it has sold but not yet paid the Fund. The Fund accrues and pays this fee daily.

Under the Shareholder Servicing Agreement, for the Class A shares, the Fund pays the Agent a monthly fee of \$1.3125 (\$1.0208 prior to April 1, 1996) for each shareholder account that was in existence at any time during the prior month, plus \$0.30 for each account on which a dividend or distribution, of cash or shares, had a record date in that month. For Class Y shares, the Fund pays the Agent a monthly fee equal to one-twelfth of .15 of 1% of the average daily net assets of that class for the preceding month. The Fund also pays certain out-of-pocket expenses of the Agent, including long distance telephone communications costs; microfilm and storage costs for certain documents; forms, printing and mailing costs; and costs of legal and special services not provided by Waddell & Reed, Inc., WRIMCO or the Agent.

Under the Accounting Services Agreement, the Fund pays the Agent a monthly fee of one-twelfth of the annual fee shown in the following table.

Accounting Services Fee

Average Net Asset Level (all dollars in millions)	Annual Fee Rate for Each Level
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From \$ 0 to \$ 10	\$ 0
From \$ 10 to \$ 25	\$ 10,000
From \$ 25 to \$ 50	\$ 20,000
From \$ 50 to \$ 100	\$ 30,000
From \$ 100 to \$ 200	\$ 40,000
From \$ 200 to \$ 350	\$ 50,000
From \$ 350 to \$ 550	\$ 60,000
From \$ 550 to \$ 750	\$ 70,000
From \$ 750 to \$1,000	\$ 85,000
\$1,000 and Over	\$100,000

Fees paid to the Agent for accounting services for the fiscal years ended September 30, 1996, 1995 and 1994 were \$60,000, \$57,500 and \$60,000, respectively.

Since the Fund pays a management fee for investment supervision and an accounting services fee for accounting services as discussed above, WRIMCO and the Agent, respectively, pay all of their own expenses in providing these services. Amounts paid by the Fund under the Shareholder Servicing Agreement are described above. Waddell & Reed, Inc. and affiliates pay the Fund's Directors and officers who are affiliated with WRIMCO and its affiliates. The Fund pays the fees and expenses of the Fund's other Directors.

Waddell & Reed, Inc., under an agreement separate from the Management Agreement, Shareholder Servicing Agreement and Accounting Services Agreement, acts as the Fund's underwriter, i.e., sells its shares on a continuous basis. Waddell & Reed, Inc. is not required to sell any particular number of shares and thus sells shares only for purchase orders received. Under this agreement, WRIMCO pays the costs of sales literature, including the costs of shareholder reports used as sales literature, and the costs of printing the prospectus furnished to it by the Fund. The aggregate dollar amount of underwriting commissions for Class A shares for the fiscal years ended September 30, 1996, 1995 and 1994 were \$931,980, \$1,064,115 and \$1,437,569, respectively. The amounts retained by WRIMCO for the same periods were \$415,341, \$457,023 and \$633,769, respectively.

A major portion of the sales charge for Class A shares is paid to account representatives and managers of Waddell & Reed, Inc. Waddell & Reed, Inc. may compensate its account representatives as to purchases for which there is no sales charge.

The Fund pays all of its other expenses. These include the costs of materials sent to shareholders, audit and outside legal fees, taxes, brokerage commissions, interest, insurance premiums, custodian fees, fees payable by the Fund under Federal or other securities laws and to the Investment Company Institute and nonrecurring and extraordinary expenses, including litigation and indemnification relating to litigation.

Under a Service Plan for Class A shares (the "Plan") adopted by the Fund pursuant to Rule 12b-1 under the 1940 Act, the Fund may pay Waddell & Reed, Inc., the principal underwriter for the Fund, a fee not to exceed .25% of the Fund's average annual net assets attributable to Class A shares, paid monthly, to reimburse Waddell & Reed, Inc. for its costs and expenses in connection with the provision of personal services to Class A shareholders of the Fund and/or maintenance of Class A shareholder accounts.

The Plan and a related Service Agreement between the Fund and Waddell & Reed, Inc. contemplate that Waddell & Reed, Inc. may be reimbursed for amounts it expends in compensating, training and supporting registered account representatives, sales managers and/or other appropriate personnel in providing personal services to Class A shareholders of the Fund and/or maintaining Class A shareholder accounts; increasing services provided to Class A shareholders of the Fund by office personnel located at field sales offices; engaging in other activities useful in providing personal service to Class A shareholders of the Fund and/or maintenance of Class A shareholder accounts; and in compensating broker-dealers, and other third parties, who may regularly sell Class A shares of the Fund, and other third parties, for providing shareholder services and/or maintaining shareholder accounts with respect to Class A shares. Service fees in the amount of \$555,154 were paid (or accrued) by the Fund with respect to Class A shares for the fiscal year ended September 30, 1996.

The Plan and the Service Agreement were approved by the Fund's Board of Directors, including the Directors who are not interested persons of the Fund and who have no direct or indirect financial interest in the operations of the Plan or any agreement referred to in the Plan (hereafter, the "Plan Directors"). The Plan was also approved by the affected shareholders of the Fund.

Among other things, the Plan provides that (i) Waddell & Reed, Inc. will provide to the Directors of the Fund at least quarterly, and the Directors will review, a report of amounts expended under the Plan and the purposes for which

such expenditures were made, (ii) the Plan will continue in effect only so long as it is approved at least annually, and any material amendments thereto will be effective only if approved, by the Directors including the Plan Directors acting in person at a meeting called for that purpose, (iii) amounts to be paid by the Fund under the Plan may not be materially increased without the vote of the holders of a majority of the outstanding Class A shares of the Fund, and (iv) while the Plan remains in effect, the selection and nomination of the Directors who are Plan Directors will be committed to the discretion of the Plan Directors.

#### Custodial and Auditing Services

The Fund's Custodian is UMB Bank, n.a., Kansas City, Missouri. In general, the Custodian is responsible for holding the Fund's cash and securities. Deloitte & Touche LLP, Kansas City, Missouri, the Fund's independent accountants, audits the Fund's financial statements.

#### PURCHASE, REDEMPTION AND PRICING OF SHARES

##### Determination of Offering Price

The net asset value of each class of the shares of the Fund is the value of the assets of that class, less the liabilities of that class, divided by the total number of outstanding shares of that class.

Class A shares of the Fund are sold at their next determined net asset value plus the sales charge described in the Prospectus. The price makeup as of September 30, 1996 was as follows:

Net asset value per Class A share (Class A net assets divided by Class A shares outstanding) .	\$4.14
Add: selling commission (5.75% of offering price) .....	.25
	-----
Maximum offering price per Class A share (Class A net asset value divided by 94.25%) .....	\$4.39
	=====

The offering price of a Class A share is its net asset value next determined following acceptance of a purchase order plus the sales charge. The offering price of a Class Y share is its net asset value next determined following acceptance of a purchase order. The number of shares you receive for your purchase depends on the next offering price after Waddell & Reed, Inc. receives and accepts your order at its principal business office at the address shown on the cover of this SAI. You will be sent a confirmation after your purchase which will indicate how many shares you have purchased. Shares are normally issued for cash only.

Waddell & Reed, Inc. need not accept any purchase order, and it or the Fund may determine to discontinue offering Fund shares for purchase.

The net asset value and offering price per share are ordinarily computed once on each day that the NYSE is open for trading as of the later of the close of the regular session of the NYSE or of the close of the regular session of any domestic securities or commodities exchange on which an option or future held by the Fund is traded. The NYSE annually announces the days on which it will not be open for trading. The most recent announcement indicates that the NYSE will not be open on the following days: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. However, it is possible that the NYSE may close on other days. The net asset value will change every business day, since the value of the assets and the number of shares outstanding change every day.

The securities in the portfolio of the Fund, except as otherwise noted, that are listed or traded on a stock exchange, are valued on the basis of the last sale on that day or, lacking any sales, at a price that is the mean between the closing bid and asked prices. Other securities that are traded over-the-counter are priced using Nasdaq (National Association of Securities Dealers Automated Quotations System), which provides information on bid and asked prices quoted by major dealers in such stocks. Bonds, other than convertible bonds, are valued using a third-party pricing system. Convertible bonds are valued using this pricing system only on days when there is no sale reported. Short-term debt securities and other assets are valued at amortized cost, which approximates market. When market quotations are not readily available, securities and other assets are valued at fair value as determined in good faith under procedures established by and under the general supervision and responsibility of the Board of Directors.

Options and futures purchased and held by the Fund are valued at the last sales price thereof on the securities or commodities exchanges on which they are traded, or, if there are no transactions, at the mean between bid and asked

prices. Ordinarily, the close of the regular session for option trading on national securities exchanges is 4:10 p.m. Eastern time and the close of the regular session of commodities exchanges is 4:15 p.m. Eastern time. Futures contracts will be valued by reference to established futures exchanges. The value of a futures contract purchased by the Fund will be either the closing purchase price of the contract or the bid price. Conversely, the value of a futures contract sold by the Fund will be either the closing price or the asked price.

When the Fund writes a put or call, an amount equal to the premium received is included in the Fund's Statement of Assets and Liabilities as an asset, and an equivalent deferred credit is included in the liability section. The deferred credit is "marked-to-market" (that is, treated as sold for its fair market value) to reflect the current market value of the put or call. If a call the Fund wrote is exercised, the proceeds received on the sale of the related investment are increased by the amount of the premium the Fund received. If the Fund exercised a call it purchased, the amount paid to purchase the related investment is increased by the amount of the premium paid. If a put written by the Fund is exercised, the amount that the Fund pays to purchase the related investment is decreased by the amount of the premium it received. If the Fund exercises a put it purchased, the amount received from the sale of the related investment is reduced by the amount of the premium it paid. If a put or call written by the Fund expires, it has a gain in the amount of the premium; if it enters into a closing purchase transaction, it will have a gain or loss depending on whether the premium was more or less than the cost of the closing transaction.

Foreign currency exchange rates are generally determined prior to the close of trading of the regular session of the NYSE. Occasionally events affecting the value of foreign investments and such exchange rates occur between the time at which they are determined and the close of the regular session of trading on the NYSE, which events will not be reflected in a computation of the Fund's net asset value on that day. If events materially affecting the value of such investments or currency exchange rates occur during such time period, investments will be valued at their fair value as determined in good faith by or under the direction of the Board of Directors. The foreign currency exchange transactions of the Fund conducted on a spot (i.e., cash) basis are valued at the spot rate for purchasing or selling currency prevailing on the foreign exchange market. This rate under normal market conditions differs from the prevailing exchange rate in an amount generally less than one-tenth of one percent due to the costs of converting from one currency to another.

Optional delivery standby commitments are valued at fair value under the general supervision and responsibility of the Fund's Board of Directors. They are accounted for in the same manner as exchange-listed puts.

#### Minimum Initial and Subsequent Investments

For Class A shares, initial investments must be at least \$500 with the exceptions described in this paragraph. A \$100 minimum initial investment pertains to certain exchanges of shares from another fund in the United Group. A \$50 minimum initial investment pertains to purchases for certain retirement plan accounts and to accounts for which an investor has arranged, at the time of initial investment, to make subsequent purchases for the account by having regular monthly withdrawals of \$25 or more made from a bank account. A \$50 minimum initial investment also pertains to accounts for which an investor has arranged, at the time of initial investment, to make subsequent purchases for the account by having regular monthly withdrawals of \$25 or more made from a bank account. A minimum initial investment of \$25 is applicable to purchases made through payroll deduction for or by employees of WRIMCO, Waddell & Reed, Inc., their affiliates or certain retirement plan accounts. Except with respect to certain exchanges and automatic withdrawals from a bank account, a shareholder may make subsequent investments of any amount. See "Exchanges for Shares of Other Funds in the United Group."

For Class Y shares, investments by government entities or authorities or by corporations must total at least \$10 million within the first twelve months after initial investment. There is no initial investment minimum for other Class Y investors.

#### Reduced Sales Charges (Applicable to Class A Shares Only)

#### Account Grouping

Large purchases of Class A shares are subject to lower sales charges. The schedule of sales charges appears in the Prospectus for Class A shares. For the purpose of taking advantage of the lower sales charges available for large purchases, a purchase in any of categories 1 through 7 listed below made by an individual or deemed to be made by an individual may be grouped with purchases in any other of these categories.

1. Purchases by an individual for his or her own account (includes purchases under the United Funds Revocable Trust Form);
2. Purchases by that individual's spouse purchasing for his or her own account (includes United Funds Revocable Trust Form of spouse);
3. Purchases by that individual or his or her spouse in their joint account;
4. Purchases by that individual or his or her spouse for the account of their child under age 21;
5. Purchase by any custodian for the child of that individual or spouse in a Uniform Gift to Minors Act ("UGMA") or Uniform Transfers to Minors Act ("UTMA") account;
6. Purchases by that individual or his or her spouse for his or her Individual Retirement Account ("IRA"), Section 457 of the Internal Revenue Code of 1986, as amended (the "Code") salary reduction plan account provided that such purchases are subject to a sales charge (see "Net Asset Value Purchases"), tax sheltered annuity account ("TSA") or Keogh plan account, provided that the individual and spouse are the only participants in the Keogh plan; and
7. Purchases by a trustee under a trust where that individual or his or her spouse is the settlor (the person who establishes the trust).

Examples:

- A. Grandmother opens an UGMA account for grandson A; Grandmother has an account in her own name; A's father has an account in his own name; the UGMA account may be grouped with A's father's account but may not be grouped with Grandmother's account;
- B. H establishes a trust naming his children as beneficiaries and appointing himself and his bank as co-trustees; a purchase made in the trust account is eligible for grouping with an IRA account of W, H's wife;
- C. H's will provides for the establishment of a trust for the benefit of his minor children upon H's death; his bank is named as trustee; upon H's death, an account is established in the name of the bank, as trustee; a purchase in the account may be grouped with an account held by H's wife in her own name.
- D. X establishes a trust naming herself as trustee and R, her son, as successor trustee and R and S as beneficiaries; upon X's death, the account is transferred to R as trustee; a purchase in the account may not be grouped with R's individual account. If X's spouse, Y, was successor trustee, this purchase could be grouped with Y's individual account.

All purchases of Class A shares made for a participant in a multi-participant Keogh plan may be grouped only with other purchases made under the same plan; a multi-participant Keogh plan is defined as a plan in which there is more than one participant where one or more of the participants is other than the spouse of the owner/employer.

Example A: H has established a Keogh plan; he and his wife W are the only participants in the plan; they may group their purchases made under the plan with any purchases in categories 1 through 7 above.

Example B: H has established a Keogh plan; his wife, W, is a participant and they have hired one or more employees who also become participants in the plan; H and W may not combine any purchases made under the plan with any purchases in categories 1 through 7 above; however, all purchases made under the plan for H, W or any other employee will be combined.

All purchases of Class A shares made under a "qualified" employee benefit plan of an incorporated business will be grouped. A "qualified" employee benefit plan is established pursuant to Section 401 of the Code. All qualified employee benefit plans of any one employer or affiliated employers will also be grouped. An affiliate is defined as an employer that directly, or indirectly, controls or is controlled by or is under control with another employer.

Example: Corporation X sets up a defined benefit plan; its subsidiary, Corporation Y, sets up a 401(k) plan; all contributions made under both plans will be grouped.

All purchases of Class A shares made under a simplified employee pension plan ("SEP"), payroll deduction plan or similar arrangement adopted by an

employer or affiliated employers (as defined above) may be grouped provided that the employer elects to have all such purchases grouped at the time the plan is set up. If the employer does not make such an election, the purchases made by individual employees under the plan may be grouped with the other accounts of the individual employees described above in "Account Grouping."

Account grouping as described above is available under the following circumstances.

#### One-time Purchases

A one-time purchase of Class A shares in accounts eligible for grouping may be combined for purposes of determining the availability of a reduced sales charge. In order for an eligible purchase to be grouped, the investor must advise Waddell & Reed, Inc. at the time the purchase is made that it is eligible for grouping and identify the accounts with which it may be grouped.

Example: H and W open an account in the Fund and invest \$75,000; at the same time, H's parents open up three UGMA accounts for H and W's three minor children and invest \$10,000 in each child's name; the combined purchase of \$105,000 of Class A shares is subject to a reduced sales load of 4.75% provided that Waddell & Reed, Inc. is advised that the purchases are entitled to grouping.

#### Rights of Accumulation

If Class A shares are held in any account and an additional purchase is made in that account or in any account eligible for grouping with that account, the additional purchase is combined with the net asset value of the existing account as of the date the new purchase is accepted by Waddell & Reed, Inc. for the purpose of determining the availability of a reduced sales charge.

Example: H is a current Class A shareholder who invested in the Fund three years ago. His account has a net asset value of \$80,000. His wife, W, now wishes to invest \$20,000 in Class A shares of the Fund. W's purchase will be combined with H's existing account and will be entitled to a reduced sales charge of 4.75%. H's original purchase was subject to a full sales charge and the reduced charge does not apply retroactively to that purchase.

In order to be entitled to rights of accumulation, the purchaser must inform Waddell & Reed, Inc. that the purchaser is entitled to a reduced charge and provide Waddell & Reed, Inc. with the name and number of the existing account with which the purchase may be combined.

If a purchaser holds shares which have been purchased under a contractual plan, the shares held under such plan may be combined with the additional purchase only if the contractual plan has been completed.

#### Statement of Intention

The benefit of a reduced sales charge for larger purchases of Class A shares is also available under a Statement of Intention. By signing a Statement of Intention form, which is available from Waddell & Reed, Inc., the purchaser indicates an intention to invest, over a 13-month period, a dollar amount which is sufficient to qualify for a reduced sales charge. The 13-month period begins on the date the first purchase made under the Statement is accepted by Waddell & Reed, Inc. Each purchase made from time to time under the Statement of Intention is treated as if the purchaser were buying at one time the total amount which he or she intends to invest. The sales charge applicable to all purchases of Class A shares made under the terms of the Statement of Intention will be the sales charge in effect on the beginning date of the 13-month period.

In determining the amount which the purchaser must invest in order to qualify for a reduced sales charge under a Statement of Intention, the investor's Rights of Accumulation (see above) will be taken into account; that is, Class A shares already held in the same account in which the purchase is being made or in any account eligible for grouping with that account, as described above, will be included.

Example: H signs a Statement of Intention indicating his intent to invest in his own name a dollar amount sufficient to entitle him to purchase Class A shares at the sales charge applicable to a purchase of \$100,000. H has an IRA account and the Class A shares held under the IRA in the Fund have a net asset value as of the date the Statement of Intention is accepted by Waddell & Reed, Inc. of \$15,000; H's wife, W, has an account in her own name invested in another fund in the United Group which charges the same sales load as the Fund, with a net asset value as of the date of acceptance of the Statement of Intention of \$10,000; H needs to invest \$75,000 in Class A shares over the 13-month period in order to qualify for the reduced sales load applicable to a

purchase of \$100,000.

A copy of the Statement of Intention signed by a purchaser will be returned to the purchaser after it is accepted by Waddell & Reed, Inc. and will set forth the dollar amount of Class A shares which must be purchased within the 13-month period in order to qualify for the reduced sales charge.

If a purchaser holds shares which have been purchased under a contractual plan, the shares held under the plan will be taken into account in determining the amount which must be invested under the Statement of Intention only if the contractual plan has been completed.

The minimum initial investment under a Statement of Intention is 5% of the dollar amount which must be invested under the Statement. An amount equal to 5% of the purchase required under the Statement of Intention will be held "in escrow." If a purchaser does not, during the period covered by the Statement of Intention, invest the amount required to qualify for the reduced sales charge under the terms of the Statement of Intention, he or she will be responsible for payment of the sales charge applicable to the amount actually invested. The additional sales charge owed on purchases of Class A shares made under a Statement of Intention which is not completed will be collected by redeeming part of the shares purchased under the Statement of Intention and held "in escrow" unless the purchaser makes payment of this amount to Waddell & Reed, Inc. within 20 days of Waddell & Reed, Inc.'s request for payment.

If the actual amount invested is higher than the amount an investor intends to invest, and is large enough to qualify for a sales charge lower than that available under the Statement of Intention, the lower sales charge will apply.

A Statement of Intention does not bind the purchaser to buy, or Waddell & Reed, Inc. to sell, the shares covered by the Statement of Intention.

With respect to Statements of Intention for \$2,000,000 or purchases otherwise qualifying for no sales charge under the terms of the Statement of Intention, the initial investment must be at least \$200,000, and the value of any shares redeemed during the 13-month period which were acquired under the Statement of Intention will be deducted in computing the aggregate purchases under the Statement of Intention.

Statements of Intention are not available for purchases made under an SEP plan where the employer has elected to have all purchases under the SEP grouped.

#### Other Funds in the United Group

Reduced sales charges for larger purchases of Class A shares apply to purchases of any of the funds in the United Group which are subject to a sales charge. A purchase of, or shares held, in any of the funds in the United Group which are subject to the same sales charge as the Fund will be treated as an investment in the Fund for the purpose of determining the applicable sales charge. The following funds in the United Group have shares that are subject to a maximum 5.75% ("full") sales charge as described in the prospectus of each Fund: United Funds, Inc., United International Growth Fund, Inc., United Continental Income Fund, Inc., United Vanguard Fund, Inc., United Retirement Shares, Inc., United High Income Fund, Inc., United New Concepts Fund, Inc., United Gold & Government Fund, Inc., United Asset Strategy Fund, Inc. and United High Income Fund II, Inc. The following funds in the United Group have shares that are subject to a "reduced" sales charge as described in the prospectus of each fund: United Municipal Bond Fund, Inc., United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc. For the purposes of obtaining the lower sales charge which applies to large purchases, purchases in a fund in the United Group of shares that are subject to a full sales charge may not be grouped with purchases of shares in a fund in the United Group that are subject to a reduced sales charge; conversely, purchases of shares in a fund with a reduced sales charge may not be grouped or combined with purchases of shares of a fund that are subject to a full sales charge.

United Cash Management, Inc. is not subject to a sales charge. Purchases in that fund are not eligible for grouping with purchases in any other fund.

#### Net Asset Value Purchases of Class A Shares

As stated in the Prospectus, Class A shares of the Fund may be purchased at net asset value by the Directors and officers of the Fund, employees of Waddell & Reed, Inc., employees of their affiliates, account representatives of Waddell & Reed, Inc. and the spouse, children, parents, children's spouses and spouse's parents of each such Director, officer, employee and account representative. "Child" includes stepchild; "parent" includes stepparent. Purchases of Class A shares in an IRA sponsored by Waddell & Reed, Inc. established for any of these eligible purchasers may also be at net asset value. Purchases in any tax qualified retirement plan under which the eligible purchaser is the sole participant may also be made at net asset value. Trusts under which the grantor



and the trustee or a co-trustee are each an eligible purchaser are also eligible for net asset value purchases of Class A shares. "Employees" includes retired employees. A retired employee is an individual separated from service from Waddell & Reed, Inc. or affiliated companies with a vested interest in any Employee Benefit Plan sponsored by Waddell & Reed, Inc. or its affiliated companies. "Account representatives" includes retired account representatives. A "retired account representative" is any account representative who was, at the time of separation from service from Waddell & Reed, Inc., a Senior Account Representative. A custodian under the UGMA or UTMA purchasing for the child or grandchild of any employee or account representative may purchase Class A shares at net asset value whether or not the custodian himself is an eligible purchaser.

Purchases of Class A shares in a 401(k) plan having 100 or more eligible employees and purchases of Class A shares in a 457 plan having 100 or more eligible employees may be made at net asset value.

#### Reasons for Differences in Public Offering Price of Class A Shares

As described herein and in the Prospectus for Class A shares, there are a number of instances in which the Fund's Class A shares are sold or issued on a basis other than the maximum public offering price, that is, the net asset value plus the highest sales charge. Some of these relate to lower or eliminated sales charges for larger purchases of Class A shares, whether made at one time or over a period of time as under a Statement of Intention or right of accumulation. See the table of sales charges in the Prospectus. The reasons for these quantity discounts are, in general, that (i) they are traditional and have long been permitted in the industry and are therefore necessary to meet competition as to sales of shares of other funds having such discounts, (ii) certain quantity discounts are required by rules of the National Association of Securities Dealers, Inc. (as are elimination of sales charges on the reinvestment of dividends and distributions), and (iii) they are designed to avoid an unduly large dollar amount of sales charge on substantial purchases in view of reduced selling expenses. Quantity discounts are made available to certain related persons for reasons of family unity and to provide a benefit to tax-exempt plans and organizations.

The reasons for the other instances in which there are reduced or eliminated sales charges for Class A shares are as follows. Exchanges at net asset value are permitted because a sales charge has already been paid on the shares exchanged. Sales of Class A shares without sales charge are permitted to Directors, officers and certain others due to reduced or eliminated selling expenses and since such sales may aid in the development of a sound employee organization, encourage incentive, responsibility and interest in the United Group and an identification with its aims and policies. Limited reinvestments of redemptions of Class A shares at no sales charge are permitted to attempt to protect against mistaken or not fully informed redemption decisions. Class A shares may be issued at no sales charge in plans of reorganization due to reduced or eliminated sales expenses and since, in some cases, such issuance is exempted by the 1940 Act from the otherwise applicable restrictions as to what sales charge must be imposed. In no case in which there is a reduced or eliminated sales charge are the interests of existing shareholders adversely affected since, in each case, the Fund receives the net asset value per share of all shares sold or issued.

#### Flexible Withdrawal Service for Class A Shareholders

If you qualify, you may arrange to receive through the Flexible Withdrawal Service (the "Service") regular monthly, quarterly, semiannual or annual payments by redeeming on a regular basis Class A shares that you own of the Fund or of any of the funds in the United Group. It would be a disadvantage to an investor to make additional purchases of shares while a withdrawal program is in effect because it would result in duplication of sales charges. Applicable forms to start the Service are available from Waddell & Reed, Inc.

To qualify for the Service, you must have invested at least \$10,000 in Class A shares which you still own of any of the funds in the United Group; or, you must own Class A shares having a value of at least \$10,000. The value for this purpose is the value at the offering price.

You can choose to have your shares redeemed to receive:

1. a monthly, quarterly, semiannual or annual payment of \$50 or more;
2. a monthly payment, which will change each month, equal to one-twelfth of a percentage of the value of the shares in the Account (you select the percentage); or
3. a monthly or quarterly payment, which will change each month or quarter, by redeeming a number of shares fixed by you (at least five shares).

Shares are redeemed on the 20th day of the month in which the payment is to be made, or on the prior business day if the 20th is not a business day. Payments are made within five days of the redemption.

Retirement plan accounts may be subject to a fee imposed by the plan custodian for use of their service.

If you have a share certificate for the shares you want to make available for the Service, you must enclose the certificate with the form initiating the Service.

The dividends and distributions on shares you have made available for the Service are paid in additional Class A shares. All payments are made by redeeming Class A shares, which may involve a gain or loss for tax purposes. To the extent that payments under the Service exceed dividends and distributions, the number of Class A shares you own will decrease. When all of the shares in your account are redeemed, you will not receive any further payments. Thus, the payments are not an annuity or an income or return on your investment.

You may, at any time, change the manner in which you have chosen to have shares redeemed to any of the other choices originally available to you. You may, at any time, redeem part or all of the shares in your account; if you redeem all of the shares, the Service is terminated. The Fund can also terminate the Service by notifying you in writing.

After the end of each calendar year, information on shares redeemed will be sent to you to assist you in completing your Federal income tax return.

#### Exchanges for Shares of Other Funds in the United Group

##### Class A Share Exchanges

Once a sales charge has been paid on shares of a fund in the United Group, these shares and any shares added to them from dividends or distributions paid in shares may be freely exchanged for Class A shares of another fund in the United Group. The shares you exchange must be worth at least \$100 or you must already own shares of the fund in the United Group into which you want to exchange.

You may exchange Class A shares you own in another fund in the United Group for Class A shares of the Fund without charge if (i) a sales charge was paid on these shares, or (ii) the shares were received in exchange for shares for which a sales charge was paid, or (iii) the shares were acquired from reinvestment of dividends and distributions paid on such shares. (There may have been one or more such exchanges so long as a sales charge was paid on the shares originally purchased.) Also, shares acquired without a sales charge because the purchase was \$2 million or more will be treated the same as shares on which a sales charge was paid.

United Municipal Bond Fund, Inc., United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc. shares are the exceptions and special rules apply. Class A shares of these funds may be exchanged for Class A shares of the Fund only if (i) you have received those shares as a result of one or more exchanges of shares on which a sales charge was originally paid, or (ii) the shares have been held from the date of the original purchase for at least six months.

Subject to the above rules regarding sales charges, you may have a specific dollar amount of Class A shares of United Cash Management, Inc. automatically exchanged each month into Class A shares of the Fund or any other fund in the United Group. The shares of United Cash Management, Inc. which you designate for automatic exchange must be worth at least \$100 or you must own Class A shares of the fund in the United Group into which you want to exchange. The minimum value of shares which you may designate for automatic exchange is \$100, which may be allocated among the Class A shares of different funds in the United Group so long as each fund receives a value of at least \$25. Minimum initial investment and minimum balance requirements apply to such automatic exchange service.

You may redeem your Class A shares of the Fund and use the proceeds to purchase Class Y shares of the Fund if you meet the criteria for purchasing Class Y shares.

##### Class Y Share Exchanges

Class Y shares of the Fund may be exchanged for Class Y shares of any other fund in the United Group.

#### General Exchange Information

When you exchange shares, the total shares you receive will have the same aggregate net asset value as the total shares you exchange. The relative values are those next figured after your exchange request is received in good order.

These exchange rights and other exchange rights concerning the other funds in the United Group can in most instances be eliminated or modified at any time and any such exchange may not be accepted.

#### Retirement Plans

As described in the Prospectus for Class A shares, your account may be set up as a funding vehicle for a retirement plan. For individual taxpayers meeting certain requirements, Waddell & Reed, Inc. offers prototype documents for the following retirement plans. All of these plans involve investment in shares of the Fund (or shares of certain other funds in the United Group).

Individual Retirement Accounts (IRAs). Investors having earned income may set up a plan that is commonly called an IRA. Under an IRA, an investor can contribute each year up to 100% of his or her earned income, up to an annual maximum of \$2,000. For tax years after 1996, the annual maximum for a married couple is \$4,000 (\$2,000 per spouse) or, if less, the couple's combined earned income for the taxable year, even if one spouse had no earned income. The contributions are deductible unless the investor (or, if married, either spouse) is an active participant in a qualified retirement plan or if, notwithstanding that the investor or one or both spouses so participate, their adjusted gross income does not exceed certain levels.

An investor may also use an IRA to receive a rollover contribution that is either (a) a direct rollover distribution from an employer's plan or (b) a rollover of an eligible distribution paid to the investor from an employer's plan or another IRA. To the extent a rollover contribution is made to an IRA, the distribution will not be subject to Federal income tax until distributed from the IRA. A direct rollover generally applies to any distribution from an employer's plan (including a custodial account under Section 403(b)(7) of the Code, but not an IRA) other than certain periodic payments, required minimum distributions and other specified distributions. In a direct rollover, the eligible rollover distribution is paid directly to the IRA, not to the investor. If, instead, an investor receives payment of an eligible rollover distribution, all or a portion of that distribution generally may be rolled over to an IRA within 60 days after receipt of the distribution. Because mandatory Federal income tax withholding applies to any eligible rollover distribution which is not paid in a direct rollover, investors should consult their tax advisers or pension consultants as to the applicable tax rules. If you already have an IRA, you may have the assets in that IRA transferred directly to an IRA offered by Waddell & Reed, Inc.

Simplified Employee Pension (SEP) plans. Employers can make contributions to SEP-IRAs established for employees. Generally, an employer may contribute up to 15% of compensation, or \$24,000, whichever is less, per year for each employee.

Keogh Plans. Keogh plans, which are available to self-employed individuals, are defined contribution plans that may be either a money purchase plan or a profit sharing plan. As a general rule, an investor under a defined contribution Keogh plan can contribute each year up to 25% of his or her annual earned income, with an annual maximum of \$30,000.

457 Plans. If an investor is an employee of a state or local government or of certain types of charitable organizations, he or she may be able to enter into a deferred compensation arrangement in accordance with Section 457 of the Code.

TSAs - Custodial Accounts and Title I Plans. If an investor is an employee of a public school system or of certain types of charitable organizations, he or she may be able to enter into a deferred compensation arrangement through a custodian account under Section 403(b) of the Code. Some organizations have adopted Title I plans, which are funded by employer contributions in addition to employee deferrals.

401(k) Plans. With a 401(k) plan, employees can make tax-deferred contributions into a plan to which the employer may also contribute, usually on a matching basis. An employee may defer each year up to 25% of compensation, subject to certain annual maximums, which may be increased each year based on cost-of-living adjustments.

More detailed information about these arrangements and applicable forms are available from Waddell & Reed, Inc. These plans may involve complex tax questions as to premature distributions and other matters. Investors should consult their tax adviser or pension consultant.

#### Redemptions

The Prospectus gives information as to redemption procedures. Redemption payments are made within seven days unless delayed because of emergency conditions determined by the SEC, when the NYSE is closed other than for weekends or holidays, or when trading on the NYSE is restricted. Payment is made in cash, although under extraordinary conditions redemptions may be made in portfolio securities. Payment for redemption of shares of the Fund may be made in portfolio securities when the Fund's Board of Directors determines that conditions exist making cash payments undesirable. Redemptions made in securities will be made only in readily marketable securities. Securities used for payment of redemptions are valued at the value used in figuring net asset value. There would be brokerage costs to the redeeming shareholder in selling such securities. The Fund, however, has elected to be governed by Rule 18f-1 under the 1940 Act, pursuant to which it is obligated to redeem shares solely in cash up to the lesser of \$250,000 or 1% of its net asset value during any 90-day period for any one shareholder.

#### Reinvestment Privilege

The Prospectus for Class A shares discusses the reinvestment privilege for Class A shares under which, if you redeem your Class A shares and then decide it was not a good idea, you may reinvest. If Class A shares of the Fund are then being offered, you can put all or part of your redemption payment back into Class A shares of the Fund without any sales charge at the net asset value next determined after you have returned the amount. Your written request to do this must be received within 30 days after your redemption request was received. You can do this only once as to Class A shares of the Fund. You do not use up this privilege by redeeming Class A shares to invest the proceeds at net asset value in a Keogh plan or an IRA.

#### Mandatory Redemption of Certain Small Accounts

The Fund has the right to compel the redemption of shares held under any account or any plan if the aggregate net asset value of such shares (taken at cost or value as the Board of Directors may determine) is less than \$500. The Board of Directors has no intent to compel redemptions in the foreseeable future. If it should elect to compel redemptions, shareholders who are affected will receive prior written notice and will be permitted 60 days to bring their accounts up to the minimum before this redemption is processed.

#### DIRECTORS AND OFFICERS

The day-to-day affairs of the Fund are handled by outside organizations selected by the Board of Directors. The Board of Directors has responsibility for establishing broad corporate policies for the Fund and for overseeing overall performance of the selected experts. It has the benefit of advice and reports from independent counsel and independent auditors.

The principal occupation during at least the past five years of each Director and officer is given below. Each of the persons listed through and including Mr. Wise is a member of the Fund's Board of Directors. The other persons are officers but not members of the Board of Directors. For purposes of this section, the term "Fund Complex" includes each of the registered investment companies in the United Group of Mutual Funds, Waddell & Reed Funds, Inc. and TMK/United Funds, Inc. Each of the Fund's Directors is also a Director of each of the other funds in the Fund Complex and each of its officers is also an officer of one or more of the funds in the Fund Complex.

RONALD K. RICHEY\*  
2001 Third Avenue South  
Birmingham, Alabama 35233

Chairman of the Board of Directors of the Fund and each of the other funds in the Fund Complex; Chairman of the Board of Directors of Waddell & Reed Financial Services, Inc., United Investors Management Company and United Investors Life Insurance Company; Chairman of the Board of Directors and Chief Executive Officer of Torchmark Corporation; Chairman of the Board of Directors of Vesta Insurance Group, Inc.; formerly, Chairman of the Board of Directors of Waddell & Reed, Inc. Father of Linda Graves, Director of the Fund and each of the other funds in the Fund Complex.

KEITH A. TUCKER\*

President of the Fund and each of the other funds in the Fund Complex; President, Chief Executive Officer and Director of Waddell & Reed Financial Services, Inc.; Chairman of the Board of Directors of WRIMCO, Waddell & Reed, Inc., Waddell & Reed Services Company, Waddell & Reed Asset Management Company and Torchmark Distributors, Inc., an affiliate of Waddell & Reed, Inc.; Vice Chairman of the Board of Directors, Chief Executive Officer and President of United Investors Management Company; Vice Chairman of the Board of Directors of Torchmark Corporation; Director of Southwestern Life Corporation; formerly, partner in Trivest, a private investment concern; formerly, Director of Atlantis Group, Inc., a diversified company.

HENRY L. BELLMON  
Route 1  
P. O. Box 26  
Red Rock, Oklahoma 74651  
Rancher; Professor, Oklahoma State University; formerly, Governor of  
Oklahoma.

DODDS I. BUCHANAN  
905 13th Street  
Boulder, Colorado 80302  
Advisory Director, The Hand Companies, an actuarial consulting company;  
President, Buchanan Ranch Corporation; formerly, Professor and Chairman of  
Marketing, College of Business, University of Colorado.

JAY B. DILLINGHAM  
926 Livestock Exchange Building  
Kansas City, Missouri 64102  
Retired.

LINDA GRAVES\*  
1 South West Cedar Crest Road  
Topeka, Kansas 66606  
First Lady of Kansas; formerly, partner, Levy and Craig, P.C., a law firm.  
Daughter of Ronald K. Richey, Chairman of the Board of the Fund and each of the  
other funds in the Fund Complex.

JOHN F. HAYES\*  
335 N. Washington  
P. O. Box 2977  
Hutchinson, Kansas 67504-2977  
Director of Central Bank and Trust; Director of Central Kansas Bankshares;  
Director of Central Properties, Inc.; Chairman, Gilliland & Hayes, P.A., a law  
firm; formerly, President, Gilliland & Hayes, P.A.

GLENDON E. JOHNSON  
7300 Corporate Center Drive  
P. O. Box 020270  
Miami, Florida 33126-1208  
Director and Chief Executive Officer of John Alden Financial Corporation  
and subsidiaries.

WILLIAM T. MORGAN\*  
928 Glorietta Blvd.  
Coronado, California 92118  
Retired; formerly, Chairman of the Board of Directors and President of the  
Fund and each fund in the Fund Complex then in existence. (Mr. Morgan retired  
as Chairman of the Board of Directors and President of the funds in the Fund  
Complex then in existence on April 30, 1993); formerly, President, Director and  
Chief Executive Officer of WRIMCO and Waddell & Reed, Inc.; formerly, Chairman  
of the Board of Directors of Waddell & Reed Services Company; formerly, Director  
of Waddell & Reed Asset Management Company, United Investors Management Company  
and United Investors Life Insurance Company, affiliates of Waddell & Reed, Inc.

DOYLE PATTERSON  
1030 West 56th Street  
Kansas City, Missouri 64113  
Associated with Republic Real Estate, engaged in real estate management and  
investment.

WILLIAM L. ROGERS  
1999 Avenue of the Stars  
Los Angeles, California 90067  
Principal, Colony Capital, Inc., a real estate related investment company;  
formerly, partner in Trivest, a private investment concern.

FRANK J. ROSS, JR.\*  
700 West 47th Street  
Kansas City, Missouri 64112  
Partner, Polsinelli, White, Vardeman & Shalton, a law firm.

ELEANOR B. SCHWARTZ  
5100 Rockhill Road  
Kansas City, Missouri 64113  
Chancellor, University of Missouri-Kansas City; formerly, Interim  
Chancellor, University of Missouri-Kansas City.

FREDERICK VOGEL III  
1805 West Bradley Road  
Milwaukee, Wisconsin 53217  
Retired.

PAUL S. WISE  
P. O. Box 5248  
8648 Silver Saddle Drive  
Carefree, Arizona 85377  
Director of Potash Corporation of Saskatchewan.

Robert L. Hechler

Vice President and Principal Financial Officer of the Fund and each of the other funds in the Fund Complex; Vice President, Chief Operations Officer, Director and Treasurer of Waddell & Reed Financial Services, Inc.; Executive Vice President, Principal Financial Officer, Director and Treasurer of WRIMCO; President, Chief Executive Officer, Principal Financial Officer, Director and Treasurer of Waddell & Reed, Inc.; Director and Treasurer of Waddell & Reed Asset Management Company; President, Director and Treasurer of Waddell & Reed Services Company; Vice President, Treasurer and Director of Torchmark Distributors, Inc.

Henry J. Herrmann

Vice President of the Fund and each of the other funds in the Fund Complex; Vice President, Chief Investment Officer and Director of Waddell & Reed Financial Services, Inc.; Director of Waddell & Reed, Inc.; President, Chief Executive Officer, Chief Investment Officer and Director of WRIMCO and Waddell & Reed Asset Management Company; Senior Vice President and Chief Investment Officer of United Investors Management Company.

Theodore W. Howard

Vice President, Treasurer and Principal Accounting Officer of the Fund and each of the other funds in the Fund Complex; Vice President of Waddell & Reed Services Company.

Sharon K. Pappas

Vice President, Secretary and General Counsel of the Fund and each of the other funds in the Fund Complex; Vice President, Secretary and General Counsel of Waddell & Reed Financial Services, Inc.; Senior Vice President, Secretary and General Counsel of WRIMCO and Waddell & Reed, Inc.; Director, Senior Vice President, Secretary and General Counsel of Waddell & Reed Services Company; Director, Secretary and General Counsel of Waddell & Reed Asset Management Company; Vice President, Secretary and General Counsel of Torchmark Distributors, Inc.; formerly, Assistant General Counsel of WRIMCO, Waddell & Reed Financial Services, Inc., Waddell & Reed, Inc., Waddell & Reed Asset Management Company and Waddell & Reed Services Company.

John M. Holliday

Vice President of the Fund and eight other funds in the Fund Complex; Senior Vice President of WRIMCO; Senior Vice President of Waddell & Reed Asset Management Company; formerly, Senior Vice President of Waddell & Reed, Inc.

Louise D. Rieke

Vice President of the Fund and two other funds in the Fund Complex; Vice President of WRIMCO; Vice President of Waddell & Reed Asset Management Company; formerly, Vice President of Waddell & Reed, Inc.

Carl E. Sturgeon

Vice President of the Fund and eleven other funds in the Fund Complex; Vice President of WRIMCO; formerly, Vice President of Waddell & Reed, Inc.

The address of each person is 6300 Lamar Avenue, P.O. Box 29217, Shawnee Mission, Kansas 66201-9217 unless a different address is given.

As of the date of this SAI, six of the Fund's Directors may be deemed to be "interested persons" as defined in the 1940 Act of its underwriter, Waddell & Reed, Inc., or of WRIMCO. The Directors who may be deemed to be "interested persons" are indicated as such by an asterisk.

The Board of Directors has created an honorary position of Director Emeritus, which position a director may elect after resignation from the Board provided the director has attained the age of 75 and has served as a director of the funds in the United Group for a total of at least five years. A Director Emeritus receives fees in recognition of his past services whether or not services are rendered in his capacity as Director Emeritus, but has no authority or responsibility with respect to management of the Fund. Mr. Leslie S. Wright retired as a Director of the Fund and of each of the funds in the Fund Complex effective April 1, 1996, and has elected a position as Director Emeritus. During the Fund's fiscal year ended September 30, 1996, Mr. Wright received total compensation for his service as a Director of \$43,000 from the Fund Complex and aggregate compensation from the Fund of \$1,036.

The funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. pay to each Director a total of \$44,000 per year, plus \$1,000 for each meeting of the Board of Directors attended (prior to April 1, 1996, the

Funds in the United Group (with the exception of United Asset Strategy Fund, Inc.), TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. paid to each Director a fee of \$40,000 per year plus \$1,000 for each meeting of the Board of Directors attended) and \$500 for each committee meeting attended which is not in conjunction with a Board of Directors meeting, other than Directors who are affiliates of Waddell & Reed, Inc. The fees to the Directors who receive them are divided among the funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. based on their relative size. During the Fund's fiscal year ended September 30, 1996, the Fund's Directors received the following fees for service as a director:

COMPENSATION TABLE

Director	Aggregate Compensation From Fund	Pension or Retirement Benefits Accrued As Part of Fund Expenses	Total Compensation From Fund and Fund Complex
Ronald K. Richey	\$ 0	\$0	\$ 0
Keith A Tucker	0	0	0
Henry L. Bellmon	1,158	0	48,000
Dodds I. Buchanan	1,158	0	48,000
Jay B. Dillingham	1,158	0	48,000
Linda Graves	1,158	0	48,000
John F. Hayes	1,158	0	48,000
Glendon E. Johnson	1,158	0	48,000
William T. Morgan	1,158	0	48,000
Doyle Patterson	1,158	0	48,000
Eleanor B. Schwartz	1,134	0	47,000
Frederick Vogel III	1,158	0	48,000
Paul S. Wise	1,158	0	48,000

Mr. Rogers and Mr. Ross were elected as Directors on October 16, 1996. The officers are paid by WRIMCO or its affiliates.

Shareholdings

As of November 30, 1996, all of the Fund's Directors and officers as a group owned less than 1% of the outstanding shares of the Fund. As of such date, no person owned of record or was known by the Fund to own beneficially 5% or more of the Fund's outstanding shares.

PAYMENTS TO SHAREHOLDERS

General

There are three sources for the payments the Fund makes to you as a shareholder of a class of shares of the Fund, other than payments when you redeem your shares. The first source is the Fund's net investment income, which is derived from the dividends, interest and earned discount on the securities it holds less expenses (which will vary by class). The second source is net realized capital gains, which are derived from the proceeds received from the sale of securities at a price higher than the Fund's tax basis (usually cost) in such securities attributable to that difference, less losses from the sales of securities at a price lower than the Fund's basis therein; these gains can be either long-term or short-term, depending on how long the Fund has owned the securities before it sells them. The third source is net realized gains from foreign currency transactions. The payments made to shareholders from net investment income, net short-term capital gains and net realized gains from certain foreign currency transactions are called dividends.

The Fund pays distributions from net capital gains (the excess of net long-term capital gains over net short-term capital losses). It may or may not have such gain, depending on whether securities are sold and at what price. If the Fund has net capital gains, it will ordinarily pay distributions once each year, in the latter part of the fourth calendar quarter, except to the extent it has prior year net capital losses to offset the gains.

Choices You Have on Your Dividends and Distributions

On your application form, you can give instructions that (i) you want cash for your dividends and distributions, (ii) you want your dividends and distributions paid in shares of the Fund of the same class as that with respect to which they were paid, or (iii) you want cash for your dividends and want your distributions paid in shares of the Fund of the same class as that with respect to which they were paid. You can change your instructions at any time. If you give no instructions, your dividends and distributions will be paid in shares of the Fund of the same class as that with respect to which they were paid. All payments in Fund shares are at net asset value without any sales charge. The

net asset value used for this purpose is that computed as of the record date for the dividend or distribution, although this could be changed by the Board of Directors.

Even if you get dividends and distributions on Class A shares in cash, you can thereafter reinvest them (or distributions only) in Class A shares of the Fund at net asset value (i.e., with no sales charge) next determined after receipt by Waddell & Reed, Inc. of the amount clearly identified as a reinvestment. The reinvestment must be within 45 days after the payment.

## TAXES

### General

In order to continue to qualify for treatment as a regulated investment company ("RIC") under the Code, the Fund must distribute to its shareholders for each taxable year at least 90% of its investment company taxable income (consisting generally of net taxable investment income, net short-term capital gains and net gains from certain foreign currency transactions) ("Distribution Requirement") and must meet several additional requirements. These requirements include the following: (1) the Fund must derive at least 90% of its gross income each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of securities or foreign currencies, or other income (including gains from options, futures contracts or forward contracts) derived with respect to its business of investing in securities or those currencies ("Income Requirement"); (2) the Fund must derive less than 30% of its gross income each taxable year from the sale or other disposition of securities, or any of the following, that were held for less than three months -- (i) options, futures contracts or forward contracts or (ii) foreign currencies (or options, futures contracts or forward contracts thereon) that are not directly related to the Fund's principal business of investing in securities (or in options and futures with respect to securities) ("Short-Short Limitation"); (3) at the close of each quarter of the Fund's taxable year, at least 50% of the value of its total assets must be represented by cash and cash items, U.S. Government Securities, securities of other RICs and other securities that are limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of the Fund's total assets and that does not represent more than 10% of the outstanding voting securities of the issuer; and (4) at the close of each quarter of the Fund's taxable year, not more than 25% of the value of its total assets may be invested in securities (other than U.S. Government Securities or the securities of other RICs) of any one issuer.

Dividends and distributions declared by the Fund in October, November or December of any year and payable to shareholders of record on a date in any of those months are deemed to have been paid by the Fund and received by you on December 31 of that year even if they are paid by the Fund during the following January. Accordingly, those dividends and distributions will be taxed to you for the year in which that December 31 falls.

If Fund shares are sold at a loss after being held for six months or less, the loss will be treated as long-term, instead of short-term, capital loss to the extent of any distributions received on those shares. Investors also should be aware that if shares are purchased shortly before the record date for a dividend or distribution, the investor will receive some portion of the purchase price back as a taxable dividend or distribution.

The Fund will be subject to a nondeductible 4% excise tax ("Excise Tax") to the extent it fails to distribute by the end of any calendar year substantially all of its ordinary income for that year and capital gain net income for the one-year period ending on October 31 of that year, plus certain other amounts. It is the Fund's policy to pay sufficient dividends and distributions each year to avoid imposition of the Excise Tax. The Fund may defer into the next calendar year net capital losses incurred between each November 1 and the end of the current calendar year.

### Income from Foreign Securities

Dividends and interest received by the Fund may be subject to income, withholding or other taxes imposed by foreign countries and U.S. possessions that would reduce the yield on its securities. Tax conventions between certain countries and the United States may reduce or eliminate these foreign taxes, however, and many foreign countries do not impose taxes on capital gains in respect of investments by foreign investors.

### Foreign Currency Gains and Losses

Gains or losses (1) from the disposition of foreign currencies, (2) from the disposition of a debt security denominated in a foreign currency that are attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security and the date of disposition, and (3) that are attributable to fluctuations in exchange rates that occur between the time



the Fund accrues interest, dividends or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects the receivables or pays the liabilities, generally are treated as ordinary income or loss. These gains or losses, referred to under the Code as "section 988" gains or losses, may increase or decrease the amount of the Fund's investment company taxable income to be distributed to its shareholders.

#### Income from Options, Futures and Currencies

The use of hedging strategies, such as writing (selling) and purchasing options and futures and entering into forward contracts, involves complex rules that will determine for income tax purposes the character and timing of recognition of the gains and losses the Fund realizes in connection therewith. Gains from the disposition of foreign currencies (except certain gains that may be excluded by future regulations), and gains from options, futures and forward contracts derived by the Fund with respect to its business of investing in securities or foreign currencies, will qualify as permissible income under the Income Requirement. However, income from the disposition of options and futures (other than those on foreign currencies) will be subject to the Short-Short Limitation if they are held for less than three months. Income from the disposition of foreign currencies, and options, futures and forward contracts thereon, that are not directly related to the Fund's principal business of investing in securities (or options and futures with respect to securities) also will be subject to the Short-Short Limitation if they are held for less than three months.

If the Fund satisfies certain requirements, any increase in value of a position that is part of a "designated hedge" will be offset by any decrease in value (whether realized or not) of the offsetting hedging position during the period of the hedge for purposes of determining whether the Fund satisfies the Short-Short Limitation. Thus, only the net gain (if any) from the designated hedge will be included in gross income for purposes of that limitation. The Fund intends that, when it engages in hedging transactions, they will qualify for this treatment, but at the present time it is not clear whether this treatment will be available for all of the Fund's hedging transactions. To the extent this treatment is not available, the Fund may be forced to defer the closing out of certain options, futures, forward contracts and/or foreign currency positions beyond the time when it otherwise would be advantageous to do so, in order for the Fund to continue to qualify as a RIC.

Any income the Fund earns from writing options is treated as short-term capital gain. If the Fund enters into a closing purchase transaction, it will have a short-term capital gain or loss based on the difference between the premium it received for the option it wrote and the premium it pays for the option it buys. If an option written by the Fund lapses without being exercised, the premium it received also will be a short-term capital gain. If such an option is exercised and the Fund thus sells the securities subject to the option, the premium the Fund receives will be added to the exercise price to determine the gain or loss on the sale. The Fund will not write so many options that it could fail to continue to qualify as a RIC.

Certain options and futures contracts in which the Fund may invest may be "section 1256 contracts." Section 1256 contracts held by the Fund at the end of each taxable year, other than section 1256 contracts that are part of a "mixed straddle" with respect to which the Fund has made an election not to have the following rules apply, are "marked-to-market" (that is, treated as sold for their fair market value) for Federal income tax purposes, with the result that unrealized gains or losses are treated as though they were realized. Sixty percent of any net gains or losses recognized on these deemed sales, and 60% of any net realized gains or losses from any actual sales of section 1256 contracts, are treated as long-term capital gains or losses, and the balance is treated as short-term capital gains or losses. Section 1256 contracts also may be marked-to-market for purposes of the Excise Tax and for other purposes. The Fund must distribute any such gains to its shareholders even though it may not have closed the transactions and received cash to pay the distributions.

Code section 1092 (dealing with straddles) also may affect the taxation of options and futures contracts in which the Fund may invest. That section defines a "straddle" as offsetting positions with respect to personal property; for these purposes, options and futures contracts are personal property. Section 1092 generally provides that any loss from the disposition of a position in a straddle may be deducted only to the extent the loss exceeds the unrealized gain on the offsetting position(s) of the straddle. Section 1092 also provides certain "wash sale" rules, which apply to transactions where a position is sold at a loss and a new offsetting position is acquired within a prescribed period, and "short sale" rules applicable to straddles. If the Fund makes certain elections, the amount, character and timing of the recognition of gains and losses from the affected straddle positions will be determined under rules that vary according to the elections made. Because only a few of the regulations implementing the straddle rules have been promulgated, the tax consequences of straddle transactions to the Fund are not entirely clear.

The Fund may acquire zero coupon or other securities issued with original issue discount. As a holder of those securities, the Fund must include in its income the portion of the original issue discount that accrues on the securities during the taxable year, even if the Fund receives no corresponding payment on the securities during the year. Similarly, the Fund must include in its gross income securities it receives as "interest" on payment-in-kind securities. Because the Fund annually must distribute substantially all of its investment company taxable income, including any accrued original issue discount and other non-cash income, to satisfy the Distribution Requirement and avoid imposition of the Excise Tax, it may be required in a particular year to distribute as a dividend an amount that is greater than the total amount of cash it actually receives. Those distributions will be made from the Fund's cash assets or from the proceeds of sales of portfolio securities, if necessary. The Fund may realize capital gains or losses from those sales, which would increase or decrease its investment company taxable income and/or net capital gains. In addition, any such gains may be realized on the disposition of securities held for less than three months. Because of the Short-Short Limitation, any such gains would reduce the Fund's ability to sell other securities, or certain options, futures, forward contracts or foreign currency positions, held for less than three months that it might wish to sell in the ordinary course of its portfolio management.

#### PORTFOLIO TRANSACTIONS AND BROKERAGE

One of the duties undertaken by WRIMCO pursuant to the Management Agreement is to arrange the purchase and sale of securities for the portfolio of the Fund. Transactions in securities other than those for which an exchange is the primary market are generally done with dealers acting as principals or market makers. Brokerage commissions are paid primarily for effecting transactions in securities traded on an exchange and otherwise only if it appears likely that a better price or execution can be obtained. The individual who manages the Fund may manage other advisory accounts with similar investment objectives. It can be anticipated that the manager will frequently place concurrent orders for all or most accounts for which the manager has responsibility. Transactions effected pursuant to such combined orders are averaged as to price and allocated in accordance with the purchase or sale orders actually placed for each fund or advisory account.

To effect the portfolio transactions of the Fund, WRIMCO is authorized to engage broker-dealers ("brokers") which, in its best judgment based on all relevant factors, will implement the policy of the Fund to achieve "best execution" (prompt and reliable execution at the best price obtainable) for reasonable and competitive commissions. WRIMCO need not seek competitive commission bidding but is expected to minimize the commissions paid to the extent consistent with the interests and policies of the Fund. Subject to review by the Board of Directors, such policies include the selection of brokers which provide execution and/or research services and other services, including pricing or quotation services directly or through others ("brokerage services") considered by WRIMCO to be useful or desirable for its investment management of the Fund and/or the other funds and accounts over which WRIMCO or its affiliates have investment discretion.

Brokerage services are, in general, defined by reference to Section 28(e) of the Securities Exchange Act of 1934 as including (i) advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities and purchasers or sellers, (ii) furnishing analyses and reports, or (iii) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody). "Investment discretion" is, in general, defined as having authorization to determine what securities shall be purchased or sold for an account, or making those decisions even though someone else has responsibility.

The commissions paid to brokers that provide such brokerage services may be higher than another qualified broker would charge for effecting comparable transactions if a good faith determination is made by WRIMCO that the commission is reasonable in relation to the brokerage services provided. Subject to the foregoing considerations, WRIMCO may also consider the willingness of particular brokers and dealers to sell shares of the Fund and other funds managed by WRIMCO or its affiliates as a factor in its selection. No allocation of brokerage or principal business is made to provide any other benefits to WRIMCO or its affiliates.

The investment research provided by a particular broker may be useful only to one or more of the other advisory accounts of WRIMCO or its affiliates and investment research received for the commissions of those other accounts may be useful both to the Fund and one or more of such other accounts. To the extent that electronic or other products provided by such brokers to assist WRIMCO in

making investment management decisions are used for administration or other non-research purposes, a reasonable allocation of the cost of the product attributable to its non-research use is made by WRIMCO.

Such investment research, which may be supplied by a third party at the instance of a broker, includes information on particular companies and industries as well as market, economic or institutional activity areas. It serves to broaden the scope and supplement the research activities of WRIMCO; serves to make available additional views for consideration and comparisons; and enables WRIMCO to obtain market information on the price of securities held in the Fund's portfolio or being considered for purchase.

In placing transactions for the Fund's portfolio, WRIMCO may consider sales of shares of the Fund and other funds managed by WRIMCO and its affiliates as a factor in the selection of brokers to execute portfolio transactions. WRIMCO intends to allocate brokerage on the basis of this factor only if the sale is \$2 million or more and there is no sales charge. This results in the consideration only of sales which by their nature would not ordinarily be made by Waddell & Reed, Inc.'s direct sales force and is done in order to prevent the direct sales force from being disadvantaged by the fact that it cannot participate in Fund brokerage.

During the Fund's fiscal years ended September 30, 1996, 1995 and 1994, it paid brokerage commissions of \$18,746, \$8,602 and \$37,454, respectively. These figures do not include principal transactions or spreads or concessions on principal transactions, i.e., those in which the Fund sells securities to a broker-dealer firm or buys from a broker-dealer firm securities owned by it.

During the Fund's fiscal year ended September 30, 1996, the transactions, other than principal transactions, which were directed to broker-dealers who provided research as well as execution totaled \$4,650,014 on which \$14,993 in brokerage commissions were paid. These transactions were allocated to these broker-dealers by the internal allocation procedures described above.

The Fund, WRIMCO and Waddell & Reed, Inc. have adopted a Code of Ethics which imposes restrictions on the personal investment activities of their employees, officers and interested directors.

#### Buying and Selling With Other Funds

The Fund and one or more of the other funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. or accounts over which Waddell & Reed Asset Management Company exercises investment discretion, frequently buy or sell the same securities at the same time. If this happens, the amount of each purchase or sale is divided. This is done on the basis of the amount of securities each fund or account wanted to buy or sell. Sharing in large transactions could affect the price the Fund pays or receives or the amount it buys or sells. However, sometimes a better negotiated commission is available.

#### OTHER INFORMATION

##### The Shares of the Fund

The Fund offers two classes of shares: Class A and Class Y. Prior to January 12, 1996, the Fund offered only one class of shares to the public. Shares outstanding on that date were designated as Class A shares. Each class represents an interest in the same assets of the Fund and differ as follows: each class of shares has exclusive voting rights on matters pertaining to matters appropriately limited to that class; Class A shares are subject to an initial sales charge and to an ongoing service fee; each class may bear differing amounts of certain class-specific expenses; and each class has a separate exchange privilege. The Fund does not anticipate that there will be any conflicts between the interests of holders of the different classes of shares of the Fund by virtue of those classes. On an ongoing basis, the Board of Directors will consider whether any such conflict exists and, if so, take appropriate action. Each share of the Fund is entitled to equal voting, dividend, liquidation and redemption rights, except that due to the differing expenses borne by the two classes, dividends and liquidation proceeds of Class A shares are expected to be lower than for Class Y shares of the Fund. Each fractional share of a class has the same rights, in proportion, as a full share of that class.

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

Shares	Value
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COMMON AND PREFERRED STOCKS  
AND WARRANTS

Amusement and Recreation Services - 0.20%		
Trump Hotels & Casino Resorts, Inc.*	31,250	\$ 726,563
Business Services - 0.16%		
Bell & Howell Company*	18,750	595,312
Communication - 0.98%		
Infinity Broadcasting Corporation,		
Class A*	50,625	1,594,688
Jacor Communications, Inc.*	25,000	856,250
Providence Journal Company (The),		
Class A*	40,000	1,175,000
Total		3,625,938
Depository Institutions - 0.15%		
California Federal Bank, F.S.B.,		
Preferred, Series B	5,000	551,250
Electric, Gas and Sanitary Services - 0.39%		
Consolidated Hydro, Inc., Preferred*	3,000	190,950
Consolidated Hydro, Inc., Warrants (A)*	5,400	5
El Paso Electric Company, Preferred*	10,000	1,150,000
IntelCom Group Inc., Warrants (A)*	7,425	107,663
Total		1,448,618
General Building Contractors - 1.67%		
Walter Industries, Inc.*	482,265	6,178,779
Health Services - 0.29%		
Beverly Enterprises, Inc.*	100,000	1,087,500
Holding and Other Investment Offices - 0.25%		
National Health Investors, Inc.	27,150	906,131
Lumber and Wood Products - 0.69%		
Triangle Pacific Corp.*	127,442	2,540,811
Motion Pictures - 0.27%		
Film Roman, Inc.*	100,000	1,000,000

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

	Shares	Value
COMMON AND PREFERRED STOCKS AND WARRANTS (Continued)		
Printing and Publishing - 0.25%		
K-III Communications Corporation,		
Preferred	10,000	\$ 934,000
Miscellaneous Securities - 0.01%		
Plastic Specialties and Technologies,		
Inc.*	20,000	20,000
Reliance Group Holdings, Inc.,		
Warrants*	1,061	2,553
Total		22,553
TOTAL COMMON AND PREFERRED STOCKS AND WARRANTS - 5.31%		\$ 19,617,455
(Cost: \$21,124,169)		
	Principal Amount in Thousands	
CORPORATE DEBT SECURITIES		
Agricultural Services - 0.56%		
Hines Horticulture, Inc.,		
11.75%, 10-15-2005	\$ 2,000	2,057,500
Amusement and Recreation Services - 5.97%		
American Skiing Company,		
12.0%, 7-15-2006 (A)	2,500	2,481,250
Argosy Gaming Company:		
12.0%, 6-1-2001, Convertible	1,000	900,000
13.25%, 6-1-2004 (A)	1,500	1,492,500
California Hotel Finance Corporation,		
11.0%, 12-1-2002	2,250	2,362,500

Casino America, Inc., 12.5%, 8-1-2003 .....	3,000	3,138,750
GNS Finance Corp., 9.25%, 3-15-2003 .....	1,500	1,552,500
Harrah's Operating Company, Inc., 10.875%, 4-15-2002 .....	2,000	2,130,000
Rio Hotel & Casino, Inc., 10.625%, 7-15-2005 .....	2,000	2,100,000
Showboat Marina Casino Partnership, 13.5%, 3-15-2003 .....	1,500	1,627,500
Trump Atlantic City Associates, 11.25%, 5-1-2006 .....	2,000	1,970,000
Trump Hotels & Casino Resorts Holdings, L.P., 15.5%, 6-15-2005 .....	2,000	2,320,000
Total .....		22,075,000

Building Materials and Garden Supplies - 0.57% Orchard Supply Hardware Stores Corporation, 9.375%, 2-15-2002 .....	2,000	2,115,000
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See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Business Services - 2.74%		
Adams Outdoor Advertising Limited Partnership, 10.75%, 3-15-2006 .....	\$ 1,500	\$ 1,558,125
Bell & Howell Company, 10.75%, 10-1-2002 .....	1,750	1,846,250
Heritage Media Corporation, 8.75%, 2-15-2006 .....	1,000	945,000
Lamar Advertising Company, 11.0%, 5-15-2003 .....	2,000	2,095,000
Multicare Companies, Inc. (The), 12.5%, 7-1-2002 .....	415	459,613
Protect One, Convertible, 6.75%, 9-15-2003 .....	2,000	1,957,500
Scotsman Group, Inc., 9.5%, 12-15-2000 .....	1,250	1,253,125
Total .....		10,114,613
Chemicals and Allied Products - 3.17%		
Revlon Worldwide Corporation, 0.0%, 3-15-98 .....	4,250	3,729,375
UCC Investors Holding, Inc.: 10.5%, 5-1-2002 .....	5,500	5,802,500
0.0%, 5-1-2005 (B) .....	2,500	2,187,500
Total .....		11,719,375
Communication - 21.48%		
Adelphia Communications Corporation, 12.5%, 5-15-2002 .....	4,000	4,220,000
Allbritton Communications Company, 9.75%, 11-30-2007 .....	2,000	1,935,000
American Radio Systems Corporation, 9.0%, 2-1-2006 .....	1,500	1,455,000
Arch Communications Group, Inc., 0.0%, 3-15-2008 (B) .....	1,000	560,000
Argyle Television Operations, Inc., 9.75%, 11-1-2005 .....	3,000	3,000,000
Brooks Fiber Properties, Inc., 0.0%, 3-1-2006 (B) .....	2,500	1,537,500
CS Wireless Systems, Inc., Units, 0.0%, 3-1-2006 (A) (B) (C) .....	100	2,060,000
Cablevision Industries Corporation, 9.25%, 4-1-2008 .....	2,000	2,055,600
Cablevision Systems Corporation, 10.75%, 4-1-2004 .....	1,500	1,541,250
CenCall Communications Corp., 0.0%, 1-15-2004 (B) .....	2,500	1,650,000
COMCAST CELLULAR CORPORATION,		

0.0%, 3-5-2000 ..... 2,200 1,545,500

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Communication (Continued)		
Comcast Corporation, 9.5%, 1-15-2008 .....	\$ 4,000	\$ 4,075,000
Comcast UK Cable Partners Limited, 0.0%, 11-15-2007 (B) .....	4,000	2,535,000
Diamond Cable Communications Plc, 0.0%, 12-15-2005 (B) .....	1,000	645,000
Granite Broadcasting Corporation: 10.375%, 5-15-2005 .....	1,000	1,010,000
9.375%, 12-1-2005 .....	1,500	1,440,000
Infinity Broadcasting Corporation, 10.375%, 3-15-2002 .....	2,500	2,637,500
InterCel, Inc., Units, 0.0%, 2-1-2006 (B) (D) .....	18	1,019,375
Intermedia Communications of Florida, Inc., 0.0%, 5-15-2006 (B) .....	2,250	1,406,250
Jacor Communications, Inc., 10.125%, 6-15-2006 .....	1,000	1,030,000
MFS Communications Company, Inc.: 0.0%, 1-15-2004 (B) .....	2,475	2,079,000
0.0%, 1-15-2006 (B) .....	2,500	1,750,000
Marcus Cable Operating Company, L. P., 0.0%, 8-1-2004 (B) .....	3,500	2,730,000
Metrocall, Inc., 10.375%, 10-1-2007 .....	1,000	830,000
Microcell Telecommunications Inc., Units, 0.0%, 6-1-2006 (A) (B) (E) .....	5,000	2,800,000
PanAmSat, L.P.: 9.75%, 8-1-2000 .....	2,500	2,637,500
0.0%, 8-1-2003 (B) .....	5,000	4,550,000
RSL Communications, Ltd., Units, 12.25%, 11-15-2006 (A) (F) .....	1,000	1,000,000
Rifkin Acquisition Partners, L.L.L.P., 11.125%, 1-15-2006 .....	1,500	1,545,000
Rogers Cantel Inc., 9.375%, 6-1-2008 .....	1,500	1,481,250
Rogers Communications Inc., 9.125%, 1-15-2006 .....	3,000	2,835,000
SFX Broadcasting, Inc., 10.75%, 5-15-2006 .....	1,500	1,560,000
Shared Technologies Fairchild Communications Corp., 0.0%, 3-1-2006 (B) .....	1,000	787,500
Sprint Spectrum L.P., 0.0%, 8-15-2006 (B) .....	3,500	2,047,500
Sullivan Broadcasting Company, Inc., 10.25%, 12-15-2005 .....	500	497,500

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Communication (Continued)		
Teleport Communications Group Inc.: 9.875%, 7-1-2006 .....	\$ 1,000	\$ 1,025,000
0.0%, 7-1-2007 (B) .....	1,750	1,120,000
USA Mobile Communications, Inc. II,		

9.5%, 2-1-2004 .....	1,000	960,000
United International Holdings, Inc.,		
0.0%, 11-15-99 .....	2,500	1,737,500
Vanguard Cellular Systems, Inc.,		
9.375%, 4-15-2006 .....	1,000	990,000
Viacom International Inc.,		
8.0%, 7-7-2006 .....	6,000	5,602,500
Videotron Plc,		
0.0%, 8-15-2005 (B) .....	2,250	1,490,625
Total .....		79,413,850

Depository Institutions - 0.28%

First Nationwide Escrow Corp.,		
10.625%, 10-1-2003 (A) .....	1,000	1,046,250

Eating and Drinking Places - 0.27%

Foodmaker, Inc.,		
9.25%, 3-1-99 .....	1,000	1,000,000

Electric, Gas and Sanitary Services - 0.96%

El Paso Electric Company,		
8.9%, 2-1-2006 .....	2,000	2,024,140
IntelCom Group Inc.,		
0.0%, 9-15-2005 (B) .....	2,250	1,507,500
Total .....		3,531,640

Electronic and Other Electric Equipment - 2.40%

A+ Network, Inc.,		
11.875%, 11-1-2005 .....	1,500	1,458,750
Advanced Micro Devices, Inc.,		
11.0%, 8-1-2003 .....	1,000	1,032,500
Communications & Power Industries,		
Inc.,		
12.0%, 8-1-2005 .....	2,000	2,172,500
Exide Corporation:		
0.0%, 12-15-2004 (B) .....	1,000	900,000
10.0%, 4-15-2005 .....	1,500	1,537,500
Harmon Industries, Inc.,		
12.0%, 8-1-2002 .....	1,635	1,790,325
Total .....		8,891,575

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

Principal  
Amount in  
Thousands                      Value

CORPORATE DEBT SECURITIES (Continued)

Engineering and Management Services - 0.55%

Essex Group, Inc.,		
10.0%, 5-1-2003 .....	\$ 2,000	\$ 2,050,000

Fabricated Metal Products - 1.34%

American Safety Razor Company,		
9.875%, 8-1-2005 .....	2,000	2,045,000
Nortek, Inc.,		
9.875%, 3-1-2004 .....	3,000	2,910,000
Total .....		4,955,000

Food and Kindred Products - 1.00%

Dr Pepper Bottling Holdings, Inc.,		
0.0%, 2-15-2003 (B) .....	1,000	920,000
Specialty Foods Corporation:		
10.25%, 8-15-2001 .....	2,000	1,840,000
11.125%, 10-1-2002 .....	1,000	930,000
Total .....		3,690,000

Food Stores - 4.19%

Big V Supermarkets, Inc.,		
11.0%, 2-15-2004 .....	1,500	1,440,000
Bruno's, Inc.,		
10.5%, 8-1-2005 .....	2,000	2,050,000
Dominick's Finer Foods, Inc.,		
10.875%, 5-1-2005 .....	1,000	1,082,500
Jitney-Jungle Stores of America, Inc.,		

12.0%, 3-1-2006 .....	1,500	1,593,750
Penn Traffic Company (The):		
10.25%, 2-15-2002 .....	3,500	3,080,000
10.65%, 11-1-2004 .....	2,500	2,100,000
Ralphs Grocery Company,		
10.45%, 6-15-2004 .....	2,500	2,534,375
Smith's Food & Drug Centers, Inc.,		
11.25%, 5-15-2007 .....	1,500	1,593,750
Total .....		15,474,375

Furniture and Fixtures - 1.07%

Lear Seating Corporation,		
8.25%, 2-1-2002 .....	4,000	3,940,000

General Building Contractors - 0.80%

Beazer Homes USA, Inc.,		
9.0%, 3-1-2004 .....	1,500	1,410,000
NVR L.P.,		
11.0%, 4-15-2003 .....	1,500	1,552,500
Total .....		2,962,500

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

Principal Amount in Thousands	Value
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CORPORATE DEBT SECURITIES (Continued)

General Merchandise Stores - 0.59%

Kmart Funding Corporation,		
8.99%, 7-5-2010 .....	\$ 2,500	\$ 2,175,000

Health Services - 5.52%

Abbey Healthcare Group Incorporated,		
9.5%, 11-1-2002 .....	2,000	2,060,000
General Medical Corporation:		
10.875%, 8-15-2003 .....	3,000	3,075,000
12.125%, 8-15-2005 .....	2,529	2,515,016
Paracelsus Healthcare Corporation,		
10.0%, 8-15-2006 .....	2,000	2,070,000
Quorum Health Group, Inc.:		
11.875%, 12-15-2002 .....	4,000	4,410,000
8.75%, 11-1-2005 .....	2,000	2,005,000
Regency Health Services, Inc.,		
9.875%, 10-15-2002 .....	1,000	1,005,000
Tenet Healthcare Corporation:		
9.625%, 9-1-2002 .....	1,000	1,085,000
10.125%, 3-1-2005 .....	2,000	2,170,000
Total .....		20,395,016

Holding and Other Investment Offices - 1.39%

Grupo Industrial Durango, S.A. de C.V.,		
12.625%, 8-1-2003 .....	2,000	2,117,500
LTC Properties, Inc., Convertible:		
8.5%, 1-1-2000 .....	2,000	2,015,000
8.5%, 1-1-2001 .....	1,000	1,025,000
Total .....		5,157,500

Hotels and Other Lodging Places - 4.92%

GNF, CORP.,		
10.625%, 4-1-2003 .....	1,500	1,642,500
HMC Acquisition Properties, Inc.,		
9.0%, 12-15-2007 .....	1,500	1,441,875
LaQuinta Motor Inns, Inc.,		
9.25%, 5-15-2003 .....	4,000	4,080,000
Premier Parks, Inc.,		
12.0%, 8-15-2003 .....	1,000	1,078,750
Prime Hospitality Corp.,		
9.25%, 1-15-2006 .....	2,000	2,010,000
Red Roof Inns, Inc.,		
9.625%, 12-15-2003 .....	1,500	1,462,500

See Notes to Schedule of Investments on pages - .



THE INVESTMENTS OF  
 UNITED HIGH INCOME FUND II, INC.  
 SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Hotels and Other Lodging Places (Continued)		
Showboat, Inc.,		
9.25%, 5-1-2008 .....	\$ 4,000	\$ 3,990,000
Station Casinos, Inc.,		
10.125%, 3-15-2006 .....	1,500	1,473,750
Wyndham Hotel Corporation,		
10.5%, 5-15-2006 .....	1,000	1,026,250
Total .....		18,205,625
Industrial Machinery and Equipment - 2.86%		
American Standard Inc.:		
0.0%, 6-1-2005 (B) .....	4,750	4,358,125
9.25%, 12-1-2016 .....	1,500	1,530,000
Collins & Aikman Products Co.,		
11.5%, 4-15-2006 .....	2,500	2,631,250
Fairfield Manufacturing Company, Inc.,		
11.375%, 7-1-2001 .....	2,000	2,050,000
Total .....		10,569,375
Instruments and Related Products - 2.78%		
Dade International Inc.,		
11.125%, 5-1-2006 (A) .....	1,000	1,070,000
IVAC Corporation,		
9.25%, 12-1-2002 .....	1,000	1,012,500
Mark IV Industries, Inc.,		
8.75%, 4-1-2003 .....	5,000	5,100,000
Maxxim Medical, Inc.,		
10.5%, 8-1-2006 (A) .....	3,000	3,112,500
Total .....		10,295,000
Insurance Carriers - 0.99%		
Aetna Industries, Inc.,		
11.875%, 10-1-2006 (A) .....	1,000	1,020,000
American Annuity Group, Inc.,		
9.5%, 8-15-2001 .....	2,500	2,631,250
Total .....		3,651,250
Lumber and Wood Products - 0.70%		
Triangle Pacific Corp.,		
10.5%, 8-1-2003 .....	2,500	2,600,000
Metal Mining - 0.16%		
UCAR Global Enterprises Inc.,		
12.0%, 1-15-2005 .....	515	587,743

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
 UNITED HIGH INCOME FUND II, INC.  
 SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Miscellaneous Manufacturing Industries - 0.63%		
E&S Holdings Corporation,		
10.375%, 10-1-2006 (A) .....	\$ 1,250	\$ 1,281,250
Shop Vac Corporation,		
10.625%, 9-1-2003 (A) .....	1,000	1,030,000
Total .....		2,311,250
Miscellaneous Retail - 2.20%		
Eckerd Corporation,		
9.25%, 2-15-2004 .....	5,500	5,568,750
Michaels Stores, Inc.,		
10.875%, 6-15-2006 .....	2,500	2,550,000
Total .....		8,118,750
Motion Pictures - 0.97%		
Cobb Theatres, L.L.C.,		

10.625%, 3-1-2003 .....	1,500	1,545,000
Plitt Theatres, Inc.,		
10.875%, 6-15-2004 .....	2,000	2,025,000
Total .....		3,570,000
Nondepository Institutions - 1.39%		
First Nationwide Holdings Inc.,		
12.5%, 4-15-2003 .....	1,500	1,623,750
GP Group, Inc.,		
8.75%, 12-15-98 .....	3,500	3,526,250
Total .....		5,150,000
Oil and Gas Extraction - 1.38%		
Falcon Drilling, Inc.,		
9.75%, 1-15-2001 .....	1,500	1,518,750
Flores & Rucks, Inc.,		
9.75%, 10-1-2006 .....	1,000	1,013,750
Noble Drilling Corporation,		
9.25%, 10-1-2003 .....	2,500	2,587,500
Total .....		5,120,000
Paper and Allied Products - 3.39%		
Asia Pulp & Paper Company Ltd,		
11.75%, 10-1-2005 .....	2,000	2,070,000
Container Corporation of America,		
10.75%, 5-1-2002 .....	2,000	2,100,000
Fort Howard Corporation:		
9.25%, 3-15-2001 .....	2,000	2,040,000
11.0%, 1-2-2002 .....	4,079	4,267,903
Four M Corporation,		
12.0%, 6-1-2006 (A) .....	1,000	1,060,000
Mail-Well Corporation,		
10.5%, 2-15-2004 .....	1,000	980,000
Total .....		12,517,903

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Personal Services - 0.29%		
Prime Succession Acquisition Corp.,		
10.75%, 8-15-2004 (A) .....	\$ 1,000	\$ 1,067,500
Primary Metal Industries - 1.12%		
Commonwealth Aluminum Corporation,		
10.75%, 10-1-2006 (A) .....	2,000	2,050,000
Oregon Steel Mills, Inc.,		
11.0%, 6-15-2003 .....	2,000	2,102,500
Total .....		4,152,500
Printing and Publishing - 2.92%		
American Media Operations, Inc.,		
11.625%, 11-15-2004 .....	3,000	3,157,500
Big Flower Press, Inc.,		
10.75%, 8-1-2003 .....	1,667	1,704,508
Herff Jones, Inc.,		
11.0%, 8-15-2005 .....	2,000	2,115,000
Jordan Industries, Inc.,		
10.375%, 8-1-2003 .....	3,000	2,895,000
K-III Communications Corporation,		
8.5%, 2-1-2006 .....	1,000	930,000
Total .....		10,802,008
Rubber and Miscellaneous Plastics Products - 0.50%		
RBX Corporation,		
11.25%, 10-15-2005 .....	2,000	1,880,000
Stone, Clay and Glass Products - 1.80%		
Owens-Illinois, Inc.:		
10.0%, 8-1-2002 .....	2,000	2,080,000
9.75%, 8-15-2004 .....	4,500	4,590,000
Total .....		6,670,000

Textile Mill Products - 1.62%		
Avondale Mills, Inc.,		
10.25%, 5-1-2006 (A) .....	1,000	1,020,000
CONSOLTEX GROUP INC.,		
11.0%, 10-1-2003 .....	2,000	1,975,000
WestPoint Stevens Inc.,		
9.375%, 12-15-2005 .....	3,000	3,007,500
Total .....		6,002,500

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

	Principal Amount in Thousands	Value
CORPORATE DEBT SECURITIES (Continued)		
Transportation Equipment - 1.65%		
Greenwich Air Services, Inc.,		
10.5%, 6-1-2006 .....	\$ 2,500	\$ 2,568,750
Silgan Corporation,		
13.25%, 12-15-2002 .....	1,000	1,015,000
Walbro Corporation,		
9.875%, 7-15-2005 .....	1,000	1,020,000
Westinghouse Air Brake Company,		
9.375%, 6-15-2005 .....	1,500	1,488,750
Total .....		6,092,500
Transportation Services - 0.28%		
Core-Mark International, Inc.,		
11.375%, 9-15-2003 (A) .....	1,000	1,025,000
Trucking and Warehousing - 0.28%		
Iron Mountain Incorporated,		
10.125%, 10-1-2006 .....	1,000	1,025,000
Wholesale Trade - Durable Goods - 0.28%		
Alvey Systems, Inc.,		
11.375%, 1-31-2003 .....	1,000	1,047,500
Wholesale Trade - Nondurable Goods - 1.42%		
Corporate Express, Inc.,		
9.125%, 3-15-2004 .....	2,000	1,997,500
LaRoche Industries Inc.,		
13.0%, 8-15-2004 .....	500	547,500
United Stationers Supply Co.,		
12.75%, 5-1-2005 .....	2,500	2,703,125
Total .....		5,248,125
TOTAL CORPORATE DEBT SECURITIES - 89.38%		\$330,473,723
(Cost: \$322,618,459)		
TOTAL SHORT-TERM SECURITIES - 3.34%		\$ 12,341,873
(Cost: \$12,341,873)		
TOTAL INVESTMENT SECURITIES - 98.03%		\$362,433,051
(Cost: \$356,084,501)		
CASH AND OTHER ASSETS, NET OF LIABILITIES - 1.97%		7,285,967
NET ASSETS - 100.00%		\$369,719,018

See Notes to Schedule of Investments on pages - .

THE INVESTMENTS OF  
UNITED HIGH INCOME FUND II, INC.  
SEPTEMBER 30, 1996

Notes to Schedule of Investments

\* No income dividends were paid during the preceding 12 months.

(A) As of September 30, 1996, the following restricted securities were  
owned:

Shares/  
Principal

Security	Acquisition Date	Amount in 000's	Cost	Market Value
Consolidated Hydro, Inc., Warrants	6/15/93	5,400	\$ 127,817	5
IntelCom Group Inc., Warrants	8/3/95	7,425	28,881	107,663
Aetna Industries, Inc., 11.875%, 10-1-2006	8/8/96	\$1,000	1,000,000	1,020,000
American Skiing Company, 12.0%, 7-15-2006	6/25/96	2,500	2,429,125	2,481,250
Argosy Gaming Company, 13.25%, 6-1-2004	5/31/96	1,500	1,500,000	1,492,500
Avondale Mills, Inc., 10.25% 5-1-2006	4/23/96	1,000	984,700	1,020,000
Commonwealth Aluminum Corporation, 10.75%, 10-1-2006	9/16/96	1,000	1,000,000	1,025,000
	9/19/96	1,000	1,012,500	1,025,000
Core-Mark International, Inc., 11.375%, 9-15-2003	9/24/96	1,000	1,000,000	1,025,000
CS Wireless Systems, Inc., Units, 0.0%, 3-1-2006	2/16/96	100	2,294,840	2,060,000
Dade International Inc., 11.125%, 5-1-2006	4/30/96	1,000	1,000,000	1,070,000
E&S Holdings Corporation, 10.375%, 10-1-2006	9/24/96	750	750,000	768,750
	9/25/96	500	508,750	512,500
First Nationwide Escrow Corp., 10.625%, 10-1-2003	9/13/96	1,000	1,000,000	1,046,250
Four M Corporation, 12.0%, 6-1-2006	5/23/96	1,000	1,000,000	1,060,000
Maxxim Medical, Inc., 10.5%, 8-1-2006	7/18/96			
	to 9/11/96	3,000	3,030,313	3,112,500
Microcell Telecommunications Inc., Units, 0.0%, 6-1-2006	6/13/96	5,000	2,392,500	2,800,000
Prime Succession Acquisition Corp., 10.75%, 8-15-2004	8/13/96	1,000	1,000,000	1,067,500
RSL Communications, Ltd., Units, 12.25%, 11-15-2006	9/30/96	1,000	1,000,000	1,000,000
Shop Vac Corporation, 10.625%, 9-1-2003	9/25/96	1,000	1,000,000	1,030,000
			-----	
			\$24,059,426	\$24,723,918
			=====	

The total market value of restricted securities represents approximately 6.69% of the total net assets at September 30, 1996.

- (B) The security does not bear interest for an initial period of time and subsequently becomes interest bearing.
- (C) Each Unit consists of 1 senior discount note due 3/1/2006 and 1.1 shares of common stock.
- (D) Each Unit consists of 10 senior discount notes due 2/1/2006 and 32 warrants.
- (E) Each Unit consists of \$1,000 principal amount at maturity of senior discount notes due 2006, four initial warrants to purchase Class B non-voting shares of Microcell and four conditional warrants to purchase Class B shares.
- (F) Each Unit consists of one 12.25% senior note due 2006 and one warrant to purchase Class A common stock.

See Note 1 to financial statements for security valuation and other significant accounting policies concerning investments.

See Note 3 to financial statements for cost and unrealized appreciation and depreciation of investments owned for Federal income tax purposes.

UNITED HIGH INCOME FUND II, INC.  
STATEMENT OF ASSETS AND LIABILITIES  
SEPTEMBER 30, 1996

Assets  
Investment securities -- at value (Notes 1 and 3) \$362,433,051

Cash .....	80,932
Receivables:	
Interest and dividends .....	7,156,213
Investment securities sold .....	6,470,431
Fund shares sold .....	282,902
Prepaid insurance premium .....	15,629
Other assets .....	5,836
	-----
Total assets .....	376,444,994
	-----
Liabilities	
Payable for investment securities purchased .....	5,028,750
Payable for Fund shares redeemed .....	1,272,009
Dividends payable .....	256,879
Accrued service fee .....	116,100
Accrued transfer agency and dividend disbursing ..	47,238
Accrued accounting services fee .....	5,000
	-----
Total liabilities .....	6,725,976
	-----
Total net assets .....	\$369,719,018
	=====
Net Assets	
\$1.00 par value capital stock	
Capital stock .....	\$ 89,344,925
Additional paid-in capital .....	323,850,681
Accumulated undistributed gain (loss):	
Accumulated undistributed net realized	
loss on investment transactions .....	(49,825,138)
Net unrealized appreciation in value of	
investments at end of period .....	6,348,550
	-----
Net assets applicable to outstanding	
units of capital .....	\$369,719,018
	=====
Net asset value per share (net assets divided	
by shares outstanding)	
Class A .....	\$4.14
Class Y .....	\$4.14
Capital shares outstanding	
Class A .....	88,946,257
Class Y .....	398,668
Capital shares authorized .....	400,000,000

See notes to financial statements.

UNITED HIGH INCOME FUND II, INC.  
STATEMENT OF OPERATIONS  
For the Fiscal Year Ended SEPTEMBER 30, 1996

Investment Income	
Income:	
Interest .....	\$34,753,551
Dividends .....	275,305
	-----
Total income .....	35,028,856
	-----
Expenses (Note 2):	
Investment management fee .....	2,048,451
Transfer agency and dividend disbursing - Class A	582,124
Service fee - Class A .....	555,154
Legal fees .....	63,218
Accounting services fee .....	60,000
Audit fees .....	27,274
Custodian fees .....	21,331
Shareholder servicing - Class Y.....	1,419
Other .....	113,000
	-----
Total expenses .....	3,471,971
	-----
Net investment income .....	31,556,885
	-----
Realized and Unrealized Gain (Loss) on Investments	
Realized net loss on securities .....	(305,611)
Realized net loss on foreign	
currency transactions .....	(2,475)
	-----
Realized net loss in investments .....	(308,086)

Unrealized appreciation in value of investments	
during the period .....	9,597,709
	-----
Net gain on investments .....	9,289,623
	-----
Net increase in net assets resulting	
from operations .....	\$40,846,508
	=====

See notes to financial statements.

UNITED HIGH INCOME FUND II, INC.  
STATEMENT OF CHANGES IN NET ASSETS

	For the fiscal year ended	
	September 30,	
	1996	1995
	-----	-----
Increase in Net Assets		
Operations:		
Net investment income .....	\$ 31,556,885	\$ 32,004,221
Realized net loss on		
investments .....	(308,086)	(9,062,829)
Unrealized appreciation .....	9,597,709	15,239,840
	-----	-----
Net increase in net assets		
resulting from operations .....	40,846,508	38,181,232
	-----	-----
Dividends to shareholders from		
net investment income:*		
Class A .....	(31,472,032)	(32,004,221)
Class Y .....	(82,378)	---
	-----	-----
	(31,554,410)	(32,004,221)
	-----	-----
Capital share transactions:		
Proceeds from sale of shares		
Class A (6,019,156 and 7,993,791		
shares, respectively) .....	24,540,706	31,537,803
Class Y (399,081 and 0		
shares, respectively) .....	1,655,574	---
Proceeds from reinvestment of		
dividends		
Class A (6,888,364 and 7,199,082		
shares, respectively) .....	28,126,443	28,417,425
Class Y (19,867 and 0		
shares, respectively) .....	81,059	---
Payments for shares redeemed		
Class A (15,121,588 and 15,495,006		
shares, respectively) .....	(61,675,274)	(60,993,212)
Class Y (20,280 and 0		
shares, respectively) .....	(83,233)	---
	-----	-----
Net decrease in net assets		
resulting from capital		
share transactions .....	(7,354,725)	(1,037,984)
	-----	-----
Total increase .....	1,937,373	5,139,027
Net Assets		
Beginning of period .....	367,781,645	362,642,618
	-----	-----
End of period .....	\$369,719,018	\$367,781,645
	=====	=====
Undistributed net investment		
income .....	\$---	\$---
	====	====

\*See "Financial Highlights" on pages - .  
See notes to financial statements.

UNITED HIGH INCOME FUND II, INC.  
FINANCIAL HIGHLIGHTS

Class A Shares  
For a Share of Capital Stock Outstanding  
Throughout Each Period:

For the fiscal year ended

	September 30,				
	1996	1995	1994	1993	1992
Net asset value, beginning of period .....	\$4.03	\$3.96	\$4.21	\$4.06	\$3.75
Income from investment operations:					
Net investment income .....	0.35	0.35	0.35	0.36	0.39
Net realized and unrealized gain (loss) on investments .....	0.11	0.07	(0.25)	0.15	0.31
Total from investment operations .....	0.46	0.42	0.10	0.51	0.70
Less dividends declared from net investment income .....	(0.35)	(0.35)	(0.35)	(0.36)	(0.39)
Net asset value, end of period ....	\$4.14	\$4.03	\$3.96	\$4.21	\$4.06
Total return* .....	11.90%	11.25%	2.31%	13.07%	19.31%
Net assets, end of period (000 omitted) .....	\$368,069	\$367,782	\$362,643	\$380,819	\$345,376
Ratio of expenses to average net assets	0.95%	0.89%	0.88%	0.80%	0.82%
Ratio of net investment income to average net assets .....	8.60%	8.93%	8.41%	8.64%	9.79%
Portfolio turnover rate .....	55.64%	26.82%	47.05%	69.24%	80.28%

\*Total return calculated without taking into account the sales load deducted on an initial purchase.

See notes to financial statements.

UNITED HIGH INCOME FUND II, INC.  
FINANCIAL HIGHLIGHTS  
Class Y Shares  
For a Share of Capital Stock Outstanding  
Throughout the Period:

	For the period from 2/27/96 through 9/30/96*
Net asset value, beginning of period	\$4.15
Income from investment operations:	
Net investment income .....	0.21
Net realized and unrealized loss on investments...	(0.01)
Total from investment operations .....	0.20
Less dividends declared from net investment income .....	(0.21)
Net asset value, end of period ....	\$4.14
Total return .....	5.00%
Net assets, end of period (000	

omitted) ..... \$1,650  
Ratio of expenses  
to average net  
assets ..... 0.77%\*\*  
Ratio of net  
investment income  
to average net  
assets ..... 8.83%\*\*  
Portfolio  
turnover rate ..... 55.64%\*\*

\*On January 12, 1996, the Fund began offering Class Y shares to the public.  
Fund  
shares outstanding prior to that date were designated Class A shares.  
\*\*Annualized.

See notes to financial statements.

UNITED HIGH INCOME FUND II, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

NOTE 1 -- Significant Accounting Policies

United High Income Fund II, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. Its investment objective is to provide a high level of current income, by investing primarily in a diversified portfolio of high-yield, high-risk fixed-income securities, with a secondary objective of capital growth when consistent with the primary objective. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

- A. Security valuation -- Each stock and convertible bond is valued at the latest sale price thereof on the last business day of the fiscal period as reported by the principal securities exchange on which the issue is traded or, if no sale is reported for a stock, the average of the latest bid and asked prices. Bonds, other than convertible bonds, are valued using a pricing system provided by a pricing service or dealer in bonds. Convertible bonds are valued using this pricing system only on days when there is no sale reported. Stocks which are traded over-the-counter are priced using Nasdaq (National Association of Securities Dealers Automated Quotations System) which provides information on bid and asked or closing prices quoted by major dealers in such stocks. Restricted securities and securities for which market quotations are not readily available are valued at fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors. Short-term debt securities are valued at amortized cost, which approximates market.
- B. Security transactions and related investment income -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Securities gains and losses are calculated on the identified cost basis. Original issue discount (as defined in the Internal Revenue Code), premiums on the purchase of bonds and post-1984 market discount are amortized for both financial and tax reporting purposes over the remaining lives of the bonds. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. See Note 3 -- Investment Security Transactions.
- C. Federal income taxes -- The Fund intends to distribute all of its net investment income and capital gains to its shareholders and otherwise qualify as a regulated investment company under the Internal Revenue Code. In addition, the Fund intends to pay distributions as required to avoid imposition of excise tax. Accordingly, provision has not been made for Federal income taxes. See Note 4 -- Federal Income Tax Matters.
- D. Dividends and distributions -- All of the Fund's net investment income is declared and recorded by the Fund as dividends payable on each day to shareholders of record as of the close of the preceding business day. Net investment income distributions and capital gains distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are due to differing treatments for items such as deferral of wash sales and post-October losses, foreign currency transactions, net operating losses and expiring capital loss carryforwards. At September 30, 1996, \$2,475 was reclassified between accumulated undistributed net investment income and accumulated undistributed net realized gain on investment transactions.



The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 2 -- Investment Management and Payments to Affiliated Persons

The Fund pays a fee for investment management services. The fee is computed daily based on the net asset value at the close of business. The fee consists of two elements: (i) a "Specific" fee computed on net asset value as of the close of business each day at the annual rate of .15% of net assets and (ii) a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group of mutual funds (approximately \$14.7 billion of combined net assets at September 30, 1996) at annual rates of .51% of the first \$750 million of combined net assets, .49% on that amount between \$750 million and \$1.5 billion, .47% between \$1.5 billion and \$2.25 billion, .45% between \$2.25 billion and \$3 billion, .43% between \$3 billion and \$3.75 billion, .40% between \$3.75 billion and \$7.5 billion, .38% between \$7.5 billion and \$12 billion, and .36% of that amount over \$12 billion. The Fund accrues and pays this fee daily.

Pursuant to assignment of the Investment Management Agreement between the Fund and Waddell & Reed, Inc. ("W&R"), Waddell & Reed Investment Management Company ("WRIMCO"), a wholly-owned subsidiary of W&R, serves as the Fund's investment manager.

The Fund has an Accounting Services Agreement with Waddell & Reed Services Company ("WARSCO"), a wholly-owned subsidiary of W&R. Under the agreement, WARSCO acts as the agent in providing accounting services and assistance to the Fund and pricing daily the value of shares of the Fund. For these services, the Fund pays WARSCO a monthly fee of one-twelfth of the annual fee shown in the following table.

Accounting Services Fee	
Average Net Asset Level (all dollars in millions)	Annual Fee Rate for Each Level
From \$ 0 to \$ 10	\$ 0
From \$ 10 to \$ 25	\$ 10,000
From \$ 25 to \$ 50	\$ 20,000
From \$ 50 to \$ 100	\$ 30,000
From \$ 100 to \$ 200	\$ 40,000
From \$ 200 to \$ 350	\$ 50,000
From \$ 350 to \$ 550	\$ 60,000
From \$ 550 to \$ 750	\$ 70,000
From \$ 750 to \$1,000	\$ 85,000
\$1,000 and Over	\$100,000

For Class A shares, the Fund also pays WARSCO a monthly per account charge for transfer agency and dividend disbursement services of \$1.3125 for each shareholder account which was in existence at any time during the prior month (\$1.0208 per account prior to April 1, 1996), plus \$0.30 for each account on which a dividend or distribution of cash or shares had a record date in that month. With respect to Class Y shares, the Fund pays WARSCO a monthly fee at an annual rate of .15% of the average daily net assets of the class for the preceding month. The Fund also reimburses W&R and WARSCO for certain out-of-pocket costs.

As principal underwriter for the Fund's shares, W&R received direct and indirect gross sales commissions for Class A shares (which are not an expense of the Fund) of \$931,980, out of which W&R paid sales commissions of \$516,639 and all expenses in connection with the sale of Fund shares, except for registration fees and related expenses.

Under a Service Plan for Class A shares adopted by the Fund pursuant to Rule 12b-1 under the Investment Company Act of 1940, the Fund may pay monthly a fee to W&R in an amount not to exceed .25% of the Fund's average annual net assets. The fee is to be paid to reimburse W&R for amounts it expends in connection with the provision of personal services to Fund shareholders and/or maintenance of shareholder accounts.

The Fund paid Directors' fees of \$14,351.

W&R is an indirect subsidiary of Torchmark Corporation, a holding company, and United Investors Management Company, a holding company, and a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company.

NOTE 3 -- Investment Security Transactions

Purchases of investment securities, other than U.S. Government and short-

term securities, aggregated \$192,425,405 while proceeds from maturities and sales aggregated \$192,305,371. Purchases of short-term securities aggregated \$275,688,266 while proceeds from maturities and sales aggregated \$285,627,651. No U.S. Government securities were bought or sold during the period ended September 30, 1996.

For Federal income tax purposes cost of investments owned at September 30, 1996 was \$355,624,617, resulting in net unrealized appreciation of \$6,808,434, of which \$14,086,001 related to appreciated securities and \$7,277,567 related to depreciated securities.

#### NOTE 4 -- Federal Income Tax Matters

For Federal income tax purposes, the Fund realized net capital losses of \$7,783,310 during its fiscal year ended September 30, 1996, which included losses of \$8,672,751 deferred from the year ended September 30, 1995 (see discussion below). Capital loss carryforwards aggregated \$50,009,569 at September 30, 1996, and are available to offset future realized capital gain net income for Federal income tax purposes through September 30, 1997; \$49,637,018 of this amount is available through September 30, 1998; \$48,332,059 is available through September 30, 1999; \$16,403,059 is available through September 30, 2000; \$8,173,389 is available through September 30, 2003; and \$7,783,310 is available through September 30, 2004.

Internal Revenue Code regulations permit the Fund to defer into its next fiscal year net capital losses incurred between each November 1 and the end of its next fiscal year ("post-October losses"). From November 1, 1994 through September 30, 1995, the Fund incurred net capital losses of \$8,672,751, which have been deferred to the fiscal year ended September 30, 1996.

#### NOTE 5 -- Commencement of Multiclass Operations

On January 12, 1996, the Fund was authorized to offer investors a choice of two classes of shares, Class A and Class Y, each of which has equal rights as to assets and voting privileges. Class Y shares are not subject to a sales charge on purchases; they are not subject to a Rule 12b-1 Service Plan and have a separate transfer agency and dividend disbursement services fee structure. A comprehensive discussion of the terms under which shares of either class are offered is contained in the prospectus and the Statement of Additional Information for the Fund. The Fund commenced multiclass operations on February 27, 1996.

Income, non-class specific expenses and realized and unrealized gains and losses are allocated daily to each class of shares based on the value of relative net assets as of the beginning of each day adjusted for the prior day's capital share activity.

#### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of  
United High Income Fund II, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of United High Income Fund II, Inc. (the "Fund") at September 30, 1996, the results of its operations for the year then ended and the changes in its net assets and the financial highlights for each of the periods indicated, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 1996 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP  
Kansas City, Missouri

REGISTRATION STATEMENT

PART C

OTHER INFORMATION

24. Financial Statements and Exhibits

(a) Financial Statements -- United High Income Fund II, Inc.

Included in Part B:

As of September 30, 1996  
Statements of Assets and Liabilities

For the year ended September 30, 1996  
Statements of Operations

For the two years ended September 30, 1996  
Statement of Changes in Net Assets

Schedule I -- Investment Securities as of September 30, 1996

Report of Independent Accountants

Included in Part C:

Financial Data Schedule

Other schedules prescribed by Regulation S-X are not filed because the required matter is not present or is insignificant.

(b) Exhibits:

- (1) Articles of Incorporation, filed November 13, 1995 as EX-99.B1-h2charter to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*  
  
Articles Supplementary, filed November 13, 1995 as EX-99.B1-h2artsup to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (2) By-Laws, as amended, attached hereto as EX-99.B2-h2bylaw
- (3) Not applicable
- (4) Article FIFTH and Article SEVENTH of the Articles of Incorporation of Registrant filed November 13, 1995 as EX-99.B1-h2charter to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*; Article I, Article IV and Article VII of the Bylaws of the Registrant, as amended, attached hereto as EX-99.B2-h2bylaw
- (5) Investment Management Agreement filed November 13, 1995 as EX-99.B5-h2ima to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*  
  
Assignment of the Investment Management Agreement filed November 13, 1995 as EX-99.B5-h2assign to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (6) Underwriting Agreement filed November 13, 1995 as EX-99.B6-h2ua to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (7) Not applicable
- (8) Custodian Agreement filed November 13, 1995 as EX-99.B8-h2ca to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*

- (9) (a) Shareholder Servicing Agreement attached hereto as EX-99.B9-h2ssa
- (b) Accounting Services Agreement filed November 13, 1995 as EX-99.B9-h2asa to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (c) Service Agreement filed by electronic format on July 30, 1993 as Exhibit (b)(15) to Post-Effective Amendment No. 14 to the Registration Statement on Form N-1A\*
- (d) Amendment to Service Agreement filed November 13, 1995 as EX-99.B9-h2saa to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (e) Fund Class A Application filed November 13, 1995 as EX-99.B9-h2appca to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (f) Fund Class Y Application filed November 13, 1995 as EX-99.B9-h2appcy to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (g) Fund NAV Application filed November 13, 1995 as EX-99.B9-

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 \*Incorporated herein by reference

h2navapp to Post-Effective Amendment No. 17 to the  
 Registration Statement on Form N-1A\*

- (h) Class Y letter of understanding attached hereto as EX-99.B9-h2lou
- (10) Not applicable
- (11) Consent of Independent Accountant attached hereto as EX-99.B11-h2consnt
- (12) Not applicable
- (13) Agreement with initial shareholder, Waddell & Reed, Inc., (refiling by EDGAR) attached hereto as EX-99.B13-h2initial
- (14)
  1. Qualified Retirement Plan and Trust-Defined Contribution Basic Plan Document filed December 16, 1994 as EX-99.B14-1-03bpd to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  2. Qualified Retirement Plan-Summary Plan Description filed December 16, 1994 as EX-99.B14-2-03spd to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  3. Employer Contribution 403(b)-Adoption Agreement filed December 16, 1994 as EX-99.B14-3-403baa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  4. IRC Section 457 Deferred Compensation Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-4-457aa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  5. IRC Section 457-Deferred Compensation Specimen Plan Document filed December 16, 1994 as EX-99.B14-5-457bpd to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  6. National Nonstandardized 401(k)Profit Sharing Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-6-ns401aa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  7. 401(k) Nonstandardized Profit Sharing Plan-Summary Plan Description filed December 16, 1994 as EX-99.B14-7-ns401gs to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  8. National Nonstandardized Money Purchase Pension Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-8-nsmppaa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  9. National Nonstandardized Profit Sharing Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-9-nspspaa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  10. Standardized 401(k) Profit sharing Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-10-s401aa to Pre-Effective Amendment No. 1 to the Registration Statement on

- Form N-1A of United Asset Strategy Fund, Inc.\*
11. 401(k) Standardized Profit Sharing Plan-Summary Plan Description filed December 16, 1994 as EX-99.B14-11-s401gis to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  12. Universal Simplified Employee Pension Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-12-sepaa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*

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 \*Incorporated herein by reference

13. Universal Simplified Employee Pension Plan-Basic Plan Document filed December 16, 1994 as EX-99.B14-13-sepbpd to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  14. National Standardized Money Purchase Pension Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-14-smppaa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  15. Standardized Money Purchase pension Plan-Summary Plan Description filed December 16, 1994 as EX-99.B14-15-smppgis to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  16. Standardized Profit Sharing Plan-Adoption Agreement filed December 16, 1994 as EX-99.B14-16-spspaa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  17. Standardized Profit Sharing Plan-summary Plan Description filed December 16, 1994 as EX-99.B14-17-spspgis to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  18. 403(b) (7) Tax-sheltered Custodial Account Agreement filed December 16, 1994 as EX-99.B14-18-tsa to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
  19. Title I 403(b) Plan Document filed December 16, 1994 as EX-99.B14-19-ttllpbd to Pre-Effective Amendment No. 1 to the Registration Statement on Form N-1A of United Asset Strategy Fund, Inc.\*
- (15) Service Plan for Class A Shares filed November 13, 1995 as EX-99.B15-h2spca to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*
- (16) 1. Computation of Average Annual Total Return Performance Quotations for Class A shares filed by electronic format on July 30, 1993 as Exhibit (b) (16) (1) to Post-Effective Amendment No. 14 to the Registration Statement on Form N-1A\*
2. Computation of Yield Performance Quotation for Class A shares attached hereto as EX-99.B16-h2yldcla
3. Computation of Average Annual Total Return Performance Quotations for Class Y shares attached hereto as EX-99.B16-h2trcly
4. Computation of Yield Performance Quotation for Class Y shares attached hereto as EX-99.B16-h2yldcly
- (17) Financial Data Schedule attached hereto as EX-27.B17-h2fds
- (18) Multiple Class Plan filed November 13, 1995 as EX-99.B18-h2mcp to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*

25. Persons Controlled by or under common control with Registrant  
 -----

None

26. Number of Holders of Securities  
 -----

-----  
 \*Incorporated herein by reference

Title of Class	Number of Record Holders as of September 30, 1996
-----	-----
Class A Common Stock	27,962

27. Indemnification  
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Reference is made to Section 7 of ARTICLE Seventh of the Articles of Incorporation of Registrant filed November 13, 1995 as EX-99.B1-h2charter to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\* and to Article IV of the Underwriting Agreement filed November 13, 1995 as Ex-99.B6-h2ua to Post-Effective Amendment No. 17 to the Registration Statement on Form N-1A\*, both of which provide indemnification. Also refer to Section 2-418 of the Maryland General Corporation Law regarding indemnification of directors, officers, employees and agents.

28. Business and Other Connections of Investment Manager  
-----

Waddell & Reed Investment Management Company is the investment manager of the Registrant. Under the terms of an Investment Management Agreement between Waddell & Reed, Inc. and the Registrant, Waddell & Reed, Inc. is to provide investment management services to the Registrant. Waddell & Reed, Inc. assigned its investment management duties under this agreement to Waddell & Reed Investment Management Company on January 8, 1992. Waddell & Reed Investment Management Company is not engaged in any business other than the provision of investment management services to those registered investment companies described in Part A and Part B of this Post-Effective Amendment.

Each director and executive officer of Waddell & Reed Investment Management Company has had as his sole business, profession, vocation or employment during the past two years only his duties as an executive officer and/or employee of Waddell & Reed Investment Management Company or its predecessors, except as to persons who are directors and/or officers of the Registrant and have served in the capacities shown in the Statement of Additional Information of the Registrant, and except for Mr. Ronald K. Richey. Mr. Richey is Chairman of the Board and Chief Executive Officer of Torchmark Corporation, the parent company of Waddell & Reed, Inc., and Chairman of the Board of United Investors Management Company, a holding company of which Waddell & Reed, Inc. is an indirect subsidiary. Mr. Richey's address is 2001 Third Avenue South, Birmingham, Alabama 35233. The address of the others is 6300 Lamar Avenue, Shawnee Mission, Kansas 66202-4200.

As to each director and officer of Waddell & Reed Investment Management Company, reference is made to the Prospectus and SAI of this Registrant.

29. Principal Underwriter  
-----

- (a) Waddell & Reed, Inc. is the principal underwriter. It is the principal underwriter to the following investment companies:

United Funds, Inc.  
United International Growth Fund, Inc.  
United Continental Income Fund, Inc.  
United Vanguard Fund, Inc.  
United Retirement Shares, Inc.  
United Municipal Bond Fund, Inc.  
United High Income Fund, Inc.  
United Cash Management, Inc.  
United Government Securities Fund, Inc.  
United New Concepts Fund, Inc.  
United Gold & Government Fund, Inc.  
United Municipal High Income Fund, Inc.  
United Asset Strategy Fund, Inc.  
TMK/United Funds, Inc.  
Waddell & Reed Funds, Inc.

and is depositor of the following unit investment trusts:

United Periodic Investment Plans to acquire shares of United Science and Energy Fund

United Periodic Investment Plans to acquire shares of United Accumulative Fund

United Income Investment Programs

United International Growth Investment Programs

United Continental Income Investment Programs

- (b) The information contained in the underwriter's application on form BD, under the Securities Exchange Act of 1934, is herein incorporated by reference.
- (c) No compensation was paid by the Registrant to any principal underwriter who is not an affiliated person of the Registrant or any affiliated person of such affiliated person.

30. Location of Accounts and Records

-----  
The accounts, books and other documents required to be maintained by Registrant pursuant to Section 31(a) of the Investment Company Act and rules promulgated thereunder are under the possession of Mr. Robert L. Hechler and Ms. Sharon K. Pappas, as officers of the Registrant, each of whose business address is Post Office Box 29217, Shawnee Mission, Kansas 66201-9217.

31. Management Services

-----  
There are no service contracts other than as discussed in Part A and B of this Post-Effective Amendment and as listed in response to Items (b) (9) and (b) (15) hereof.

32. Undertakings

- (a) Not applicable
- (b) Not applicable
- (c) The Fund agrees to furnish to each person to whom a prospectus is delivered a copy of the Fund's latest annual report to shareholders upon request and without charge.
- (d) To the extent that Section 16(c) of the Investment Company Act of 1940, as amended, applies to the Fund, the Fund agrees, if requested in writing by the shareholders of record of not less than 10% of the Fund's outstanding shares, to call a meeting of the shareholders of the Fund for the purpose of voting upon the question of removal of any director and to assist in communications with other shareholders as required by Section 16(c).

-----  
\*Incorporated herein by reference

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this Post-Effective Amendment pursuant to Rule 485(b) of the Securities Act of 1933 and has duly caused this Post-Effective Amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Overland Park, and State of Kansas, on the 27th day of December, 1996.

UNITED HIGH INCOME FUND II, INC.

(Registrant)

By /s/ Keith A. Tucker\*

-----  
Keith A. Tucker, President

Pursuant to the requirements of the Securities Act of 1933, and/or the Investment Company Act of 1940, this Post-Effective Amendment has been signed below by the following persons in the capacities and on the date indicated.

Signatures	Title	Date
-----	-----	-----
/s/Ronald K. Richey*	Chairman of the Board	December 27, 1996
-----		-----
Ronald K. Richey		
/s/Keith A. Tucker*	President and Director	December 27, 1996
-----	(Principal Executive Officer)	-----

Keith A. Tucker

/s/Theodore W. Howard\*      Vice President, Treasurer      December 27, 1996  
-----  
and Principal Accounting  
Theodore W. Howard      Officer      -----

/s/Robert L. Hechler\*      Vice President and      December 27, 1996  
-----  
Principal Financial  
Robert L. Hechler      Officer      -----

/s/Henry L. Bellmon\*      Director      December 27, 1996  
-----  
Henry L. Bellmon      -----

/s/Dodds I. Buchanan\*      Director      December 27, 1996  
-----  
Dodds I. Buchanan      -----

/s/Jay B. Dillingham\*      Director      December 27, 1996  
-----  
Jay B. Dillingham      -----

/s/Linda Graves\*      Director      December 27, 1996  
-----  
Linda Graves      -----

/s/John F. Hayes\*      Director      December 27, 1996  
-----  
John F. Hayes      -----

/s/Glendon E. Johnson\*      Director      December 27, 1996  
-----  
Glendon E. Johnson      -----

/s/William T. Morgan\*      Director      December 27, 1996  
-----  
William T. Morgan      -----

/s/Doyle Patterson      Director      December 27, 1996  
-----  
Doyle Patterson      -----

/s/William L. Rogers\*      Director      December 27, 1996  
-----  
William L. Rogers      -----

/s/Frank J. Ross, Jr.\*      Director      December 27, 1996  
-----  
Frank J. Ross, Jr.      -----

/s/Eleanor B Schwartz\*      Director      December 27, 1996  
-----  
Eleanor B. Schwartz      -----

/s/Frederick Vogel III\*      Director      December 27, 1996  
-----  
Frederick Vogel III      -----

/s/Paul S. Wise\*      Director      December 27, 1996  
-----  
Paul S. Wise      -----

\*By  
Sharon K. Pappas  
Attorney-in-Fact



ATTEST:  
Sheryl Strauss  
Assistant Secretary

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, That each of the undersigned, UNITED FUNDS, INC., UNITED INTERNATIONAL GROWTH FUND, INC., UNITED MUNICIPAL BOND FUND, INC., UNITED VANGUARD FUND, INC., UNITED HIGH INCOME FUND, INC., UNITED CASH MANAGEMENT, INC., UNITED NEW CONCEPTS FUND, INC., UNITED GOVERNMENT SECURITIES FUND, INC., UNITED MUNICIPAL HIGH INCOME FUND, INC., UNITED GOLD & GOVERNMENT FUND, INC., UNITED HIGH INCOME FUND II, INC., UNITED CONTINENTAL INCOME FUND, INC., UNITED RETIREMENT SHARES, INC., UNITED ASSET STRATEGY FUND, INC., TMK/UNITED FUNDS, INC. AND WADDELL & REED FUNDS, INC. (each hereinafter called the "Corporation"), and certain directors and officers for the Corporation, do hereby constitute and appoint KEITH A. TUCKER, ROBERT L. HECHLER, and SHARON K. PAPPAS, and each of them individually, their true and lawful attorneys and agents to take any and all action and execute any and all instruments which said attorneys and agents may deem necessary or advisable to enable each Corporation to comply with the Securities Act of 1933 and/or the Investment Company Act of 1940, as amended, and any rules, regulations, orders or other requirements of the United States Securities and Exchange Commission thereunder, in connection with the registration under the Securities Act of 1933 and/or the Investment Company Act of 1940, as amended, including specifically, but without limitation of the foregoing, power and authority to sign the names of each of such directors and officers in his/her behalf as such director or officer as indicated below opposite his/her signature hereto, to any Registration Statement and to any amendment or supplement to the Registration Statement filed with the Securities and Exchange Commission under the Securities Act of 1933 and/or the Investment Company Act of 1940, as amended, and to any instruments or documents filed or to be filed as a part of or in connection with such Registration Statement or amendment or supplement thereto; and each of the undersigned hereby ratifies and confirms all that said attorneys and agents shall do or cause to be done by virtue hereof.

Date: October 16, 1996

/s/Keith A. Tucker

-----  
Keith A. Tucker, President

/s/Ronald K. Richey

Chairman of the Board

October 16, 1996

-----  
Ronald K. Richey

/s/Keith A. Tucker

President and Director  
(Principal Executive  
Officer)

October 16, 1996

-----  
Keith A. Tucker

/s/Theodore W. Howard

Vice President, Treasurer  
and Principal Accounting  
Officer

October 16, 1996

-----  
Theodore W. Howard

/s/Robert L. Hechler

Vice President and  
Principal Financial

October 16, 1996

-----

Robert L. Hechler	Officer	
/s/Henry L. Bellmon -----	Director	October 16, 1996 -----
Henry L. Bellmon		
/s/Dodds I. Buchanan -----	Director	October 16, 1996 -----
Dodds I. Buchanan		
/s/Jay B. Dillingham -----	Director	October 16, 1996 -----
Jay B. Dillingham		
/s/Linda Graves -----	Director	October 16, 1996 -----
Linda Graves		
/s/John F. Hayes -----	Director	October 16, 1996 -----
John F. Hayes		
/s/Glendon E. Johnson -----	Director	October 16, 1996 -----
Glendon E. Johnson		
/s/William T. Morgan -----	Director	October 16, 1996 -----
William T. Morgan		
/s/Doyle Patterson -----	Director	October 16, 1996 -----
Doyle Patterson		
/s/William L. Rogers -----	Director	October 16, 1996 -----
William L. Rogers		
/s/Frank J. Ross, Jr. -----	Director	October 16, 1996 -----
Frank J. Ross, Jr.		
/s/Eleanor Schwartz -----	Director	October 16, 1996 -----
Eleanor Schwartz		
/s/Frederick Vogel III -----	Director	October 16, 1996 -----
Frederick Vogel III		
/s/Paul S. Wise	Director	October 16, 1996

-----  
Paul S. Wise

Attest:

/s/Sharon K. Pappas

-----  
Sharon K. Pappas, Vice President  
and Secretary

UNITED HIGH INCOME FUND II, INC.  
BY-LAWS

ARTICLE I  
STOCKHOLDERS

Section 1. Place of Meeting. All meetings of the stockholders shall be held at the principal office of the Corporation or at such other place within or without the State of Maryland as may from time to time be designated by the Board of Directors and stated in the notice of meeting.

Section 2. Annual Meeting. The annual meeting of the stockholders of the Corporation shall be held at such hour as may be determined by the Board of Directors and as shall be designated in the notice of meeting on such date within 31 days after the 1st day of June in each year as may be fixed by the Board of Directors for the purpose of electing directors for the ensuing year and for the transaction of such other business as may properly be brought before the meeting. The Corporation shall not be required to hold an annual meeting in any year in which the election of directors is not required to be acted upon under the Investment Company Act of 1940.

Section 3. Special or Extraordinary Meetings. Special or extraordinary meetings of the stockholders for any purpose or purposes may be called by the Chairman of the Board of Directors, if any, or by the President or by the Board of Directors and shall be called by the Secretary upon receipt of the request in writing signed by stockholders holding not less than one fourth in amount of the entire capital stock issued and outstanding and entitled to vote thereat. Such request shall state the purpose or purposes of the proposed meeting.

Section 4. Notice of Meetings of Stockholders. Not less than ten days' and not more than ninety days' written or printed notice of every meeting of stockholders, stating the time and place thereof (and the general nature of the business proposed to be transacted at any special or extraordinary meeting), shall be given to each stockholder entitled to vote thereat by leaving the same with him or at his residence or usual place of business or by mailing it, postage prepaid, and addressed to him at his address as it appears upon the books of the Corporation.

No notice of the time, place or purpose of any meeting of stockholders need be given to any stockholder who attends in person or by proxy or to any stockholder who, in writing executed and filed with the records of the meeting, either before or after the holding thereof, waives such notice.

Section 5. Record Dates. The Board of Directors may fix, in advance, a date, not exceeding ninety days and not less than ten days preceding the date of any meeting of stockholders, and not exceeding ninety days preceding any dividend payment date or any date for the allotment of rights, as a record date for the determination of the stockholders entitled to receive such dividends or

rights, as the case may be; and only stockholders of record on such date shall be entitled to notice of and to vote at such meeting or to receive such dividends or rights, as the case may be.

Section 6. Quorum, Adjournment of Meetings. The presence in person or by proxy of the holders of record of a majority of the shares of the stock of the Corporation issued and outstanding and entitled to vote thereat, shall constitute a quorum at all meetings of the stockholders. If at any meeting of the stockholders there shall be less than a quorum present, the stockholders present at such meeting may, without further notice, adjourn the same from time to time until a quorum shall attend, but no business shall be transacted at any such adjourned meeting except such as might have been lawfully transacted had the meeting not been adjourned.

Section 7. Voting and Inspectors. At all meetings of stockholders every stockholder of record entitled to vote thereat shall be entitled to vote at such meeting either in person or by proxy appointed by instrument in writing subscribed by such stockholder or his duly authorized attorney. No proxy which is dated more than three months before the meeting at which it is offered shall be accepted, unless such proxy shall, on its face, name a longer period for which it is to remain in force.

All elections shall be had and all questions decided by a majority of the votes cast at a duly constituted meeting, except as otherwise provided in the Articles of Incorporation or in these By-Laws or by specific statutory provision superseding the restrictions and limitations contained in the Articles of Incorporation or in these By-Laws.

At any election of Directors, the Board of Directors prior thereto may, or, if they have not so acted, the Chairman of the meeting may, and upon the request of the holders of ten per cent (10%) of the stock entitled to vote at such election shall, appoint two inspectors of election who shall first subscribe an oath or affirmation to execute faithfully the duties of inspectors at such election with strict impartiality and according to the best of their ability, and shall after the election make a certificate of the result of the vote taken. No candidate for the office of Director shall be appointed such Inspector.

The Chairman of the meeting may cause a vote by ballot to be taken upon any election or matter, and such vote shall be taken upon the request of the holders of ten per cent (10%) of the stock entitled to vote on such election or matter.

Section 8. Conduct of Stockholders' Meetings. The meetings of the stockholders shall be presided over by the Chairman of the Board of Directors, if any, or if he shall not be present, by the President, or if he shall not be present, by a Vice-President, or if neither the Chairman of the Board of Directors, the President nor any Vice President is present, by a chairman to be elected at the meeting. The Secretary of the Corporation, if present, shall act as Secretary of such meetings, or if he is not present, an Assistant Secretary shall so act, if neither the Secretary nor an Assistant Secretary is present, then the meeting shall elect its secretary.

Section 9. Concerning Validity of Proxies, Ballots, Etc. At every meeting of the stockholders, all proxies shall be received and taken in charge of and all ballots shall be received and canvassed by the secretary of the meeting, who shall decide all questions touching the qualification of voters, the validity of the proxies, and the acceptance or rejection of votes, unless inspectors of election shall have been appointed as provided in Section 7, in which event such inspectors of election shall decide all such questions.

ARTICLE II  
BOARD OF DIRECTORS

Section 1. Number and Tenure of Office. The business and property of the Corporation shall be conducted and managed by a Board of Directors consisting of eleven Directors, which number may be increased or decreased as provided in Section 2 of this Article. Each director shall hold office until the annual meeting of stockholders of the Corporation next succeeding his election or until his successor is duly elected and qualifies. Directors need not be stockholders.

Section 2. Increase or Decrease in Number of Directors. The Board of Directors, by the vote of a majority of the entire Board, may increase the number of Directors to a number not exceeding twenty, and may elect Directors to fill the vacancies created by any such increase in the number of Directors until the next annual meeting or until their successors are duly elected and qualify; the Board of Directors, by the vote of a majority of the entire Board, may likewise decrease the number of Directors to a number not less than three. Vacancies occurring other than by reason of any such increase shall be filled as provided by the Maryland General Corporation Law.

Section 3. Place of Meeting. The Directors may hold their meetings, have one or more offices, and keep the books of the Corporation outside the State of Maryland, at any office or offices of the Corporation or at any other place as they may from time to time by resolution determine, or, in the case of meetings, as they may from time to time by resolution determine or as shall be specified or fixed in the respective notices or waivers of notice thereof.

Section 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and on such notice, if any, as the Directors may from time to time determine.

The annual meeting of the Board of Directors shall be held as soon as practicable after the annual meeting of the stockholders for the election of Directors.

Section 5. Special Meetings. Special meetings of the Board of Directors may be held from time to time upon call of the Chairman of the Board of Directors, if any, the President or two or more of the Directors, by oral or telegraphic or written notice duly served on or sent or mailed to each Director not less than one day before such meeting. No notice need be given to any Director who attends in person or to any Director who, in writing executed and filed with the records of the meeting either before or after the holding

thereof, waives such notice. Such notice or waiver of notice need not state the purpose or purposes of such meeting.

Section 6. Quorum. One-third of the Directors then in office shall constitute a quorum for the transaction of business, provided that a quorum shall in no case be less than two Directors. If at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained. The act of the majority of the Directors present at any meeting at which there is a quorum shall be the act of the Directors, except as may be otherwise specifically provided by statute, by the Articles of Incorporation or by these By-Laws.

Section 7. Executive Committee. The Board of Directors may, by the affirmative vote of a majority of the entire Board, elect from the Directors an Executive Committee to consist of such number of Directors as the Board may from time to time determine. The Board of Directors by such affirmative vote shall have power at any time to change the members of such Committee and may fill vacancies in the Committee by election from the Directors. When the Board of Directors is not in session, the Executive Committee shall have and may exercise any or all of the powers of the Board of Directors in the management of the business and affairs of the Corporation (including the power to authorize the seal of the Corporation to be affixed to all papers which may require it) except as provided by law and except the power to increase or decrease the size of, or fill vacancies on the Board. The Executive Committee may fix its own rules of procedure, and may meet, when and as provided by such rules or by resolution of the Board of Directors, but in every case the presence of a majority shall be necessary to constitute a quorum. In the absence of any member of the Executive Committee the members thereof present at any meeting, whether or not they constitute a quorum, may appoint a member of the Board of Directors to act in the place of such absent member.

Section 8. Other Committees. The Board of Directors, by the affirmative vote of a majority of the entire Board; may appoint other committees which shall in each case consist of such number of members (not less than two) and shall have and may exercise 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 powers of any such committee, to fill vacancies, and to discharge any such committee.

Section 9. Informal Action by Directors and Committees. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may 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.

Section 10. Compensation of Directors. Directors shall be entitled to receive such compensation from the Corporation for their services as may from time to time be voted by the Board of Directors.



Section 11. Investment Company Act. No person shall be elected as a Director of this Corporation if as a result thereof the Corporation would be in violation of Section 10 of the Investment Company Act of 1940; nor shall any action be taken pursuant to Section 9 of this ARTICLE if such action is required to be taken under Section 15 of said Act by vote cast in person at a meeting called for the purpose.

Section 12. Power to Declare Dividends and/or Distributions. The Board of Directors, from time to time as it may deem advisable, may declare and pay dividends and/or distributions in shares of the Fund, cash or other property of the Corporation, as determined by resolution of the Board of Directors out of any source available for dividends and/or distributions, to the stockholders according to their respective rights and interests in accordance with the provisions of the Articles of Incorporation.

### ARTICLE III OFFICERS

Section 1. Executive Officers. The executive officers of the Corporation shall be chosen by the Board of Directors as soon as may be practicable after the annual meeting of the stockholders. These may include a Chairman of the Board of Directors, and shall include a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary and a Treasurer. The Chairman of the Board of Directors, if any, and the President shall be selected from among the Directors. The Board of Directors may also in its discretion appoint Assistant Secretaries, Assistant Treasurers, and other officers, agents and employees, who shall have such authority and perform such duties as the Board or the Executive Committee may determine. The Board of Directors may fill any vacancy which may occur in any office. Any two offices, except those of President and Vice-President, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law or these By-Laws to be executed, acknowledged or verified by two or more officers.

Section 2. Term of Office. The term of office of all officers shall be one year and until their respective successors are chosen and qualify; however, any officer may be removed from office at any time with or without cause by the vote of a majority of the entire Board of Directors.

Section 3. Powers and Duties. The officers of the Corporation shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as may from time to time be conferred by the Board of Directors or the Executive Committee.

### ARTICLE IV CAPITAL STOCK

Section 1. Certificates of Shares. Each stockholder of the Corporation shall be entitled to a certificate or certificates for the full shares of the class of stock of the Corporation owned by them in such form as the Board of

Directors may from time to time prescribe.

Section 2. Transfer of Shares. Shares of the Corporation shall be transferable on the books of the Corporation by the holder thereof in person or by his duly authorized attorney or legal representative, upon surrender and cancellation of certificates, if any, for the same number of shares, duly endorsed or accompanied by proper instruments of assignment and transfer, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require, in the case of shares not represented by certificates, the same or similar requirements may be imposed by the Board of Directors.

Section 3. Stock Ledgers. The stock ledgers of the Corporation, containing the name and address of the stockholders and the number of shares held by them respectively, shall be kept at the principal offices of the Corporation or, if the Corporation employs a transfer agent, at the offices of the transfer agent of the Corporation.

Section 4. Lost, Stolen or Destroyed Certificates. The Board of Directors may determine the conditions upon which a new certificate of stock of the Corporation of any class may be issued in place of a certificate which is alleged to have been lost, stolen or destroyed; and may, in their discretion, require the owner of such certificate or his legal representative to give bond, with sufficient surety to the Corporation and the transfer agent, if any, to indemnify it and such transfer agent against any and all loss or claims which may arise by reason of the issue of a new certificate in the place of the one so lost, stolen or destroyed.

#### ARTICLE V CORPORATE SEAL

The Board of Directors shall provide a suitable corporate seal, in such form and bearing such inscriptions as it may determine.

#### ARTICLE VI FISCAL YEAR

The fiscal year of the Corporation shall be fixed by the Board of Directors.

#### ARTICLE VII AMENDMENT OF BY-LAWS

The By-Laws of the Corporation may be altered, amended, added to or repealed by the stockholders or by majority vote of the entire Board of Directors; but any such alteration, amendment, addition or repeal of the By-Laws by action of the Board of Directors may be altered or repealed by the stockholders.

## SHAREHOLDER SERVICING AGREEMENT

THIS AGREEMENT, made as of the 1ST day of November, 1992, by and between UNITED HIGH INCOME FUND II, INC., and Waddell & Reed Services Company (the "Agent"), as amended and restated as of April 1, 1996,

## W I T N E S S E T H :

WHEREAS, The Company wishes, as applicable, to appoint the Agent or to continue the appointment of the Agent to be its shareholder servicing agent upon, and subject to, the terms and provisions of this Agreement;

NOW THEREFORE, in consideration of the mutual covenants contained in this Agreement, the parties agree as follows:

1. Appointment of Agent as Shareholder Servicing Agent for the Company; Acceptance.

(1) The Company hereby appoints the Agent to act as Shareholder Servicing Agent for the Company upon, and subject to, the terms and provisions of this Agreement.

(2) The Agent hereby accepts the appointment as Shareholder Servicing Agent for the Company and agrees to act as such upon, and subject to, the terms and provisions of this Agreement.

(3) The Agent may appoint an entity or entities approved by the Company in writing to perform any portion of Agent's duties hereunder (the "Subagent").

2. Definitions.

(1) In this Agreement -

(a) The term the "Act" means the Investment Company Act of 1940 as amended from time to time;

(b) The term "account" means the shares of the Company registered on the books of the Company in the name of a shareholder under a particular account registration number and includes shares subject to instructions by the shareholder with respect to periodic redemptions and/or reinvestment in additional shares of any dividends payable on said shares;

(c) The term "affiliate" of a person shall mean a person controlling, controlled by, or under common control with that person;

(d) The term "Class" shall mean each separate sub-class of a

class of shares of the Company, as may now or in the future exist;

(e) The term "Fund" shall mean each separate class of shares of the Company, as may now or in the future exist;

(f) The term "officers' instruction" means an instruction given on behalf of the Company to the Agent and signed on behalf of the Company by any one or more persons authorized to do so by the Company's Board of Directors;

(g) The term "prospectus" means the prospectus and Statement of Additional Information of the applicable Fund or Class from time to time in effect;

(h) The term "shares" means shares including fractional shares of capital stock of the Company, whether or not such shares are evidenced by an outstanding stock certificate issued by the Company;

(i) The term "shareholder" shall mean the owner of record of shares of the Company;

(j) The term "stock certificate" means a certificate representing shares in the form then currently in use by the Company.

### 3. Duties of the Agent.

The Agent shall perform such duties as shall be set forth in this paragraph 3 and in accordance with the practice stated in Exhibit A of this Agreement or any amendment thereof, any or all of which duties may be delegated to or performed by one or more Subagents pursuant to Paragraph (3) above.

#### (1) Transfers.

Subject to the provisions of this Agreement the Agent hereby agrees to perform the following functions as transfer agent for the Company:

(a) Recording the ownership, transfer, exchange and cancellation of ownership of shares of the Company on the books of the Company;

(b) Causing the issuance, transfer, exchange and cancellation of stock certificates;

(c) Establishing and maintaining records of accounts;

(d) Computing and causing to be prepared and mailed or otherwise delivered to shareholders payment checks and notices of reinvestment in additional shares of dividends, stock dividends or stock splits declared by the Company on shares and of redemption proceeds due by the Company on redemption of shares;

(e) Furnishing to shareholders such information as may be reasonably required by the Company, including appropriate income tax

information;

(f) Addressing and mailing to shareholders prospectuses, annual and semi-annual reports and proxy materials for shareholder meetings prepared by or on behalf of the Company;

(g) Replacing allegedly lost, stolen or destroyed stock certificates in accordance with and subject to procedures and conditions agreed upon and set out in officers' instructions;

(h) Maintaining such books and records relating to transactions effected by the Agent pursuant to this Agreement as are required by the Act, or by rules or regulations thereunder, or by any other applicable provisions of law, to be maintained by the Company or its transfer agent with respect to such transactions; preserving, or causing to be preserved, any such books and records for such periods as may be required by any such law, rule or regulation; furnishing the Company such information as to such transactions and at such time as may be reasonably required by it to comply with applicable laws and regulations;

(i) Providing such services and carrying out such responsibilities on behalf of the Company, or imposed on the Agent as the Company's transfer agent, not otherwise expressly provided for in this Paragraph 3, as may be required by or be reasonably necessary to comply with any statute, act, governmental rule, regulation or directive or court order, including, without limitation, the requirements imposed by the Tax Equity and Fiscal Responsibility Act of 1982 and the Income and Dividend Tax Compliance Act of 1983 relating to the withholding of tax from distributions to shareholders.

(2) Correspondence.

The Agent agrees to deal with and answer all correspondence from or on behalf of shareholders relating to its functions under this Agreement.

4. Compensation of the Agent.

The Company agrees to pay the Agent for its services under this Agreement in accordance with the schedule as then in effect set forth in Exhibit B of this Agreement or any amendment thereof. In addition, the Company agrees to reimburse the Agent for the following "out-of-pocket" expenses of the Agent within five days after receipt of an itemized statement of such expenses, to the extent that payment of such expenses has not been or is not to be made directly by the Company: (i) costs of stationery, appropriate forms, envelopes, checks, postage, printing (except cost of printing prospectuses, annual and semi-annual reports and proxy materials) and mailing charges, including returned mail and proxies, incurred by the Agent with respect to materials and communications sent to shareholders in carrying out its duties to the Company under this Agreement; (ii) long distance telephone costs incurred by the Agent for telephone communications and microfilm and storage costs for transfer agency records and documents; (iii) costs of all ancillary and supporting services and related expenses (other than insurance premiums) reasonably required by and provided to

the Agent, other than by its employees or employees of an affiliate, with respect to functions of the Company being performed by it in its capacity as Agent hereunder, including legal advice and representation in litigation to the extent that such payments are permitted under Paragraph 7 of this Agreement and charges to Agent made by any Subagent; (iv) costs for special reports or information furnished on request pursuant to this Agreement and not specifically required by the Agent by Paragraph 3 of this Agreement; and (v) reasonable costs and expenses incurred by the Agent in connection with the duties of the Agent described in Paragraph (3)(1)(i). In addition, the Company agrees to promptly pay over to the Agent any fees or payment of charges it may receive from a shareholder for services furnished to the shareholder by the Agent.

Services and operations incident to the sale and distribution of the Company's shares, including sales communications, confirmations of investments (not including reinvestment of dividends) and the clearing or collection of payments will not be for the account or at the expense of the Company under this Agreement.

#### 5. Right of Company to Inspect Records, etc.

The Company will have the right under this Agreement to perform on site inspection of records and accounts and to perform audits directly pertaining to the Company shareholder accounts serviced by the Agent hereunder at the Agent's or any Subagent's facilities in accordance with reasonable procedures at the frequency necessary to assure proper administration of the Agreement. The Agent will cooperate with the Company's auditors or representatives of appropriate regulatory agencies and furnish all reasonably requested records and data.

#### 6. Insurance.

The Agent now has the insurance coverage described in Exhibit C, attached hereto, and the Agent will not take any action to eliminate or decrease such coverage during the term of this Agreement without receiving the approval of the Fund in advance of any change, except the Agent, after giving reasonable notice to the Company, may eliminate or decrease any coverage if the premiums for such coverage are substantially increased.

#### 7. Standard of Care; Indemnification.

The Agent will at all times exercise due diligence and good faith in performing its duties hereunder. The Agent will make every reasonable effort and take all reasonably available measures to assure the adequacy of its personnel and facilities as well as the accurate performance of all services to be performed by it hereunder within, at a minimum, the time requirements of any applicable statutes, rules or regulations or as set forth in the prospectus.

The Agent shall not be responsible for, and the Company agrees to indemnify the Agent for any losses, damages or expenses (including reasonable counsel fees and expenses) (i) resulting from any claim, demand, action or suit not resulting from the Agent's failure to exercise good faith or due diligence

and arising out of or in connection with the Agent's duties on behalf of the Company hereunder; (ii) for any delay, error or omission by reason of circumstances beyond its control, including acts of civil or military authority, national emergencies, labor difficulties (except with respect to the Agent's employees), fire, mechanical breakdown beyond its control, flood or catastrophe, acts of God, insurrection, war, riots, or failure beyond its control of transportation, communication or power supply; or (iii) for any action taken or omitted to be taken by the Agent in good faith in reliance on (a) the authenticity of any instrument or communication reasonably believed by it to be genuine and to have been properly made and signed or endorsed by an appropriate person, (b) the accuracy of any records or information provided to it by the Company, (c) any authorization or instruction contained in any officers' instruction, or (d) with respect to the functions performed for the Company listed under Paragraph 3(1) of this Agreement, any advice of counsel approved by the Company who may be internally employed counsel or outside counsel, in either case for the Company and/or the Agent.

In order for the rights to indemnification to apply, it is understood that if in any case the Company may be asked to indemnify or hold the Agent harmless, the Company shall be advised of all pertinent facts concerning the situation in question, and it is further understood that the Agent will use reasonable care to identify and notify the Company promptly concerning any situation which presents or appears likely to present a claim for indemnification against the Company. The Company shall have the option to defend the Agent against any claim which may be the subject of this indemnification and, in the event that the Company so elects, it will so notify the Agent and thereupon the Company shall take over complete defense of the claim and the Agent shall sustain no further legal or other expenses in such situation for which the Agent shall seek indemnification under this paragraph. The Agent will in no case confess any claim or make any compromise in any case in which the Company will be asked to indemnify the Agent except with the Company's prior written consent.

#### 8. Term of the Agreement; Taking Effect; Amendments.

This Agreement shall become effective at the start of business on the date hereof and shall continue, unless terminated as hereinafter provided, for a period of one year and from year to year thereafter, provided that such continuance shall be specifically approved as provided below.

This Agreement shall go into effect, or may be continued, or may be amended or a new agreement between the Company and the Agent covering the substance of this Agreement may be entered into only if the terms of this Agreement, such continuance, the terms of such amendment or the terms of such new agreement have been approved by the Board of Directors of the Company, including the vote of a majority of the directors who are not "interested persons," as defined in the Act, of either party to this Agreement or of Waddell & Reed Investment Management Company, cast in person at a meeting called for the purpose of voting on such approval. Such a vote is hereinafter referred to as a "disinterested director vote."

Any disinterested director vote shall include a determination that (i) the Agreement, amendment, new agreement or continuance in question is in the best interests of the Company and its shareholders; (ii) the services to be performed under the Agreement, the Agreement as amended, new agreement or agreement to be continued, are services required for the operation of the Company; (iii) the Agent can provide services the nature and quality of which are at least equal to those provided by others offering the same or similar services; and (iv) the fees for such services are fair and reasonable in the light of the usual and customary charges made by others for services of the same nature and quality.

## 9. Termination.

(1) This Agreement may be terminated by the Agent at any time without penalty upon giving the Company 120 days' written notice (which notice may be waived by the Company) and may be terminated by the Company at any time without penalty upon giving the Agent sixty (60) days' written notice (which notice may be waived by the Agent), provided that such termination by the Company shall be directed or approved by the vote of a majority of the Board of Directors of the Company in office at the time or by the vote of the holders of a majority (as defined in or under the Act) of the outstanding shares of the Company.

(2) On termination, the Agent will deliver to the Company or its designee all files, documents and records of the Company used, kept or maintained by the Agent in the performance of its services hereunder, including such of the Company's records in machine readable form as may be maintained by the Agent, as well as such summary and/or control data relating thereto used by or available to the Agent.

(3) In the event of any termination which involves the appointment of a new shareholder servicing agent, including the Company's acting as such on its own behalf, the Company shall have the non-exclusive right to the use of the data processing programs used by the Agent in connection with the performance of its duties under this Agreement without charge.

(4) In addition, on such termination or in preparation therefore, at the request of the Company and at the Company's expense the Agent shall provide to the extent that its capabilities then permit such documentation, personnel and equipment as may be reasonably necessary in order for a new agent or the Company to fully assume and commence to perform the agency functions described in this Agreement with a minimum disruption to the Company's activities.

## 10. Construction; Governing Law.

The headings used in this Agreement are for convenience only and shall not be deemed to constitute a part hereof. Whenever the context requires, words denoting singular shall be read to include the plural. This Agreement and the rights and obligations of the parties hereunder, shall be construed and interpreted in accordance with the laws of the State of Kansas, except to the extent that the laws of the State of Maryland apply with respect to share transactions.



11. Representations and Warranties of Agent.

Agent represents and warrants that it is a corporation duly organized and existing and in good standing under the laws of the State of Missouri, that it is duly qualified to carry on its business in the State of Kansas and wherever its duties require, that it has the power and authority under laws and by its Articles of Incorporation and Bylaws to enter into this Shareholder Servicing Agreement and to perform the services contemplated by this Agreement.

12. Entire Agreement.

This Agreement and the Exhibits annexed hereto constitutes the entire and complete agreement between the parties hereto relating to the subject matter hereof, supersedes and merges all prior discussions between the parties hereto, and may not be modified or amended orally.

IN WITNESS WHEREOF, the parties have hereto caused this Agreement to be duly executed on the day and year first above written.

UNITED HIGH INCOME FUND II, INC.

By: \_\_\_\_\_  
Sharon K. Pappas, Vice President

ATTEST:

By: \_\_\_\_\_  
Sheryl Strauss, Assistant Secretary

WADDELL & REED SERVICES COMPANY

By: \_\_\_\_\_  
Robert L. Hechler, President

ATTEST:

By: \_\_\_\_\_  
Sharon K. Pappas, Secretary

EXHIBIT A

A. DUTIES IN SHARE TRANSFERS AND REGISTRATION

1. The Agent in carrying out its duties shall follow general commercial practices and the Rules of the Stock Transfer Association, Inc. except as they may conflict or be inconsistent with the specific provisions of the Company's Articles of Incorporation and Bylaws, prospectus, applicable Federal and state laws and regulations and this Agreement.

2. The Agent shall not require that the signature of the appropriate person be guaranteed, witnessed or verified in order to effect a redemption, transfer, exchange or change of address except as may from time to time be directed by the Company as set forth in an officers' instruction. In the event a signature guarantee is required by the Company, the Agent shall not inquire as to the genuineness of the guarantee.

3. The Agent shall not replace a lost, stolen or misplaced stock certificate without requiring and being furnished with an open penalty surety bond protecting the Company and the Agent against loss.

B. The practices, procedures and requirements specified in A above may be modified, altered, varied or supplemented as from time to time may be mutually agreed upon by the Company and the Agent and evidenced on behalf of the Company by an officers' instruction. Any such change shall not be deemed to be an amendment to the Agreement within the meaning of Paragraph 8 of the Agreement.

EXHIBIT B  
COMPENSATION

Class A Shares

An amount payable on the first day of each month of \$1.3125 for each account of the Company which was in existence during any portion of the immediately preceding month and, in addition, to pay to the Agent the sum of \$0.30 for each account for which, during such month, a record date was established for payment of a dividend, in cash or otherwise (which term includes a distribution), irrespective of whether such dividend was payable in that month or later or was payable directly or was to be reinvested.

Class Y Shares

An amount payable on the first day of each month equal to 1/12 of .15 of 1% of the average daily net assets of the Class for the preceding month.

EXHIBIT C

Name of Bond	Bond or Policy No.	Insurer
Investment Company Blanket Bond Form	87015196B	ICI Mutual Insurance Company
Fidelity	\$18,500,000	

Audit Expense	500,000
On Premises	18,500,000
In Transit	18,500,000
Forgery or Alteration	18,500,000
Securities	18,500,000
Counterfeit Currency	18,500,000
Uncollectible Items of Deposit	25,000
Total Limit	18,500,000

Directors and Officers/ Errors and Omissions Liability Insurance Form	87015196D	ICI Mutual Insurance Company
Total Limit	\$ 5,000,000	

Blanket Lost Instrument Bond	30S100639551	Aetna Life & Casualty
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Blanket Undertaking Lost Instrument and Waiver of Probate	42SUN339806	Hartford Casualty Insurance
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DATE

ADDRESS

Dear:

The purpose of this Letter of Understanding is to confirm our mutual understanding regarding the establishment of an account in the United Funds on behalf of [NAME OF INSTITUTION OF PLAN] and our agreement as to subsequent administrative procedures.

It is our understanding that the Plan wishes to establish an account in the United Funds for the purpose of utilizing [FUND NAME] as a participant-directed investment alternative. This Letter of Understanding shall serve as a substitute application to open the account.

We will establish the mutual fund account upon receipt of the initial share purchase with the following registration:

The Federal Tax Identification Number to be shown on the account is

.

We will set up the account to have dividend and capital gains (securities profits) distributions reinvested rather than paid in cash. Exhibit A reflects the frequency of anticipated distributions.

[The next two paragraphs are included only for employee benefit plan/accounts:]

By approving and signing the Letter of Understanding, you certify that the [PLAN NAME] is a [401(k) / 403(b) / 457] plan having 100 or more eligible employees, thereby qualifying the plan to establish an omnibus account, under the terms of the [FUND NAME] Prospectus, for making purchases of Class Y shares, which are priced at net asset value (no sales load).

The undersigned trustee on behalf of the Plan also certifies that it has the authority to open such an account on behalf of [PLAN NAME].

It is our understanding that funds will be wire transferred from your bank for the purpose of purchasing [FUND NAME] shares. To insure timely investment, any wire must be received by United Missouri Bank by 2:00 p.m. (Central) on the day

of the wire. The following wire order instructions should be used:

United Missouri Bank, N.A.	
ABA #101000695; United K.C.;	
For Waddell & Reed Account #000-797-8	
FBO	(Registration of
Account)	
Account No.	(To be provided for each
account)	
Notify Control Depart. 236-1978	

When funds are to be wired from the account to your bank in accordance with your request, the wire must be received by your bank by 1:00 p.m. Eastern on the day of the wire. The following wire order instructions are to be used:

We offer to provide an enhanced level of service to ...your institution / the Plan... and its authorized representatives. Contained in Exhibits B and C hereto is information provided to allow us to provide this service. We cannot overemphasize that our ability to serve the institutional client is dependent upon the Plan's representatives interfacing with the members of our institutional support staff as identified in Exhibit C.

If any of the above does not conform to your understanding and/or instructions, or if you have questions or need additional information, please do not hesitate to call me at the number shown on Exhibit C. We are very much looking forward to our relationship with [NAME OF INSTITUTION OR NAMES OF PLAN AND TRUSTEE] and are determined to provide the best possible service.

Sincerely,

SALES REP NAME  
SALES REP TITLE

ACKNOWLEDGED AND APPROVED

[If signed by a plan trustee, add next line:]

AS TRUSTEE FOR

By:

Title:

Date:

The above signatory certifies that the following persons are authorized to instruct transactions in the account (type or print):

For Waddell & Reed use only:

Accepted:

#### EXHIBIT A

#### FREQUENCY OF DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS

[FUND NAME] ordinarily distributes investment income by way of a dividend once per [NORMAL DIVIDEND FREQUENCY].

[FUND NAME] generally distributes capital gains (securities profits), if capital gains are available for distribution, once each year in December, on the same date as the December dividend distribution.

For the Fund and in the case of reinvested dividend and capital gain distributions, the record date and the reinvestment date are the same. The per share distribution amounts are applied to the share balance in the account after the posting of that day's activity.

For the remainder of [YEAR], the ordinary dividend distribution dates would be

[DATES].

## EXHIBIT B

### ADDITIONAL SERVICES WE WILL PROVIDE

The following services can be provided by us on an ongoing basis:

1. Coordinating purchases by notifying Waddell & Reed Services Company of each incoming wire transfer and verifying the posting of the purchase(s) the following business morning.
2. Confirming the purchase to you including: the date and dollar amount of the investment, the purchase price and number of shares purchased, and the new Fund account share balance.
3. Notifying you of dividend and/or capital gains distributions and reinvestments including: the per share and dollar amount of distributions, the date of reinvestment, the reinvestment price and number of shares purchased, and the new Fund account share balance.
4. Processing redemptions based on your request by notifying Waddell & Reed Services Company of the redemption, instructing them as to the outgoing wire transfer, and verifying the posting of the redemption the following business morning.
5. Confirming the redemption to you including: the date and dollar amount of the redemption, the selling price and number of shares redeemed, and the new Fund account share balance.
6. At the end of each month following the initial investment, we will provide a report, if desired, which reflects all transactions in the account during the previous month, and the share balance, net asset value per share and total market value of the account.

Each of the confirmations, notifications and reports identified above will be made available at your request, by telephone or facsimile transmission, as appropriate to whomever you request.

## EXHIBIT C

### LIST OF WADDELL & REED CONTACTS

During the period of account setup and initial wire transfer, your contacts at Waddell & Reed are the following:

PRIMARY

Cynthia LaGree  
913-236-1722

SECONDARY

James McCroy  
913-236-1744

On an ongoing basis once the account is operational, your contacts are as follows:

PRIMARY

Julie Herrick  
913-236-1854

SECONDARY

Dana Arth  
913-236-1853

BACKUP

Cynthia LaGree  
913-236-1722

Our fax numbers are:

Primary: 913-236-1801

Secondary: 913-236-1888



## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Statement of Additional Information constituting part of this Post-Effective Amendment No. 18 to the Registration Statement on Form N-1A (the "Registration Statement") of our report dated November 8, 1996, relating to the financial statements and the financial highlights of United High Income Fund II, Inc., which appears in such Statement of Additional Information, and to the incorporation by reference of our report into the Class A Shares Prospectus and the Class Y Shares Prospectus which constitute part of this Registration Statement. We also consent to the reference to us under the heading "Financial Highlights" in the Class A Shares Prospectus and the Class Y Shares Prospectus.

Price Waterhouse LLP  
Kansas City, Missouri  
December 27, 1996

<TABLE>

1FDCSY2

RUN DATE: 12/27/96, TIME: 14:08:50

SEC ADVERTISING YIELD SECURITY INCOME DETAIL FOR THE PERIOD 08/31/96 THROUGH 09/30/96

UNITED HIGH INCOME FUND II, INC.

000000000000034

SECURITY	SHORT NAME	METHOD	INCOME	ANNUAL RATE	COMMENT	CALCULATION ERROR
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002033AA6	A PLUS NETWORK SR SUB NTS	YTM	15,857.63	12.38280910	STANDARD YTM	
002786AB7	ABBEY HEALTHCARE SR SUB N	YTM-CALL	16,121.77	9.04852400	STANDARD YTM	
006348AB2	ADAMS OUTDOOR ADV L P SR	YTM-CALL	13,535.38	10.11914260	STANDARD YTM	
006848AC9	ADELPHIA COMMUN SR NOTES	YTM-CALL	31,191.51	10.05150270	STANDARD YTM	
007903AB3	ADV MICRO DEVICE SR NOTES	YTM	9,049.61	10.32182770	STANDARD YTM	
008121AC9	AETNA INDS INC SENIOR NTS	YTM-CALL	9,931.01	11.46985250	STANDARD YTM	
016745AD3	ALLBRITTON COMM SR SUB DE	YTM	17,161.27	10.24102890	STANDARD YTM	
022380AB5	ALVEY SYS SR SUB NT	YTM-CALL	9,471.85	10.50714890	STANDARD YTM	
023840AB7	AMERICAN ANNUITY SENIOR N	YTM-CALL	16,903.16	7.74488570	STANDARD YTM	
02744RAA5	AMERICAN MEDIA OPER SR SU	YTM-CALL	29,502.55	10.59323190	STANDARD YTM	
029161AA4	AMER RADIO SYS SR SUB NTS	YTM	11,700.51	9.48773300	STANDARD YTM	
029362AB6	AMER SAFETY RAZOR SER B	YTM-CALL	16,626.88	9.64428000	STANDARD YTM	
029654AA8	AMER SKIING 144A SR SB NT	YTM	25,845.95	12.12191660	STANDARD YTM	
029717AB1	AMERICAN STANDARD SF DEB	YTM-CALL	11,862.76	8.94300030	STANDARD YTM	
029717AJ4	AMERICAN STANDARD SR SUB	YTM	4,166.45	0.99564440	STANDARD YTM	
03071PAA0	AMERISOURCE PIK DIST SR	YTM	0.63	11.24416480	STANDARD YTM	
039381AB4	ARCH COMMUN SR DISC NOTE	YTM	2,418.19	5.12479240	STANDARD YTM	
039914AA4	ARGYLE TELEVISION	YTM	25,392.57	9.74720110	STANDARD YTM	
040228AB4	ARGOSY GAMING CONVT SUB N	ACTUAL	10,917.80	12.00000000		
040228AE8	ARGOSY GAMING CO 1ST MORT	YTM	17,325.38	13.34659990	STANDARD YTM	
054393AB9	AVONDALE MILLS SR SUB NTS	YTM	8,861.92	9.91892450	STANDARD YTM	
07556QAA3	BEAZER HOME USA SENIOR NO	YTM	12,033.78	10.16827410	STANDARD YTM	
077852101	BELL & HOWELL COMPANY	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
077912AA1	BELL & HOWELL SENIOR NOTE	YTM-CALL	4,664.70	9.24109700	STANDARD YTM	
077912AB9	BELL & HOWELL SR NT SER B	YTM-CALL	14,991.97	8.83051950	STANDARD YTM	
087851101	BEVERLY ENTERPRISES INC	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
089162AA9	BIG FLOWER PRESS SR SUB N	YTM	14,965.70	10.27762420	STANDARD YTM	
089698AB0	BIG V SPRMKT SER B SR SUB	YTM	14,445.08	11.82156840	STANDARD YTM	
114399AC2	BROOKS FIBER SR DISC NOTE	YTM	6,891.79	5.22811710	STANDARD YTM	
116881AB9	BRUNOS SR SUB NOTES	YTM-CALL	17,427.70	9.98097140	STANDARD YTM	
12686CAC3	CABLEVISION SYST	YTM-CALL	13,398.86	9.71511870	STANDARD YTM	
126915AF4	CABLEVISION IND SERIES B	YTM-CALL	15,661.37	8.68143560	STANDARD YTM	
130209505	CAL FED BK 10 5/8% PFD B	DIVIDEND	4,427.10	10.62500000		
13032RAG0	CALIFORNIA HOTEL SR SUB N	YTM-CALL	20,940.15	9.76032300	STANDARD YTM	
147575AD6	CASINO AMERICA SR NOTES	YTM-CALL	30,921.88	11.38612740	STANDARD YTM	
15129GK80	CREDIT SUISSE LC CEMEXBAS	ACTUAL	6,085.99	5.37000000		
151297AB4	CENCALL SENIOR NOTES	YTM	8,394.97	5.78045630	STANDARD YTM	
158826AB3	CHANCELLOR BRDCST SR SB NT	YTM	8,912.35	9.92362110	STANDARD YTM	
19088KAC4	COBB THEATRE FINANCE CORP	YTM-CALL	13,077.58	10.24898440	STANDARD YTM	
194832AA9	COLLINS & AIKMAN SR SUB N	YTM-CALL	24,229.02	10.57791210	STANDARD YTM	
199904AB9	COMCAST CELL SER B SR RDM	YTM	13,851.10	10.84147200	STANDARD YTM	
199906AA6	COMCAST UK CABLE DEB	YTM	0.00	0.00000000	TAX EXEMPT MKT DISC	PAGE 1
200300AP6	COMCAST CORP SR SUB DEBS	SEYTM IS	32,336.44 UR	9.22547180	ILSTANDARD YTM	

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20271MJG9	COMMONWLTH BK AUSTRAL	GSCFOACTUAL RI	4,303.83 HR	5.27000000		
202904AC2	COMMONWLTH ALUM SR SUB NT	YTM-CALL	5,282.06	10.23804640	STANDARD YTM	
20338CAC8	COMMUN & PWR SER B SR NTS	YTM-CALL	19,633.76	10.41504390	STANDARD YTM	
209349505	CONS HYDRO 13.5 EXCH PFD	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
210305AB4	CONSOLTEX SER B SR SUB NO	YTM	20,005.68	11.26261010	STANDARD YTM	
210741AL8	CONTAINER CORP SR NTS B	YTM	17,650.57	9.56947880	STANDARD YTM	
218682AB8	CORE-MARK INTL 144A SR SB	YTM-CALL	1,230.63	10.79674080	STANDARD YTM	
219888AB0	CORPORATE EXPRESS	YTM	15,619.59	9.14703280	STANDARD YTM	
22942TAA9	CS WIRELESS SYS 144A UNIT	YTM-CALL	0.00	0.00000000	STANDARD YTM	
233663AE3	DADE INTL SR SUB NOTES	YTM-CALL	9,568.16	10.15481070	STANDARD YTM	
252567AB8	DIAMOND CABLE COMM DISC	YTM	0.00	0.00000000	TAX EXEMPT MKT DISC	
25612TAA1	DR PEPPER BTLG HLDG INC S	YTM	1,181.46	1.31223300	STANDARD YTM	
257150AB8	DOMINICKS FINER FOODS SSN	YTM-CALL	8,705.55	9.27876910	STANDARD YTM	
26822QAA1	E&S HOLDINGS 144A SR SUB	YTM-CALL	352.98	9.91502650	STANDARD YTM	
269288AB2	EZ COMMUN SR SUB NOTES	YTM-CALL	2,197.82	9.54984240	STANDARD YTM	
278763AE7	ECKERD SENIOR SUB NOTES	YTM-CALL	41,454.19	8.89359620	STANDARD YTM	
283677AT9	EL PASO ELECT CO 1ST MTG	YTM	14,913.37	8.70518850	STANDARD YTM	
283677805	EL PASO ELEC 11.4 PIK PFD	DIVIDEND	9,500.10	11.40000000		
297015AB5	ESSEX GROUP INC SR NOTES	YTM-CALL	16,859.91	9.31333780	STANDARD YTM	

302051AC1	EXIDE CORP SR SUB DEF CPN	YTM	1,094.16	1.28770770	STANDARD	YTM		
302051AE7	EXIDE SR NOTES	YTM-CALL	12,681.11	9.40870690	STANDARD	YTM		
304530AA6	FAIRFIELD MANU SENIOR SUB	YTM-CALL	19,380.37	10.96418570	STANDARD	YTM		
305914AB9	FALCON DRILL SER B SR NOT	YTM-CALL	12,632.33	9.76387880	STANDARD	YTM		
317234102	FILM ROMAN INC	DIVIDEND	0.00	0.00000000			ZERO ANNUAL RATE	
32108QAC0	FRST NATWIDE HLDGS SR NTS	YTM	15,658.56	10.71101970	STANDARD	YTM		
32109CAA4	FIRST NTWIDE ESCROW 144A	YTM-CALL	3,401.08	9.64769640	STANDARD	YTM		
34039CAB3	FLORES & RUCKS SR SUB NTS	YTM	1,340.70	9.53284300	STANDARD	YTM		
344839AD7	FOODMAKER INC SENIOR NOTE	YTM	11,888.27	9.24338740	STANDARD	YTM		
347460AG2	FORT HOWARD SR NOTES	YTM	20,581.93	8.69719820	STANDARD	YTM		
347463AA9	FORT HOWARD PASS THRU CER	YTM	36,054.45	9.84358990	STANDARD	YTM		
350870AC5	FOUR M CORP B SR SEC NTS	YTM-CALL	10,143.96	10.91407090	STANDARD	YTM		
361916AK5	GNS FINANCE SR NT SER B	YTM-CALL	11,427.89	8.78236010	STANDARD	YTM		
361928AA2	GPA DELAWARE	YTM	25,477.86	8.36001960	STANDARD	YTM		
361933AB0	GNF CORP SERIES B	YTM-CALL	10,654.49	7.21129450	STANDARD	YTM		
370299AC3	GENL MED SR SUB NT SER A	YTM-CALL	26,364.62	10.07192380	STANDARD	YTM		
370299AE9	GENL MED PIK SUB DB SER A	YTM	25,899.96	12.22250590	STANDARD	YTM		
370334MN1	GENERAL MILLS, INC	ACTUAL	6,179.52	0.00000000				
387241AE2	GRANITE BRDCST SR SUB NTS	YTM	8,916.23	10.19366500	STANDARD	YTM		
387241AH5	GRANITE BROAD SR SUB NOTE	YTM	12,444.71	10.04840900	STANDARD	YTM		PAGE 1
396781AB2	GREENWICH AIR SR NOTES	YTM-CALL	22,343.43	10.10818480	STANDARD	YTM		
40050MAA4	GRUPO INDUSTRIAL DURANGO SEY	YTM IS	18,617.41 UR	11.35638980	ILSTANDARD	YTM		
403916AB5	HMC ACQ PROPERTIES SR NTS	YTM	11,902.51	9.56731000	STANDARD	YTM		PAGE 2
413086AA7	HARMAN INDUST SR SUB NOTE	YTM-CALL	10,880.66	7.15473630	STANDARD	YTM		
413627AC4	HARRAHS OPER INC	SEYTM-CALL IS	13,171.42 UR	7.31242020	ILSTANDARD	YTM		

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42718EAB0	HERFF JONES SER B SR SUB	FOYTM-CALL	18,070.04 HR	9.92922560	STANDARD	YTM	
427241AB0	HERITAGE MEDIA SR SUB NT	YTM	7,711.89	9.65155280	STANDARD	YTM	
433245AB3	HINES HORTICULTURE SR NTS	YTM-CALL	19,920.78	11.28496490	STANDARD	YTM	
449247AA3	ICG HLDGS INC SR DISC NTS	YTM	5,991.93	4.52078380	STANDARD	YTM	
450698AA3	IVAC CORP SENIOR NOTES	YTM-CALL	7,761.11	8.93720070	STANDARD	YTM	
456626AC4	INFINITY BROAD SR SUB NOT	YTM-CALL	20,693.25	9.15550510	STANDARD	YTM	
456626100	INFINITY BROAD CORP CL A	DIVIDEND	0.00	0.00000000			ZERO ANNUAL RATE
45844LAB4	INTERCEL INC UNITS	YTM-CALL	0.00	0.00000000	STANDARD	YTM	
458801AF4	INTERMEDIA COMM FL SR DIS	YTM	5,936.39	4.94325570	STANDARD	YTM	
46284PAA2	IRON MOUNTAIN SR SUB NOTE	YTM	0.00	0.00000000	STANDARD	YTM	
46611EAA1	JCAC INC SR SUB NTS	YTM-CALL	8,584.45	9.68491020	STANDARD	YTM	
469858401	JACOR COMMUNICATIONS INC	DIVIDEND	0.00	0.00000000			ZERO ANNUAL RATE
47758RAA3	JITNEY-JUNGLE ST SR NTS	YTM-CALL	14,929.97	10.99286230	STANDARD	YTM	
480695AC9	JORDAN INDUSTRIES SENIOR	YTM	19,460.34	11.11275230	STANDARD	YTM	
48258VAF6	K MART CORP PT CERTS	YTM	23,958.43	10.82363400	STANDARD	YTM	
482727AE4	K-III COMM SR NOTE	YTM	7,597.36	9.65078290	STANDARD	YTM	
482727609	K-III COMM 10 EX PF SER D	DIVIDEND	8,333.40	10.00000000			
49240CKP4	KERR-MCGEE CREDIT CORPLMB	ACTUAL	6,301.92	5.47000000			
502175AB8	LTC PROPERTIES CONVNT SUB	ACTUAL	13,858.70	8.50000000			
502175AC6	LTC PROPERTIES CV SUB DEB	ACTUAL	6,929.35	8.50000000			
502175102	LTC PROPERTIES INC	DIVIDEND	2,165.43	1.36000000			
504195AB4	LA QUINTA INNS SR SUB NOT	YTM	30,972.00	8.84086670	STANDARD	YTM	
512815AA9	LAMAR ADVERTISING SR SUB	YTM	18,107.45	9.99711190	STANDARD	YTM	
517289AA2	LAROCHE INDUST SR SUB NOT	YTM-CALL	5,277.79	11.02408750	STANDARD	YTM	
521893AB3	LEAR SEATING SUBORDINATED	YTM	29,044.11	8.60190020	STANDARD	YTM	
536065AA3	LINTER TEXTILE CORP SR SU	YTM	0.00	0.00000000	STANDARD	YTM	REVERSAL 1N PERIOD
55272TAA9	MFS COMMUNICATIONS SR DIS	YTM	4,578.08	2.40548310	STANDARD	YTM	
55272TAB7	MFS COMMUN SR DISC NOTE	YTM	5,861.33	3.87572910	STANDARD	YTM	
560319AA3	MAIL-WELL SR SUB NTS	YTM	9,078.05	10.89632020	STANDARD	YTM	
56632WAA5	MARCUS CABLE SR SUB GTD D	YTM	7,825.62	3.19598980	STANDARD	YTM	
570387AG5	MARK IV INDUST SR SUB NOT	YTM	37,379.11	8.34515410	STANDARD	YTM	
57777GAC9	MAXXIM MEDICAL SR SUB NTS	YTM-CALL	23,959.55	9.79806850	STANDARD	YTM	
591647AA0	METROCALL INC SR SUB NOTE	YTM	9,890.66	13.36823230	STANDARD	YTM	
594087AD0	MICHAELS STORES SR NOTES	YTM	23,189.12	10.53599810	STANDARD	YTM	
59501TAC0	MICROCELL TELE 144A UNITS	YTM	0.00	0.00000000	TAX EXEMPT MKT DISC		
62543VAA3	MULTICARE CO SR SUB NOTES	YTM-CALL	3,161.80	7.78279540	STANDARD	YTM	PAGE 1
62944TAA3	NVR INC. SENIOR NOTES	YTM	13,778.91	10.24893300	STANDARD	YTM	
63633D104	NATIONAL HEALTH INVESTORS	SEDIVIDEND IS	6,696.90 UR	2.96000000	IL		
655042AA7	NOBLE DRILLING SENIOR NOT	YTM	19,526.92	8.57477570	STANDARD	YTM	PAGE 2
656559AQ4	NORTEK, INC. SR SUB NOTES	YTM	25,551.77	10.46304730	STANDARD	YTM	
685689AB7	ORCHARD SUPPLY SENIOR NOT	SEYTM-CALL IS	15,883.85 UR	7.10361810	ILSTANDARD	YTM	
686079AA2	OREGON STEEL 1ST MORTGAGE	YTM-CALL	19,011.88	10.53478310	STANDARD	YTM	PAGE 3
690768AW6	OWENS ILLINOIS SR SUB NOT	YTM	16,218.15	9.09606170	STANDARD	YTM	
690768AX4	OWENS ILLINOIS SR SUB NOT	SEYTM IS	36,262.25 UR	9.38130870	ILSTANDARD	YTM	

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69830CAA2	PANAMSAT LP SR SECD NOTES	FOYTM-CALL	16,711.94	HR	7.32562930	STANDARD YTM
69830CAB0	PANAMSAT LP SR SUB DISC N	YTM	5,935.84		1.38436460	STANDARD YTM
698891AC2	PARACEL SUS HLTH SR SUB NT	YTM-CALL	16,663.32		9.40622540	STANDARD YTM
707832AB7	PENN TRAFFIC	YTM	34,737.10		13.44875020	STANDARD YTM
707832AF8	PENN TRAFFIC SR NOTES	YTM	25,284.77		14.01353060	STANDARD YTM
727554107	PLASTIC SPECIALITIES/TECH	DIVIDEND	0.00		0.00000000	ZERO ANNUAL RATE
729173AB0	PLITT THEATRES SR SUB NTS	YTM	18,563.78		10.62678580	STANDARD YTM
740540AB5	PREMIER PARKS SER A SR NT	YTM-CALL	9,833.68		10.57994070	STANDARD YTM
740540208	PREMIER PARKS INC	DIVIDEND	0.00		0.00000000	ZERO ANNUAL RATE
741571AA1	PRIME SUCCESS 144A SR SB	YTM-CALL	8,734.95		9.45692420	STANDARD YTM
741917AC2	PRIME HOSPITALITY	YTM	15,651.56		9.16483010	STANDARD YTM
743659AL8	PROTECT ONE ALRM CV SR SB	ACTUAL	4,101.56		6.75000000	
74377P203	PROVIDENCE JOURNAL CL A	DIVIDEND	0.00		0.00000000	ZERO ANNUAL RATE
74445AJG2	PUBL SERV CO OF COLO MLP	ACTUAL	4,695.07		5.47000000	
74740AKH9	QUAKER OATS CO	JPM ACTUAL	3,056.67		5.60000000	
749084AA7	QUORUM HEALTH GROUP SR SU	YTM-CALL	28,500.55		7.55147930	STANDARD YTM
749084AB5	QUORUM HEALTH SR SUB NTS	YTM	15,205.67		8.70745860	STANDARD YTM
749280AB9	RBX CORP SER B SR SUB NTS	YTM	20,661.19		12.36835350	STANDARD YTM
751258AA2	RALPHS GROCERY SR NOTES	YTM	22,417.40		10.18225960	STANDARD YTM
757005AB9	RED ROOF INNS SENIOR NTS	YTM	12,753.12		10.11609540	STANDARD YTM
758934AB9	REGENCY HLTH SR SUB NTS	YTM	8,615.41		9.76148770	STANDARD YTM
76154KAB5	REVLON WRLDWDE SR DISC NT	YTM	28,054.49		9.16457100	STANDARD YTM
766520AC4	RIFKIN ACQ SR SUB NTS	YTM	14,067.16		10.60353390	STANDARD YTM
767147AC5	RIO HOTEL SR SUB NOTE	YTM-CALL	17,814.68		9.89211900	STANDARD YTM
775101AB4	ROGERS CANTEL DEB	YTM	12,039.69		9.37150230	TAX EXEMPT MKT DISC
775109AF8	ROGERS COMMUN SR NOTE	YTM	23,162.49		9.12100200	TAX EXEMPT MKT DISC
781076AA2	RSL COMMUN 144A UNITS	YTM	0.00		0.00000000	STANDARD YTM
784092AC2	SD WARREN SER B SR SUB NT	YTM	2,634.80		10.96409430	STANDARD YTM
784174AE4	SFX BROAD SER B SR SUB NT	YTM-CALL	13,702.83		10.09952840	STANDARD YTM
803111MN0	SARA LEE CORP	ACTUAL	1,074.02		0.00000000	
809337AA6	SCOTSMAN GROUP SENIOR NOT	YTM	10,111.36		9.41887300	STANDARD YTM
81948QAB3	SHARED TECH/FAIRCHLD	YTM	1,802.08		2.55230550	STANDARD YTM
825085AA1	SHOP VAC 144A SR SEC NOTE	YTM	0.00		0.00000000	STANDARD YTM
825390AB3	SHOWBOAT 1ST MTG BONDS	YTM	32,303.01		9.28353080	STANDARD YTM
825391AB1	SHOWBOAT MARINA CASINO	SEYTM-CALLIS	16,994.55	UR	12.04773850	ILSTANDARD YTM
827048AB5	SILGAN CORP SR SUB DEB	YTM	11,247.62		12.87971870	STANDARD YTM
832388AA0	SMITHS FOOD & DRUG SR SUB	YTM-CALL	14,389.50		10.24894240	STANDARD YTM
84240AK75	SOUTHERN CA EDISON	LMBSEACTUAL IS	19,475.21	UR	5.37000000	IL
847499AC4	SPECIALTY FOODS SR NTS B	YTM	19,503.34		12.48171530	STANDARD YTM
847499AF7	SPECIALTY FOODS SR NTS	YTM	10,687.15		12.83242380	STANDARD YTM
85207FAB4	SPRINT SPECTRUM SR DISC	SEYTM IS	9,594.29	UR	5.50366520	ILSTANDARD YTM
857689AC7	STATION CASINOS SR SUB NT	YTM	13,152.79		10.41869460	STANDARD YTM
864904AB3	SULLIVAN BRDCAST SR SUB N	YTM	4,407.33		10.33008260	STANDARD YTM
87228JJ36	TCI COMMUNICATIONS	MLPSEACTUAL IS	1,304.49	UR	5.72000000	IL
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87228JKF7	TCI COMMUNICATIONS	CYCFOACTUAL RI	6,966.66	HR	5.70000000	
879463AB3	TELEPORT COMMUN SR NOTES	YTM	0.00		0.00000000	STANDARD YTM
879463AC1	TELEPORT COMM SR DISC NT	YTM	6,928.26		4.19380020	STANDARD YTM
88033GAA8	TENET HEALTHCARE CORP	YTM	14,332.32		7.80203210	STANDARD YTM
88033GAB6	TENET HEALTHCARE CORP	YTM	15,932.80		8.67877620	STANDARD YTM
88320DKJ7	TEXTRON FINANCIAL	JPM ACTUAL	13,392.37		5.47000000	
89350AK48	TRANSAMERICA FINL GRP MLP	ACTUAL	1,231.53		5.46000000	
895912AC7	TRIANGLE PACIFIC CORP SR	YTM-CALL	22,276.72		10.04919950	STANDARD YTM
895912103	TRIANGLE PACIFIC CORP	DIVIDEND	0.00		0.00000000	ZERO ANNUAL RATE
897907AA9	TRUMP ATLANTIC 1ST MTG	YTM	19,929.48		11.50770320	STANDARD YTM
89816MAA6	TRUMP HLDGS FDNG SENIOR N	YTM-CALL	23,901.29		11.76131580	STANDARD YTM
898168109	TRUMP HOTELS & CASINO RES	DIVIDEND	0.00		0.00000000	ZERO ANNUAL RATE
900262AR7	TURNER BROADCASTING	YTM	29,699.13		8.60658470	STANDARD YTM
90263EAB8	UCC INV HLDG SR NTS	YTM	46,421.77		9.21439830	STANDARD YTM
90263EAD4	UCC INV HLDG SUB DISC NOT	YTM	3,211.43		1.56126460	STANDARD YTM
902933AB6	UCAR GLOBAL SR SUB	YTM	4,767.55		9.49469500	STANDARD YTM
90329KAA8	USA MOBILE SENIOR NOTES	YTM	8,553.26		10.28467520	STANDARD YTM
910734AC6	UTD INTL HLDG DISC NOTE	YTM	18,368.88		11.98856100	STANDARD YTM
911596MN1	U S BANCORP	ACTUAL	464.20		0.00000000	
913008AB4	UTD STATIONER SR SUB	YTM-CALL	26,927.95		11.40588240	STANDARD YTM
922022AA6	VANGUARD CELLULAR SYS DEB	YTM	8,247.51		9.53549070	STANDARD YTM
92552GJQ7	VIACOM INC	CTC ACTUAL	8,085.77		5.65000000	
925524AC4	VIACOM INC	YTM	43,352.68		9.03175500	STANDARD YTM
92659HAB9	VIDEOTRON HLDG SR DISC	YTM	0.00		0.00000000	TAX EXEMPT MKT DISC
931154AC2	WALBRO SENIOR NOTES	YTM	8,306.28		9.52923080	STANDARD YTM
93317Q105	WALTER INDUSTRIES INC	DIVIDEND	0.00		0.00000000	ZERO ANNUAL RATE
960386AA8	WESTINGHOUSE AIR BRAKE SR	YTM	12,041.18		9.49898630	STANDARD YTM
961238AB8	WESTPOINT STEVENS SR SUB	YTM	24,159.42		9.32967670	STANDARD YTM

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0 SEC ADVERTISING YIELD SECURITY INCOME DETAIL  
FOR THE PERIOD 08/31/96 THROUGH 09/30/96

0 UNITED HIGH INCOME FUND II, INC. 000000000000034

0 S U M M A R Y D A T A CLASS 01

0	TOTAL INCOME.....	2,613,345.04
0	TOTAL EXPENSES.....	304,322.48-
0	AVERAGE SHARES.....	88,652,256.0926
0	MAXIMUM OFFERING PRICE.....	4.390000
0	EXPONENT USED IN FORMULA.....	6
0	SEC ADVERTISED YIELD.....	7.226028

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SEC ADVERTISING YIELD SECURITY INCOME DETAIL FOR THE PERIOD 08/31/96 THROUGH 09/30/96

UNITED HIGH INCOME FUND II, INC. 000000000000034

SECURITY	SHORT NAME	METHOD	INCOME	ANNUAL RATE	COMMENT	CALCULATION ERROR
<S>	<S>	<S>	<C>	<C>	<S>	
00202BAC5	APP INTL FIN GTD SECD NT	YTM	20,356.66	11.12454400	STANDARD YTM	
002033AA6	A PLUS NETWORK SR SUB NTS	YTM	15,857.63	12.38280910	STANDARD YTM	
002786AB7	ABBEY HEALTHCARE SR SUB N	YTM-CALL	16,121.77	9.04852400	STANDARD YTM	
006348AB2	ADAMS OUTDOOR ADV L P SR	YTM-CALL	13,535.38	10.11914260	STANDARD YTM	
006848AC9	ADELPHIA COMMUN SR NOTES	YTM-CALL	31,191.51	10.05150270	STANDARD YTM	
007903AB3	ADV MICRO DEVICE SR NOTES	YTM	9,049.61	10.32182770	STANDARD YTM	
008121AC9	AETNA INDS INC SENIOR NTS	YTM-CALL	9,931.01	11.46985250	STANDARD YTM	
016745AD3	ALLBRITTON COMM SR SUB DE	YTM	17,161.27	10.24102890	STANDARD YTM	
022380AB5	ALVEY SYS SR SUB NT	YTM-CALL	9,471.85	10.50714890	STANDARD YTM	
023840AB7	AMERICAN ANNUITY SENIOR N	YTM-CALL	16,903.16	7.74488570	STANDARD YTM	
02744RAA5	AMERICAN MEDIA OPER SR SU	YTM-CALL	29,502.55	10.59323190	STANDARD YTM	
029161AA4	AMER RADIO SYS SR SUB NTS	YTM	11,700.51	9.48773300	STANDARD YTM	
029362AB6	AMER SAFETY RAZOR SER B	YTM-CALL	16,626.88	9.64428000	STANDARD YTM	
029654AA8	AMER SKIING 144A SR SB NT	YTM	25,845.95	12.12191660	STANDARD YTM	
029717AB1	AMERICAN STANDARD SF DEB	YTM-CALL	11,862.76	8.94300030	STANDARD YTM	
029717AJ4	AMERICAN STANDARD SR SUB	YTM	4,166.45	0.99564440	STANDARD YTM	
03071PAA0	AMERISOURCE PIK DIST SR	YTM	0.63	11.24416480	STANDARD YTM	
039381AB4	ARCH COMMUN SR DISC NOTE	YTM	2,418.19	5.12479240	STANDARD YTM	
039914AA4	ARGYLE TELEVISION	YTM	25,392.57	9.74720110	STANDARD YTM	
040228AB4	ARGOSY GAMING CONV SUB N	ACTUAL	10,917.80	12.00000000		
040228AE8	ARGOSY GAMING CO 1ST MORT	YTM	17,325.38	13.34659990	STANDARD YTM	
054393AB9	AVONDALE MILLS SR SUB NTS	YTM	8,861.92	9.91892450	STANDARD YTM	
07556QAA3	BEAZER HOME USA SENIOR NO	YTM	12,033.78	10.16827410	STANDARD YTM	
077852101	BELL & HOWELL COMPANY	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
077912AA1	BELL & HOWELL SENIOR NOTE	YTM-CALL	4,664.70	9.24109700	STANDARD YTM	
077912AB9	BELL & HOWELL SR NT SER B	YTM-CALL	14,991.97	8.83051950	STANDARD YTM	
087851101	BEVERLY ENTERPRISES INC	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE PAGE 6
089162AA9	BIG FLOWER PRESS SR SUB N	YTM	14,965.70	10.27762420	STANDARD YTM	
089698AB0	BIG V SPRMKT SER B SR SUBSEYTM	IS	14,445.08	UR 11.82156840	ILSTANDARD YTM	
114399AC2	BROOKS FIBER SR DISC NOTEFOYTM	RI	6,891.79	HR 5.22811710	STANDARD YTM	
116881AB9	TBEBRUNOS SR SUB NOTES	C.YTM-CALL	17,427.70	9.98097140	STANDARD YTM	
12686CAC3	CABLEVISION SYST	YTM-CALL	13,398.86	9.71511870	STANDARD YTM	
126915AF4	CABLEVISION IND SERIES B	YTM-CALL	15,661.37	8.68143560	STANDARD YTM	
130209505	CAL FED BK 10 5/8% PFD B	DIVIDEND	4,427.10	10.62500000		
13032RAG0	CALIFORNIA HOTEL SR SUB N..YTM-CALL		20,940.15	04 9.76032300	STANDARD YTM	
147575AD6	CASINO AMERICA SR NOTES	..YTM-CALL	30,921.88	48 11.38612740	STANDARD YTM	
15129GK80	CREDIT SUISSE LC CEMEXBAS..ACTUAL		6,085.99	26 5.37000000		
151297AB4	CENCALL SENIOR NOTES	..YTM	8,394.97	00 5.78045630	STANDARD YTM	
158826AB3	CHANCELLOR BRDCST SR SB NT..YTM		8,912.35	9.92362110	STANDARD YTM	
19088KAC4	COBB THEATRE FINANCE CORP..YTM-CALL		13,077.58	28 10.24898440	STANDARD YTM	
194832AA9	COLLINS & AIKMAN SR SUB N	YTM-CALL	24,229.02	10.57791210	STANDARD YTM	
199904AB9	COMCAST CELL SER B SR RDM	YTM	13,851.10	10.84147200	STANDARD YTM	PAGE 7
199906AA6	COMCAST UK CABLE DEB	YTM	0.00	0.00000000	TAX EXEMPT MKT DISC	
200300AP6	COMCAST CORP SR SUB DEBS SEYTM	IS	32,336.44	UR 9.22547180	ILSTANDARD YTM	

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UNITED HIGH INCOME FUND II, INC. 000000000000034

SECURITY	SHORT NAME	METHOD	INCOME	ANNUAL RATE	COMMENT	CALCULATION ERROR
20271MJG9	COMMONWLTH BK AUSTRAL GSCFOACTUAL	RI	4,303.83	HR 5.27000000		
202904AC2	COMMONWLTH ALUM SR SUB NT	YTM-CALL	5,282.06	10.23804640	STANDARD YTM	
20338CAC8	COMMUN & PWR SER B SR NTS	YTM-CALL	19,633.76	10.41504390	STANDARD YTM	
209349505	CONS HYDRO 13.5 EXCH PFD	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
210305AB4	CONSOLTEX SER B SR SUB NO	YTM	20,005.68	11.26261010	STANDARD YTM	
210741AL8	CONTAINER CORP SR NTS B	YTM	17,650.57	9.56947880	STANDARD YTM	
218682AB8	CORE-MARK INTL 144A SR SB	YTM-CALL	1,230.63	10.79674080	STANDARD YTM	
219888AB0	CORPORATE EXPRESS	YTM	15,619.59	9.14703280	STANDARD YTM	
22942TAA9	CS WIRELESS SYS 144A UNIT	YTM-CALL	0.00	0.00000000	STANDARD YTM	
233663AE3	DADE INTL SR SUB NOTES	YTM-CALL	9,568.16	10.15481070	STANDARD YTM	
252567AB8	DIAMOND CABLE COMM DISC	YTM	0.00	0.00000000	TAX EXEMPT MKT DISC	
25612TAA1	DR PEPPER BTLG HLDG INC S	YTM	1,181.46	1.31223300	STANDARD YTM	
257150AB8	DOMINICKS FINER FOODS SSN	YTM-CALL	8,705.55	9.27876910	STANDARD YTM	
26822QAA1	E&S HOLDINGS 144A SR SUB	YTM-CALL	352.98	9.91502650	STANDARD YTM	
269288AB2	EZ COMMUN SR SUB NOTES	YTM-CALL	2,197.82	9.54984240	STANDARD YTM	
278763AE7	ECKERD SENIOR SUB NOTES	YTM-CALL	41,454.19	8.89359620	STANDARD YTM	
283677AT9	EL PASO ELECT CO 1ST MTG	YTM	14,913.37	8.70518850	STANDARD YTM	

283677805	EL PASO ELEC 11.4 PIK PFD	DIVIDEND	9,500.10	11.40000000					
297015AB5	ESSEX GROUP INC SR NOTES	YTM-CALL	16,859.91	9.31333780	STANDARD	YTM			
302051AC1	EXIDE CORP SR SUB DEF CPN	YTM	1,094.16	1.28770770	STANDARD	YTM			
302051AE7	EXIDE SR NOTES	YTM-CALL	12,681.11	9.40870690	STANDARD	YTM			
304530AA6	FAIRFIELD MANU SENIOR SUB	YTM-CALL	19,380.37	10.96418570	STANDARD	YTM			
305914AB9	FALCON DRILL SER B SR NOT	YTM-CALL	12,632.33	9.76387880	STANDARD	YTM			
317234102	FILM ROMAN INC	DIVIDEND	0.00	0.00000000			ZERO ANNUAL RATE		PAGE 6
32108QAC0	FRST NATWIDE HLDGS SR NTS	YTM	15,658.56	10.71101970	STANDARD	YTM			
32109CAA4	FIRST NTWIDE ESCROW 144A SEYTM-CALLIS		3,401.08	UR 9.64769640	ILSTANDARD	YTM			
34039CAB3	FLORES & RUCKS SR SUB NTSFOYTM	RI	1,340.70	HR 9.53284300	STANDARD	YTM			
344839AD7	TEFOODMAKER INC SENIOR NOTEC	YTM	11,888.27	9.24338740	STANDARD	YTM			
347460AG2	FORT HOWARD SR NOTES	YTM	20,581.93	8.69719820	STANDARD	YTM			
347463AA9	FORT HOWARD PASS THRU CER	YTM	36,054.45	9.84358990	STANDARD	YTM			
350870AC5	FOUR M CORP B SR SEC NTS	YTM-CALL	10,143.96	10.91407090	STANDARD	YTM			
361916AK5	GNS FINANCE SR NT SER B	..YTM-CALL	11,427.89	04 8.78236010	STANDARD	YTM			
361928AA2	GPA DELAWARE	..YTM	25,477.86	48 8.36001960	STANDARD	YTM			
361933AB0	GNF CORP SERIES B	..YTM-CALL	10,654.49	26 7.21129450	STANDARD	YTM			
370299AC3	GENL MED SR SUB NT SER A	..YTM-CALL	26,364.62	00 10.07192380	STANDARD	YTM			
370299AE9	GENL MED PIK SUB DB SER A	..YTM	25,899.96	12.22250590	STANDARD	YTM			
370334MN1	GENERAL MILLS, INC	..ACTUAL	6,179.52	28 0.00000000					
387241AE2	GRANITE BRDCST SR SUB NTS	YTM	8,916.23	10.19366500	STANDARD	YTM			
387241AH5	GRANITE BROAD SR SUB NOTE	YTM	12,444.71	10.04840900	STANDARD	YTM		PAGE	7
396781AB2	GREENWICH AIR SR NOTES	YTM-CALL	22,343.43	10.10818480	STANDARD	YTM			
40050MAA4	GRUPO INDUSTRIAL DURANGO SEYTM	IS	18,617.41	UR 11.35638980	ILSTANDARD	YTM			
403916AB5	HMC ACQ PROPERTIES SR NTS	YTM	11,902.51	9.56731000	STANDARD	YTM		PAGE	8
413086AA7	HARMAN INDUST SR SUB NOTE	YTM-CALL	10,880.66	7.15473630	STANDARD	YTM			
413627AC4	HARRAHS OPER INC	SEYTM-CALLIS	13,171.42	UR 7.31242020	ILSTANDARD	YTM			

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UNITED HIGH INCOME FUND II, INC. 000000000000034

SECURITY	SHORT NAME	METHOD	INCOME	ANNUAL RATE	COMMENT	CALCULATION ERROR
42718EAB0	HERFF JONES SER B SR SUB	FOYTM-CALLRI	18,070.04	HR 9.92922560	STANDARD YTM	
427241AB0	HERITAGE MEDIA SR SUB NT	YTM	7,711.89	9.65155280	STANDARD YTM	
433245AB3	HINES HORTICULTURE SR NTS	YTM-CALL	19,920.78	11.28496490	STANDARD YTM	
449247AA3	ICG HLDGS INC SR DISC NTS	YTM	5,991.93	4.52078380	STANDARD YTM	
450698AA3	IVAC CORP SENIOR NOTES	YTM-CALL	7,761.11	8.93720070	STANDARD YTM	
456626AC4	INFINITY BROAD SR SUB NOT	YTM-CALL	20,693.25	9.15550510	STANDARD YTM	
456626100	INFINITY BROAD CORP CL A	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
45844LAB4	INTERCEL INC UNITS	YTM-CALL	0.00	0.00000000	STANDARD YTM	
458801AF4	INTERMEDIA COMM FL SR DIS	YTM	5,936.39	4.94325570	STANDARD YTM	
46284PAA2	IRON MOUNTAIN SR SUB NOTE	YTM	0.00	0.00000000	STANDARD YTM	
46611EAA1	JCAC INC SR SUB NTS	YTM-CALL	8,584.45	9.68491020	STANDARD YTM	
469858401	JACOR COMMUNICATIONS INC	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
47758RAA3	JITNEY-JUNGLE ST SR NTS	YTM-CALL	14,929.97	10.99286230	STANDARD YTM	
480695AC9	JORDAN INDUSTRIES SENIOR	YTM	19,460.34	11.11275230	STANDARD YTM	
48258VAF6	K MART CORP PT CERTS	YTM	23,958.43	10.82363400	STANDARD YTM	
482727AE4	K-III COMM SR NOTE	YTM	7,597.36	9.65078290	STANDARD YTM	
482727609	K-III COMM 10 EX PF SER D	DIVIDEND	8,333.40	10.00000000		
49240CKP4	KERR-MCGEE CREDIT CORPLMB	ACTUAL	6,301.92	5.47000000		
502175AB8	LTC PROPERTIES CONVNT SUB	ACTUAL	13,858.70	8.50000000		
502175AC6	LTC PROPERTIES CV SUB DEB	ACTUAL	6,929.35	8.50000000		
502175102	LTC PROPERTIES INC	DIVIDEND	2,165.43	1.36000000		PAGE 6
504195AB4	LA QUINTA INNS SR SUB NOT	YTM	30,972.00	8.84086670	STANDARD YTM	
512815AA9	LAMAR ADVERTISING SR SEC SEYTM	IS	18,107.45	UR 9.99711190	ILSTANDARD YTM	
517289AA2	LAROCHE INDUST SR SUB NOTFOYTM-CALLRI		5,277.79	HR 11.02408750	STANDARD YTM	
521893AB3	TELEAR SEATING SUBORDINATEDC	YTM	29,044.11	8.60190020	STANDARD YTM	
536065AA3	LINTER TEXTILE CORP SR SU	YTM	0.00	0.00000000	STANDARD YTM	REVERSAL IN PERIOD
55272TAA9	MFS COMMUNICATIONS SR DIS	YTM	4,578.08	2.40548310	STANDARD YTM	
55272TAB7	MFS COMMUN SR DISC NOTE	YTM	5,861.33	3.87572910	STANDARD YTM	
560319AA3	MAIL-WELL SR SUB NTS	..YTM	9,078.05	04 10.89632020	STANDARD YTM	
56632WAA5	MARCUS CABLE SR SUB GTD D	..YTM	7,825.62	48 3.19598980	STANDARD YTM	
570387AG5	MARK IV INDUST SR SUB NOT	..YTM	37,379.11	26 8.34515410	STANDARD YTM	
57777GAC9	MAXXIM MEDICAL SR SUB NTS	..YTM-CALL	23,959.55	00 9.79806850	STANDARD YTM	
591647AA0	METROCALL INC SR SUB NOTE	..YTM	9,890.66	13.36823230	STANDARD YTM	
594087AD0	MICHAELS STORES SR NOTES	..YTM	23,189.12	28 10.53599810	STANDARD YTM	
59501TAC0	MICROCELL TELE 144A UNITS	YTM	0.00	0.00000000	TAX EXEMPT MKT DISC	
62543VAA3	MULTICARE CO SR SUB NOTES	YTM-CALL	3,161.80	7.78279540	STANDARD YTM	PAGE 7
62944TAA3	NVR INC. SENIOR NOTES	YTM	13,778.91	10.24893300	STANDARD YTM	
63633D104	NATIONAL HEALTH INVESTORSSE	DIVIDENDIS	6,696.90	UR 2.96000000	IL	
655042AA7	NOBLE DRILLING SENIOR NOT	YTM	19,526.92	8.57477570	STANDARD YTM	PAGE 8
656559AQ4	NORTEK, INC. SR SUB NOTES	YTM	25,551.77	10.46304730	STANDARD YTM	
685689AB7	ORCHARD SUPPLY SENIOR NOTSEYTM-CALLIS		15,883.85	UR 7.10361810	ILSTANDARD YTM	
686079AA2	OREGON STEEL 1ST MORTGAGE	YTM-CALL	19,011.88	10.53478310	STANDARD YTM	PAGE 9
690768AA6	OWENS ILLINOIS SR SUB NOT	YTM	16,218.15	9.09606170	STANDARD YTM	
690768AX4	OWENS ILLINOIS SR SUB NOTSEYTM	IS	36,262.25	UR 9.38130870	ILSTANDARD YTM	

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0SECURITY	SHORT NAME	METHOD	INCOME	ANNUAL RATE	COMMENT	CALCULATION ERROR
69830CAA2	PANAMSAT LP SR SECD NOTESFOYTM-CALLRI		16,711.94	HR 7.32562930	STANDARD YTM	
69830CAB0	PANAMSAT LP SR SUB DISC N	YTM	5,935.84	1.38436460	STANDARD YTM	
698891AC2	PARACELSUS HLTH SR SUB NT	YTM-CALL	16,663.32	9.40622540	STANDARD YTM	
707832AB7	PENN TRAFFIC	YTM	34,737.10	13.44875020	STANDARD YTM	
707832AF8	PENN TRAFFIC SR NOTES	YTM	25,284.77	14.01353060	STANDARD YTM	
727554107	PLASTIC SPECIALITIES/TECH	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
729173AB0	PLITT THEATRES SR SUB NTS	YTM	18,563.78	10.62678580	STANDARD YTM	
740540AB5	PREMIER PARKS SER A SR NT	YTM-CALL	9,833.68	10.57994070	STANDARD YTM	
740540208	PREMIER PARKS INC	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
741571AA1	PRIME SUCCESS 144A SR SB	YTM-CALL	8,734.95	9.45692420	STANDARD YTM	
741917AC2	PRIME HOSPITALITY	YTM	15,651.56	9.16483010	STANDARD YTM	
743659AL8	PROTECT ONE ALRM CV SR SB	ACTUAL	4,101.56	6.75000000		
74377P203	PROVIDENCE JOURNAL CL A	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
74445AJG2	PUBL SERV CO OF COLO MLP	ACTUAL	4,695.07	5.47000000		
74740AKH9	QUAKER OATS CO	JPM ACTUAL	3,056.67	5.60000000		
749084AA7	QUORUM HEALTH GROUP SR SU	YTM-CALL	28,500.55	7.55147930	STANDARD YTM	
749084AB5	QUORUM HEALTH SR SUB NTS	YTM	15,205.67	8.70745860	STANDARD YTM	
749280AB9	RBX CORP SER B SR SUB NTS	YTM	20,661.19	12.36835350	STANDARD YTM	PAGE 6
751258AA2	RALPHS GROCERY SR NOTES	YTM	22,417.40	10.18225960	STANDARD YTM	
757005AB9	RED ROOF INNS SENIOR NTS SEYTM	IS	12,753.12	UR 10.11609540	ILSTANDARD YTM	
758934AB9	REGENCY HLTH SR SUB NTS FOYTM	RI	8,615.41	HR 9.76148770	STANDARD YTM	
76154KAB5	THEREVLON WRLDWDE SR DISC NTC.YTM		28,054.49	9.16457100	STANDARD YTM	
766520AC4	RIFKIN ACQ SR SUB NTS	YTM	14,067.16	10.60353390	STANDARD YTM	
767147AC5	RIO HOTEL SR SUB NOTE	YTM-CALL	17,814.68	9.89211900	STANDARD YTM	
775101AB4	ROGERS CANTEL DEB	YTM	12,039.69	9.37150230	TAX EXEMPT MKT DISC	
775109AF8	ROGERS COMMUN SR NOTE	..YTM	23,162.49	04 9.12100200	TAX EXEMPT MKT DISC	
781076AA2	RSL COMMUN 144A UNITS	..YTM	0.00	48 0.00000000	STANDARD YTM	
784092AC2	SD WARREN SER B SR SUB NT..YTM		2,634.80	26 10.96409430	STANDARD YTM	
784174AE4	SFX BROAD SER B SR SUB NT..YTM-CALL		13,702.83	00 10.09952840	STANDARD YTM	
803111MN0	SARA LEE CORP	..ACTUAL	1,074.02	0.00000000		
809337AA6	SCOTSMAN GROUP SENIOR NOT..YTM		10,111.36	28 9.41887300	STANDARD YTM	
81948QAB3	SHARED TECH/FAIRCHLD	YTM	1,802.08	2.55230550	STANDARD YTM	
825085AA1	SHOP VAC 144A SR SEC NOTE	YTM	0.00	0.00000000		PAGE 7
825390AB3	SHOWBOAT 1ST MTG BONDS	YTM	32,303.01	9.28353080	STANDARD YTM	
825391AB1	SHOWBOAT MARINA CASINO	SEYTM-CALLIS	16,994.55	UR 12.04773850	ILSTANDARD YTM	
827048AB5	SILGAN CORP SR SUB DEB	YTM	11,247.62	12.87971870	STANDARD YTM	PAGE 8
832388AA0	SMITHS FOOD & DRUG SR SUB	YTM-CALL	14,389.50	10.24894240	STANDARD YTM	
84240AK75	SOUTHERN CA EDISON	LMBSEACTUAL IS	19,475.21	UR 5.37000000	IL	
847499AC4	SPECIALTY FOODS SR NTS B	YTM	19,503.34	12.48171530	STANDARD YTM	PAGE 9
847499AF7	SPECIALTY FOODS SR NTS	YTM	10,687.15	12.83242380	STANDARD YTM	
85207FAB4	SPRINT SPECTRUM SR DISC	SEYTM IS	9,594.29	UR 5.50366520	ILSTANDARD YTM	
857689AC7	STATION CASINOS SR SUB NT	YTM	13,152.79	10.41869460	STANDARD YTM	PAGE 10
864904AB3	SULLIVAN BRDCAST SR SUB N	YTM	4,407.33	10.33008260	STANDARD YTM	
87228JJ36	TCI COMMUNICATIONS	MLPSEACTUAL IS	1,304.49	UR 5.72000000	IL	
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0SECURITY	SHORT NAME	METHOD	INCOME	ANNUAL RATE	COMMENT	CALCULATION ERROR
87228JKF7	TCI COMMUNICATIONS	CYCFOACTUAL RI	6,966.66	HR 5.70000000		
879463AB3	TELEPORT COMMUN SR NOTES	YTM	0.00	0.00000000	STANDARD YTM	
879463AC1	TELEPORT COMM SR DISC NT	YTM	6,928.26	4.19380020	STANDARD YTM	
88033GAA8	TENET HEALTHCARE CORP	YTM	14,332.32	7.80203210	STANDARD YTM	
88033GAB6	TENET HEALTHCARE CORP	YTM	15,932.80	8.67877620	STANDARD YTM	
88320DKJ7	TEXTRON FINANCIAL	JPM ACTUAL	13,392.37	5.47000000		
89350AK48	TRANSAMERICA FINL GRP MLP	ACTUAL	1,231.53	5.46000000		
895912AC7	TRIANGLE PACIFIC CORP SR	YTM-CALL	22,276.72	10.04919950	STANDARD YTM	
895912103	TRIANGLE PACIFIC CORP	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
897907AA9	TRUMP ATLANTIC 1ST MTG	YTM	19,929.48	11.50770320	STANDARD YTM	
89816MAA6	TRUMP HLDGS FDNG SENIOR N	YTM-CALL	23,901.29	11.76131580	STANDARD YTM	
898168109	TRUMP HOTELS & CASINO RES	DIVIDEND	0.00	0.00000000		ZERO ANNUAL RATE
900262AR7	TURNER BROADCASTING	YTM	29,699.13	8.60658470	STANDARD YTM	
90263EAB8	UCC INV HLDG SR NTS	YTM	46,421.77	9.21439830	STANDARD YTM	
90263EAD4	UCC INV HLDG SUB DISC NOT	YTM	3,211.43	1.56126460	STANDARD YTM	PAGE 6
902933AB6	UCAR GLOBAL SR SUB	YTM	4,767.55	9.49469500	STANDARD YTM	
90329KAA8	USA MOBILE SENIOR NOTES	SEYTM IS	8,553.26	UR 10.28467520	ILSTANDARD YTM	
910734AC6	UTD INTL HLDG DISC NOTE	FOYTM RI	18,368.88	HR 11.98856100	STANDARD YTM	
911596MN1	TEU S BANCORP	C.ACTUAL	464.20	0.00000000		
913008AB4	UTD STATIONER SR SUB	YTM-CALL	26,927.95	11.40588240	STANDARD YTM	
922022AA6	VANGUARD CELLULAR SYS DEB	YTM	8,247.51	9.53549070	STANDARD YTM	
92552GJQ7	VIACOM INC	CTC ACTUAL	8,085.77	5.65000000		
925524AC4	VIACOM INC	..YTM	43,352.68	04 9.03175500	STANDARD YTM	
92659HAB9	VIDEOTRON HLDG SR DISC	..YTM	0.00	48 0.00000000	TAX EXEMPT MKT DISC	



931154AC2	WALBRO SENIOR NOTES	..YTM	8,306.28 26	9.52923080	STANDARD YTM
93317Q105	WALTER INDUSTRIES INC	..DIVIDEND	0.00 00	0.00000000	
960386AA8	WESTINGHOUSE AIR BRAKE SR	..YTM	12,041.18	9.49898630	STANDARD YTM
961238AB8	WESTPOINT STEVENS SR SUB	..YTM	24,159.42 28	9.32967670	STANDARD YTM
983100AA6	WYNDHAM HOTEL SR SUB NOTE	YTM-CALL	8,949.30	10.13365590	STANDARD YTM

ZERO ANNUAL RATE

1FDCSY2  
 RUN DATE: 12/27/96, TIME: 14:08:50

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0 SEC ADVERTISING YIELD SECURITY INCOME DETAIL  
 FOR THE PERIOD 08/31/96 THROUGH 09/30/96

0 UNITED HIGH INCOME FUND II, INC. 000000000000034

0	S U M M A R Y	D A T A	CLASS 03	
0	TOTAL INCOME.....			11,665.46
0	TOTAL EXPENSES.....			943.57-
0	AVERAGE SHARES.....			395,713.3333
0	MAXIMUM OFFERING PRICE.....			4.140000
0	EXPONENT USED IN FORMULA.....			6
0	SEC ADVERTISED YIELD.....			7.983278

</TABLE>

UNITED HIGH INCOME FUND II, INC.  
Class Y Shares

The formula used to calculate the total return is:

$$P(1 + T)^n = ERV$$

Where : P = \$1,000 initial payment

T = Average annual total return

n = Number of years

ERV = Ending redeemable value of the \$1,000 investment for the periods shown.

For the period from February 27, 1996 to  
September 30, 1996:

P =	\$1,000
n =	0.592
ERV =	\$1,050.04
T =	5.00%

<TABLE> <S> <C>

<ARTICLE> 6

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THE SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE ANNUAL REPORT TO SHAREHOLDERS DATED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<CIK> 0000793300

<NAME> UNITED HIGH INCOME FUND II, INC.

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	SEP-30-1996
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<NUMBER-OF-SHARES-SOLD>	6,418,237
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<SHARES-REINVESTED>	6,908,231
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<PER-SHARE-DIVIDEND>	(.35)
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<EXPENSE-RATIO>	.95
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>

December 27, 1996

SECURITIES AND EXCHANGE COMMISSION  
450 Fifth Street, Northwest  
Judiciary Plaza  
Washington, D. C. 20549

RE: United High Income Fund II, Inc.  
Post-Effective Amendment No. 18

Dear Sir or Madam:

In connection with the filing of the above-referenced Post-Effective Amendment, I hereby represent that the Amendment does not contain disclosures which would render it ineligible to become effective pursuant to paragraph (b) of Rule 485.

Yours truly,

Sharon K. Pappas  
General Counsel

SKP:fr