

SECURITIES AND EXCHANGE COMMISSION

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FILER

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STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
CLASS C SHARES
PROSPECTUS

The Class C Shares offered by this prospectus represent interests in an open-end, diversified management investment company (a mutual fund) known as Stock and Bond Fund, Inc. (the "Fund").

The investment objectives of the Fund are to provide relative safety of capital with the possibility of long-term growth of capital and income. Consideration is also given to current income. The Fund pursues these objectives by investing in a professionally managed, diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, and short-term obligations.

This prospectus contains the information you should read and know before you invest in Class C Shares of the Fund. Keep this prospectus for future reference.

THE CLASS C SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF ANY BANK, ARE NOT ENDORSED OR GUARANTEED BY ANY BANK, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

The Fund has also filed a Combined Statement of Additional Information for Class A Shares and Class C Shares dated December 31, 1993, with the Securities and Exchange Commission. The information contained in the Combined Statement of Additional Information is incorporated by reference in this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge by calling 1-800-235-4669. To obtain other information or to make inquiries about the Fund, contact your financial institution.

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

Prospectus dated December 31, 1993

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SUMMARY OF FUND EXPENSES

<S>	CLASS C SHARES	<C>	<C>
	SHAREHOLDER TRANSACTION EXPENSES		
Maximum Sales Load Imposed on Purchases (as a percentage of offering price).....			None
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price).....			None
Deferred Sales Load (as a percentage of original purchase price or redemption proceeds, as applicable) (1).....			1.00%
Redemption Fee (as a percentage of amount redeemed, if applicable).....			None
Exchange Fee.....			None
	ANNUAL CLASS C SHARES OPERATING EXPENSES (As a percentage of average net assets)		
Management Fee (after waiver) (2).....			0.55%
12b-1 Fee.....			0.75%
Total Other Expenses.....			0.74%
Shareholder Servicing Fee.....	0.25%		
Total Class C Shares Operating Expenses (3).....			2.04%

(1) The contingent deferred sales charge is 1.00% of the lesser of the original purchase price or the net asset value of Shares redeemed within one year of their purchase date. For a more complete description, see "Redeeming Class C Shares."

(2) The management fee has been reduced to reflect the voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.55% of average daily net assets plus 4.5% of gross income, excluding capital gains or losses.

(3) The Total Class C Shares Operating Expenses would have been 2.24% absent the voluntary waiver of a portion of the management fee.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF CLASS C SHARES OF THE FUND WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN CLASS C SHARES" AND "FUND INFORMATION." Wire-transferred redemptions of less than \$5,000 may be subject to additional fees.

Long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charge permitted under the rules of the National Association of Securities Dealers, Inc.

<S>	EXAMPLE	1 year	3 years
		<C>	<C>
You would pay the following expenses on a \$1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period.....		\$ 31	\$64
You would pay the following expenses on the same investment assuming no redemption.....		\$ 21	\$64

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

The information set forth in the foregoing table and example relates only to Class C Shares of the Fund. The Fund also offers another class of shares called Class A Shares. Class C Shares and Class A Shares are subject to certain of the same expenses; however, Class A Shares are not subject to a 12b-1 fee, a shareholder servicing fee, or a contingent deferred sales charge. See "Other Classes of Shares."

(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

Reference is made to the Independent Auditors' Report on page 33.

<TABLE>
<CAPTION>

	PERIOD ENDED OCTOBER 31, 1993*
<S>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$16.18

INCOME FROM INVESTMENT OPERATIONS	

Net investment income	0.38

Net realized and unrealized gain (loss) on investments	0.48

Total from investment operations	0.86

LESS DISTRIBUTIONS	

Dividends to shareholders from net investment income	(0.20)

NET ASSET VALUE, END OF PERIOD	\$16.84

TOTAL RETURN**	5.54% (a)

RATIOS TO AVERAGE NET ASSETS	

Expenses	2.04% (b)

Net investment income	2.01% (b)

Expense adjustment (c)	0.20% (b)

SUPPLEMENTAL DATA	

Net assets, end of period (000 omitted)	\$96

Portfolio turnover rate***	51%

</TABLE>

* Reflects operations for the period from April 19, 1993 (start of performance) to October 31, 1993.

** Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

*** Represents portfolio turnover for the entire Fund.

<TABLE>

<S> <C>
(a) Cumulative total return.
(b) Computed on an annualized basis.
(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 4).

</TABLE>

(See Notes which are an integral part of the Financial Statements)

Further information about the Fund's performance is contained in the Fund's annual report dated October 31, 1993, which can be obtained free of charge.

GENERAL INFORMATION

The Fund was incorporated under the laws of the State of Maryland on October 31, 1934. On April 16, 1993, the shareholders of the Fund voted to (1) change the name of the Fund from Federated Stock and Bond Fund, Inc., to Stock and Bond Fund, Inc., and (2) amend the Fund's Articles of Incorporation to permit the Fund to offer separate series of shares representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes. With respect to this Fund, as of the date of this prospectus, the Board of Directors ("Directors") has established two classes of shares known as Class A Shares and Class C Shares. This prospectus relates only to Class C Shares ("Shares") of the Fund.

Shares of the Fund are designed for investors as a convenient means of accumulating an interest in a professionally managed, diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, and

short-term obligations. A minimum initial investment of \$1,500 is required, unless the investment is in a retirement account, in which case the minimum initial investment is \$50.

Shares are sold at net asset value. A contingent deferred sales charge of 1.00% will be charged on assets redeemed within the first 12 months following purchase.

The Share's current net asset value and offering price can be found in the mutual funds section of local newspapers under "Liberty Family Funds."

LIBERTY FAMILY OF FUNDS

The Shares of the Fund are a member of a family of mutual funds, collectively known as the Liberty Family of Funds. The other funds in the Family are:

AMERICAN LEADERS FUND, INC., providing growth of capital and income through high-quality stocks;

CAPITAL GROWTH FUND (CLASS A SHARES AND CLASS C SHARES), providing appreciation of capital primarily through equity securities;

FUND FOR U.S. GOVERNMENT SECURITIES, INC., providing current income through long-term U.S. government securities;

INTERNATIONAL EQUITY FUND, providing long-term capital growth and income through international securities;

INTERNATIONAL INCOME FUND, providing a high level of current income consistent with prudent investment risk through high-quality debt securities denominated primarily in foreign currencies;

LIBERTY EQUITY INCOME FUND, INC., providing above-average income and capital appreciation through income-producing equity securities;

LIBERTY HIGH INCOME BOND FUND, INC., providing high current income through high yielding, lower-rated corporate bonds;

LIBERTY MUNICIPAL SECURITIES FUND, INC., providing a high level of current income exempt from federal regular income tax through municipal bonds;

LIBERTY U.S. GOVERNMENT MONEY MARKET TRUST, providing current income consistent with stability of principal through high-quality U.S. government securities;

LIBERTY UTILITY FUND, INC., providing current income and long-term growth of income, primarily through electric, gas, and communication utilities; and

TAX-FREE INSTRUMENTS TRUST, providing current income consistent with stability of principal and exempt from federal income tax through high-quality, short-term municipal securities.

Prospectuses for these funds are available by writing to Federated Securities Corp.

Each of the funds may also invest in certain other types of securities as described in each fund's prospectus.

The Liberty Family of Funds provides flexibility and diversification for an investor's long-term investment planning. It enables an investor to meet the challenges of changing market conditions by offering convenient exchange privileges which give access to various investment vehicles and by providing the investment services of a proven, professional investment adviser.

LIBERTY FAMILY RETIREMENT PROGRAM

The Fund is also a member of the Liberty Family Retirement Program ("Program"), an integrated program of investment options, plan recordkeeping, and consultation services for 401(k) and other participant-directed benefit and savings plans. Under the Program, employers or plan trustees may select a group of investment options to be offered in a plan which also uses the Program for recordkeeping and administrative services. Additional fees are charged to participating plans for these services. As part of the Program, exchanges may readily be made between investment options selected by the employer or a plan trustee.

The other funds participating in the Liberty Family Retirement Program are: American Leaders Fund, Inc., Capital Growth Fund (Class A Shares and Class C

Shares), Fund for U.S. Government Securities, Inc., International Equity Fund, International Income Fund, Liberty Equity Income Fund, Inc., Liberty High Income Bond Fund, Inc., Liberty Utility Fund, Inc., and Prime Cash Series. Plans with over \$1 million invested in funds available in the Program may purchase Class A Shares without a sales load.

INVESTMENT INFORMATION

INVESTMENT OBJECTIVES

The investment objectives of the Fund are to provide relative safety of capital with the possibility of long-term growth of capital and income. Consideration is also given to current income. The Fund pursues these investment objectives by investing in a professionally managed, diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, and short-term obligations. While there is no assurance that the Fund will achieve its investment objectives, it endeavors to do so by following the investment policies described in this prospectus. The investment objectives and the policies and limitations described below cannot be changed without approval of shareholders, unless otherwise noted.

INVESTMENT POLICIES

As a matter of investment policy, which may be changed without shareholder approval, under normal circumstances, the Fund will invest at least 65% of its total assets in stocks and bonds.

ACCEPTABLE INVESTMENTS. The Fund invests primarily in a diversified portfolio of common stocks, bonds, convertible securities, and preferred stocks which provide characteristics of stability and relative safety, and marketable securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. The Fund anticipates that it will experience characteristics of stability and relative safety by investing primarily in securities of larger, well-established companies which have a history of lower volatility in earnings and price fluctuations.

COMMON STOCKS. The common stocks in which the Fund invests are selected by the Fund's investment adviser on the basis of traditional research techniques, including assessment of earnings and dividend growth prospects and of the risk and volatility of the company's industry. However, other factors, such as product position, market share, or profitability, will also be considered by the Fund's investment adviser.

CONVERTIBLE SECURITIES. Convertible securities are fixed income securities which may be exchanged or converted into a predetermined number of the issuer's underlying common stock at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, units consisting of "usable" bonds and warrants, or a combination of the features of several of these securities. The investment characteristics of each convertible security vary widely, which allows convertible securities to be employed for different investment objectives. In selecting convertible securities for the Fund, the Fund's investment adviser evaluates the investment potential of the underlying security for capital appreciation. The convertible securities in which the Fund invests will be rated "investment grade" or of comparable quality at the time of purchase. See "Investment--Grade Bonds."

INVESTMENT-GRADE BONDS. The bonds in which the Fund invests will be rated investment grade (i.e., rated Baa or better by Moody's Investors Service, Inc., or BBB or better by Standard & Poor's Corporation or Fitch Investors Service, Inc., or, if unrated, deemed to be of comparable quality by the Fund's investment adviser). Bonds rated BBB by Standard and Poor's Corporation or Fitch Investors Service, Inc., or Baa by Moody's Investors Service, Inc., have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. If a security's rating is reduced below the required minimum after the Fund has purchased it, the Fund is not required to sell the security but may consider doing so. A description of the rating categories is contained in the Appendix to the Combined Statement of Additional Information. (The Fund intends to restrict investments to securities rated investment grade in the current fiscal year. However, the Fund reserves the right to, in the future, invest in securities rated below investment grade. The Fund will notify shareholders of such a change in investment policy prior to its implementation.)

U.S. GOVERNMENT SECURITIES. The U.S. government securities in which the Fund invests are either issued or guaranteed by the U.S. government, its agencies or instrumentalities. These securities include, but are not limited to:

- direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds; and
- notes, bonds, and discount notes of U.S. government agencies or instrumentalities such as Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Banks for Cooperatives (including Central Bank for Cooperatives), Federal Land Banks, Federal Intermediate Credit Banks, Tennessee Valley Authority, Export-Import Bank of the United States, Commodity Credit Corporation, Federal Financing Bank, Student Loan Marketing Association, Federal Home Loan Mortgage Corporation, or National Credit Union Administration.

Some obligations issued or guaranteed by agencies or instrumentalities of the U.S. government, such as Government National Mortgage Association participation certificates, are backed by the full faith and credit of the U.S. Treasury. Others for which no assurances can be given that the U.S. government will provide financial support to the agencies or instrumentalities, since it is not obligated to do so, are supported by:

- the issuer's right to borrow an amount limited to a specific line of credit from the U.S. Treasury;
- discretionary authority of the U.S. government to purchase certain obligations of an agency or instrumentality; or
- the credit of the agency or instrumentality.

FOREIGN ISSUERS. The Fund may invest in the securities of foreign issuers which are freely traded on United States securities exchanges or in the over-the-counter market in the form of depository receipts. The Fund will limit its investments in non-ADR foreign obligations to less than 5% of its assets. Securities of a foreign issuer may present greater risks in the form of nationalization, confiscation, domestic marketability, or other national or international restrictions. As a matter of practice, the Fund will not invest in the securities of a foreign issuer if any such risk appears to the investment adviser to be substantial.

TEMPORARY INVESTMENTS. In such proportions as, in the judgment of its investment adviser, prevailing market conditions warrant, the Fund may, for temporary defensive purposes, invest in:

- short-term money market instruments;
- securities issued and/or guaranteed as to payment of principal and interest by the U.S. government, its agencies or instrumentalities; and
- repurchase agreements.

REPURCHASE AGREEMENTS. Repurchase agreements are arrangements in which banks, broker/ dealers, and other recognized financial institutions sell U.S. government securities or other securities to the Fund and agree at the time of sale to repurchase them at a mutually agreed upon time and price. The Fund or its custodian will take possession of the securities subject to repurchase agreements and these securities will be marked to market daily. To the extent that the original seller does not repurchase the securities from the Fund, the Fund could receive less than the repurchase price on any sale of such securities. In the event that such a defaulting seller filed for bankruptcy or became insolvent, disposition of such securities by the Fund might be delayed pending court action. The Fund believes that under the regular procedures normally in effect for custody of the Fund's portfolio securities subject to repurchase agreements, a court of competent

jurisdiction would rule in favor of the Fund and allow retention or disposition of such securities. The Fund will only enter into repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are found by the Fund's adviser to be creditworthy.

RESTRICTED AND ILLIQUID SECURITIES. As a matter of investment policy, which may be changed without shareholder approval, the Fund may invest up to 10% of its total assets in restricted securities. This restriction is not applicable to commercial paper issued under Section 4(2) of the Securities Act of 1933. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objectives and policies, but which are subject to restriction on resale under federal securities law. The Fund will limit investments in illiquid securities, including certain restricted securities not determined by the Directors to be liquid, non-negotiable time deposits, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of its net assets.

LENDING OF PORTFOLIO SECURITIES. In order to generate additional income, the Fund may lend portfolio securities on a short-term or a long-term basis to broker/dealers, banks, or other institutional borrowers of securities. The Fund will only enter into loan arrangements with broker/dealers, banks, or other institutions which the investment adviser has determined are creditworthy under guidelines established by the Fund's Directors and will receive collateral in

the form of cash or U.S. government securities equal to at least 100% of the value of the securities loaned.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The Fund engages in when-issued and delayed delivery transactions only for the purpose of acquiring portfolio securities consistent with the Fund's investment objectives and policies, not for investment leverage. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

INVESTMENT LIMITATIONS

The Fund will not:

- borrow money directly or through reverse repurchase agreements (arrangements in which the Fund sells a portfolio instrument for at least a percentage of its cash value with an agreement to buy it back on a set date) except, under certain circumstances, the Fund may borrow up to one-third of the value of its net assets;
- invest more than 5% of its total assets in securities of one issuer (except U.S. government securities);
- invest in more than 10% of the voting securities of one issuer;
- invest in more than 10% of any class of securities of one issuer;
- invest more than 5% of its total assets in securities of issuers that have records of less than three years of continuous operations; or
- invest more than 5% of its assets in warrants, except under certain circumstances.

FUND INFORMATION

MANAGEMENT OF THE FUND

BOARD OF DIRECTORS. The Fund is managed by a Board of Directors. The Directors are responsible for managing the Fund's business affairs and for exercising all the Fund's powers except those reserved for the shareholders. An Executive Committee of the Board of Directors handles the Board's responsibilities between meetings of the Board.

INVESTMENT ADVISER. Investment decisions for the Fund are made by Federated Management, the Fund's investment adviser, subject to direction by the Directors. The adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES. The Fund's adviser receives an annual investment advisory fee equal to 0.55 of 1% of the Fund's average daily net assets, plus 4.5% of the Fund's annual gross income, excluding any capital gains or losses. Gross income includes interest accrued, including discount earned on U.S. Treasury bills and agency discount notes, interest received or receivable on all interest-bearing obligations, and dividend income. The adviser may voluntarily choose to waive a portion of its fee or reimburse the Fund for certain operating expenses. The adviser can terminate this voluntary waiver of its advisory fee at any time at its sole discretion. This does not include reimbursement to the Fund of any expenses incurred by shareholders who use the transfer agent's subaccounting facilities. The adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND. Federated Management, a Delaware business trust organized on April 11, 1989, is a registered investment adviser under the Investment Advisers Act of 1940. It is a subsidiary of Federated Investors. All of the Class A (voting) shares of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, Chairman and Trustee of Federated Investors, Mr. Donahue's wife, and Mr. Donahue's son, J. Christopher Donahue, who is President and Trustee of Federated Investors.

Federated Management and other subsidiaries of Federated Investors serve as investment advisers to a number of investment companies and private accounts. Certain other subsidiaries also provide administrative services to a number of investment companies. Total assets under management or administration by these and other subsidiaries of Federated Investors are approximately \$70 billion. Federated Investors, which was founded in 1956 as Federated Investors, Inc., develops and manages mutual funds primarily for the financial services industry. Federated Investors' track record of competitive performance and its disciplined, risk-averse investment

philosophy serve approximately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Robert J. Ostrowski has been the Fund's co-portfolio manager since April, 1990. Mr. Ostrowski joined Federated Investors in 1987 and has been a Vice President of the Fund's investment adviser since 1993. Mr. Ostrowski served as an Assistant Vice President of the investment adviser from 1990 until 1992, and from 1987 until 1990 he acted as an investment analyst. Mr. Ostrowski is a Chartered Financial Analyst and received his M.S. in Industrial Administration from Carnegie Mellon University.

Michael P. Donnelly has been the Fund's co-portfolio manager since February, 1993. Mr. Donnelly joined Federated Investors in 1989 and has been an Assistant Vice President of the Fund's investment adviser since 1992. From 1989 until 1991, Mr. Donnelly acted as an investment analyst for the investment adviser. Mr. Donnelly was a Fixed Income Associate at Donaldson, Lufkin & Jenrette from 1987 until 1989. Mr. Donnelly is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Virginia.

DISTRIBUTION OF CLASS C SHARES

Federated Securities Corp. is the principal distributor for Shares. Federated Securities Corp. is located at Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

DISTRIBUTION PLAN. Pursuant to the provisions of a distribution plan adopted in accordance with Rule 12b-1 under the Investment Company Act of 1940, as amended (the "Plan"), Shares will pay an amount computed at an annual rate of 0.75 of 1% of the average daily net asset value of Shares to finance any activity which is principally intended to result in the sale of Shares.

The distributor may select financial institutions (such as a broker/dealer or bank) to provide sales support services as agents for their clients or customers who beneficially own Shares. Financial institutions will receive fees from the distributor based upon Shares owned by their clients or customers. The schedules of such fees and the basis upon which such fees will be paid will be determined from time to time by the distributor.

The Fund's Plan is a compensation type Plan. As such, the Fund makes no payments to the distributor except as described above. Therefore, the Fund does not pay for unreimbursed expenses of the distributor, including amounts expended by the distributor in excess of amounts received by it from the Fund, interest, carrying, or other financing charges in connection with excess amounts expended, or the distributor's overhead expenses. However, the distributor may be able to recover such amounts or may earn a profit from future payments made by the Fund under the Plan.

The Glass-Steagall Act prohibits a depository institution (such as a commercial bank or savings and loan association) from being an underwriter or distributor of most securities. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from acting in the capacities described above or should Congress relax current restrictions on depository institutions, the Directors will consider appropriate changes in the services.

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

The distributor may, from time to time and for such periods as it deems appropriate, voluntarily reduce its compensation under the Plan.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS. In addition to periodic payments to financial institutions under the Plan, Federated Securities Corp. will pay financial institutions an amount equal to 1% of the net asset value of Shares purchased by their clients or customers at the time of purchase (except for participants in the Liberty Family Retirement Program). Furthermore, certain financial institutions may be compensated by the adviser or its affiliates for the continuing investment of customers' assets in

certain funds, including the Fund, advised by those entities. These payments will be made directly by the distributor or adviser from their assets, and will not be made from the assets of the Fund or by the assessment of a sales charge on Shares. Financial institutions may elect to waive the initial payment described above; such waiver will result in the waiver by the Fund of the otherwise applicable contingent deferred sales charge.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, Inc., Pittsburgh, Pennsylvania, a subsidiary of Federated Investors, provides the Fund with the administrative personnel and services necessary to operate the Fund and the separate classes. Such services include shareholder servicing and certain legal and accounting services. Federated Administrative Services, Inc., provides these at approximate cost.

SHAREHOLDER SERVICES PLAN. The Fund has adopted a Shareholder Services Plan (the "Services Plan") with respect to Shares. Under the Services Plan, financial institutions will enter into shareholder service agreements with the Fund to provide administrative support services to their customers who from time to time may be owners of record or beneficial owners of Shares. In return for providing these support services, a financial institution may receive payments from the Fund at a rate not exceeding 0.25 of 1% of the average daily net assets of the Shares beneficially owned by the financial institution's customers for whom it is holder of record or with whom it has a servicing relationship. These administrative services may include, but are not limited to, the following functions: providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as necessary or beneficial to establish and maintain shareholder accounts and records; processing purchase and redemption transactions and automatic investments of client account cash balances; answering routine client inquiries regarding the Fund; assisting clients in changing dividend options, account designations and addresses; and providing such other services as the Fund reasonably requests.

CUSTODIAN. State Street Bank and Trust Company, P. O. Box 8604, Boston, Massachusetts 02266-8604, is custodian for the securities and cash of the Fund.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT. Federated Services Company, Pittsburgh, Pennsylvania 15222-3779, is transfer agent for the Fund, and dividend disbursing agent for the Fund.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, 2510 Centre City Tower, Pittsburgh, Pennsylvania 15222, and Dickstein, Shapiro & Morin, 2101 L Street, N.W., Washington, D.C. 20037.

INDEPENDENT AUDITORS. The independent auditors for the Fund are Deloitte & Touche, 125 Summer Street, Boston, Massachusetts 02110-1617.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the adviser looks for prompt execution of the order at a favorable price. In working with dealers, the adviser will generally utilize those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. In selecting among firms believed to meet these criteria, the adviser may give consideration to those firms which have sold or are

selling Shares of the Fund and other funds distributed by Federated Securities Corp. The adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Directors.

EXPENSES OF THE FUND AND CLASS C SHARES

Holders of each class of shares pay their allocable portion of Fund and portfolio expenses.

The Fund expenses for which holders of Shares pay their allocable portion include, but are not limited to: the cost of organizing the Fund and continuing its existence; registering the Fund with federal and state securities authorities; Directors' fees; auditors' fees; the cost of meetings of Directors; legal fees of the Fund; association membership dues; and such non-recurring and extraordinary items as may arise from time to time.

The portfolio expenses for which holders of Shares each pay their allocable portion include, but are not limited to: registering the portfolio and Shares of the portfolio; investment advisory services; taxes and commissions; custodian fees; insurance premiums; auditors' fees; and such non-recurring and extraordinary items as may arise from time to time.

At present, the only expenses which are allocated specifically to Shares as a class are expenses under the Fund's Shareholder Services Plan and Distribution Plan. However, the Directors reserve the right to allocate certain expenses to holders of Shares as it deems appropriate ("Class Expenses"). In any case, Class Expenses would be limited to: distribution fees; transfer agent fees as identified by the transfer agent as attributable to holders of Shares; fees under the Fund's Shareholder Services Plan, if any; printing and postage expenses related to preparing and distributing materials such as shareholder

reports, prospectuses, and proxies to current shareholders; registration fees paid to the Securities and Exchange Commission and to state securities commissions; expenses related to administrative personnel and services as required to support holders of Shares; legal fees relating solely to Shares; and Directors' fees incurred as a result of issues relating solely to Shares.

NET ASSET VALUE

The Fund's net asset value per Share fluctuates. The net asset value for Class C Shares is determined by adding the interest of the Class C Shares in the market value of all securities and other assets of the Fund, subtracting the interest of the Class C Shares in the liabilities of the Fund and those attributable to Class C Shares, and dividing the remainder by the total number of Class C Shares outstanding. The net asset value for Class A Shares may differ from that of Class C Shares due to the variance in daily net income realized by each class. Such variance will reflect only accrued net income to which the shareholders of a particular class are entitled.

INVESTING IN CLASS C SHARES

SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange is open. Shares may be purchased through a financial institution which has a sales agreement with the distributor or directly from the

distributor, Federated Securities Corp., once an account has been established. In connection with the sale of Shares, Federated Securities Corp. may from time to time offer certain items of nominal value to any shareholder or investor. The Fund reserves the right to reject any purchase request.

Participants in plans under the Liberty Family Retirement Program shall purchase Shares in accordance with the requirements of their respective plans.

THROUGH A FINANCIAL INSTITUTION. An investor may call his financial institution (such as a bank or an investment dealer) to place an order to purchase Shares. Orders through a financial institution are considered received when the Fund is notified of the purchase order. Purchase orders through a registered broker/dealer must be received by the broker before 4:00 p.m. (Boston time) and must be transmitted by the broker to the Fund before 5:00 p.m. (Boston time) in order for Shares to be purchased at that day's price. Purchase orders through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 p.m. (Boston time) in order for Shares to be purchased at that day's price. It is the financial institution's responsibility to transmit orders promptly.

DIRECTLY FROM THE DISTRIBUTOR. An investor may place an order to purchase Shares directly from the distributor once an account has been established. To do so:

- complete and sign the new account form available from the Fund;
- enclose a check made payable to Stock and Bond Fund, Inc.--Class C Shares; and
- mail both to Stock and Bond Fund, Inc., P.O. Box 8604, Boston, MA 02266-8604.

Orders by mail are considered received after payment by check is converted by State Street Bank and Trust Company ("State Street Bank") into federal funds. This is generally the next business day after State Street Bank receives the check.

To purchase Shares directly from the distributor by wire once an account has been established, call the Fund. All information needed will be taken over the telephone, and the order is considered received when State Street Bank receives payment by wire. Federal funds should be wired as follows: State Street Bank and Trust Company, Boston, Massachusetts 02105; Attention: EDGEWIRE; For Credit to: Stock and Bond Fund, Inc.--Class C Shares; Title or Name of Account; and Wire Order Number and/or Account Number. Shares cannot be purchased by wire on Columbus Day, Veterans' Day, or Martin Luther King Day.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in the Fund is \$1,500 unless the investment is by a retirement plan, in which case the minimum initial investment is \$50. Subsequent investments must be in amounts of at least \$100, except for retirement plans, which must be in amounts of at least \$50. (Other minimum investment requirements may apply to investments through the Liberty Family Retirement Program.)

WHAT SHARES COST

Shares are sold at their net asset value next determined after an order is received.

The net asset value is determined at 4:00 p.m. (Boston time), Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of the Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no Shares are tendered for redemption and no orders to purchase Shares are received; and (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

SYSTEMATIC INVESTMENT PROGRAM

Once a Fund account has been opened, shareholders may add to their investment on a regular basis in a minimum amount of \$100. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking account and invested in Shares at the net asset value next determined after an order is received by the transfer agent. A shareholder may apply for participation in this program through his financial institution or directly through the Fund.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a Share account for each shareholder. Share certificates are not issued unless requested in writing to Federated Services Company.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Quarterly confirmations are sent to report dividends paid during that quarter.

DIVIDENDS

Dividends are declared and paid quarterly to all shareholders invested in the Fund on the record date. Dividends are automatically reinvested in additional Shares on payment dates at the ex-dividend date net asset value without a sales charge, unless shareholders request cash payments on the new account form or by writing to the transfer agent. All shareholders on the record date are entitled to the dividend. If Shares are redeemed or exchanged prior to the record date or purchased after the record date, those Shares are not entitled to that quarter's dividend.

CAPITAL GAINS

Capital gains realized by the Fund, if any, will be distributed at least once every twelve months.

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans or for IRA accounts. For further details, including prototype retirement plans, contact the Fund and consult a tax adviser.

EXCHANGE PRIVILEGE

In order to provide greater flexibility to Fund shareholders whose investment objectives have changed, Class C shareholders may exchange all or some of their Shares for Class C Shares in other funds in the

Liberty Family of Funds at net asset value without a contingent deferred sales charge. Participants in a plan under the Liberty Family Retirement Program may exchange some or all of their Shares for Class C Shares of other funds offered under their plan at net asset value without a contingent deferred sales charge. Any contingent deferred sales charge charged at the time exchanged-for shares are redeemed is calculated as if the shareholder had held the shares from the date on which he or she became a shareholder of the exchanged-from Shares. For more information, see "Contingent Deferred Sales Load."

REQUIREMENTS FOR EXCHANGE

Shareholders using this privilege must exchange Shares having a net asset value of at least \$1,500. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

This privilege is available to shareholders resident in any state in which the shares being acquired may be sold. Upon receipt of proper instructions and required supporting documents, Shares submitted for exchange are redeemed and the proceeds invested in shares of the other fund. The exchange privilege may be modified or terminated at any time. Shareholders will be notified of the

modification or termination of the exchange privilege.

Further information on the exchange privilege and prospectuses for the Liberty Family of Funds are available by contacting the Fund.

TAX CONSEQUENCES

An exercise of the exchange privilege is treated as a sale for federal income tax purposes. Depending upon the circumstances, a capital gain or loss may be realized.

MAKING AN EXCHANGE

Instructions for exchanges for the Liberty Family of Funds may be given in writing or by telephone. Written instructions may require a signature guarantee. Shareholders of the Fund may have difficulty in making exchanges by telephone through brokers and other financial institutions during times of drastic economic or market changes. If a shareholder cannot contact his broker or financial institution by telephone, it is recommended that an exchange request be made in writing and sent by overnight mail to Boston Financial Data Services, Inc., Attention: Federated Division, Two Heritage Drive, North Quincy, Massachusetts 02171.

Instructions for exchanges for the Liberty Family Retirement Program should be given to the plan administrator.

TELEPHONE INSTRUCTIONS. Telephone instructions made by the investor may be carried out only if a telephone authorization form completed by the investor is on file with the Fund's transfer agent. If the instructions are given by a broker, a telephone authorization form completed by the broker must be on file with the Fund's transfer agent. Shares may be exchanged between two funds by telephone only if the two funds have identical shareholder registrations.

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

Any Shares held in certificate form cannot be exchanged by telephone but must be forwarded to the Fund's transfer agent and deposited to the shareholder's account before being exchanged. Telephone exchange instructions are recorded and will be binding upon the shareholder. Such instructions will be processed as of 4:00 p.m. (Boston time) and must be received by the Fund's transfer agent before that time for Shares to be exchanged the same day. Shareholders exchanging into a Fund will not receive any dividend that is payable to shareholders of record on that date. This privilege may be modified or terminated at any time.

REDEEMING CLASS C SHARES

The Fund redeems Shares at their net asset value, less any applicable contingent deferred sales charge, next determined after State Street Bank receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemptions can be made through a financial institution or directly from the Fund. Redemptions requests must be received in proper form. Redemptions of Shares held through the Liberty Family Retirement Program will be governed by the requirements of the respective plans.

THROUGH A FINANCIAL INSTITUTION

A shareholder may redeem Shares by calling his financial institution (such as a bank or an investment dealer) to request the redemption. Shares will be redeemed at the net asset value, less any applicable contingent deferred sales charge, next determined after the Fund receives the redemption request from the financial institution. Redemption requests through a registered broker/dealer must be received by the broker before 4:00 p.m. (Boston time) and must be transmitted by the broker to the Fund before 5:00 p.m. (Boston time) in order for Shares to be redeemed at that day's net asset value. Redemption requests through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 p.m. (Boston time) in order for Shares to be redeemed at that day's net asset value. The financial institution is responsible for promptly submitting redemption requests and providing proper written redemption instructions to the Fund. The financial institution may charge customary fees and commissions for this service.

DIRECTLY FROM THE FUND

BY TELEPHONE. Shareholders who have not purchased through a financial institution may redeem their Shares by telephoning the Fund. The proceeds will be mailed to the shareholder's address of record or wire transferred to the shareholder's account at a domestic commercial bank that is a member of the Federal Reserve System, normally within one business day, but in no event longer than seven days after the request. The minimum amount for a wire transfer is

\$1,000. If at any time the Fund shall determine it necessary to terminate or modify this method of redemption, shareholders would be promptly notified.

An authorization form permitting the Fund's transfer agent to accept telephone requests must first be completed. Authorization forms and information on this service are available from Federated Securities Corp. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as redeeming by mail, should be considered.

BY MAIL. Any shareholder may redeem Shares by sending a written request to the Fund. The written request should include the shareholder's name, the Fund name and class of shares name, the account number, and the Share or dollar amount requested, and should be signed exactly as the Shares are registered.

If Share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request. Shareholders should call the Fund for assistance in redeeming by mail.

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

- a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund ("BIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC");
- a member of the New York, American, Boston, Midwest or Pacific Stock Exchanges;
- a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC; or
- any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Fund does not accept signatures guaranteed by a notary public.

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

Normally, a check for the proceeds is mailed within one business day, but in no event more than seven days, after receipt of a proper written redemption request.

CONTINGENT DEFERRED SALES LOAD

Shareholders who purchased Shares will be charged a contingent deferred sales charge by Federated Securities Corp. of 1.00% for redemptions of those Shares made within one year from the date of purchase. To the extent that a shareholder exchanges between or among Class C Shares in other funds in the Liberty Family of Funds, the time for which the exchanged-for shares were held will be added or "tacked" to the time for which the exchanged-from Shares were held for purposes of satisfying the one-year holding period. The contingent deferred sales charge will be calculated based upon the lesser of

the original purchase price of the Shares or the net asset value of the shares when redeemed. For additional information, see "Other Payments to Financial Institutions."

The contingent deferred sales charge will not be imposed on Shares acquired through reinvestment of dividends or distributions of short-term or long-term capital gains. Redemptions are deemed to have occurred in the following order: (i) Shares acquired through the reinvestment of dividends and long-term capital gains, (ii) purchases of Shares occurring more than one year before the date of redemption, and (iii) purchases of Shares within the previous year.

The contingent deferred sales charge will not be imposed when a redemption

results from a tax-free return under the following circumstances: (i) a total or partial distribution from a qualified plan, other than an IRA, Keogh Plan, or a custodial account, following retirement; (ii) a total or partial distribution from an IRA, Keogh Plan, or a custodial account after the beneficial owner attains age 59 1/2; or (iii) from the death or permanent and total disability of the beneficial owner. The exemption from the contingent deferred sales charge for qualified plans, an IRA, Keogh Plan, or a custodial account does not extend to account transfers, rollovers, and other redemptions made for purposes of reinvestment.

A contingent deferred sales charge will not be charged in connection with exchanges of Shares for Class C Shares in other Liberty Family Retirement Program funds or in connection with redemptions by the Fund of accounts with low balances. No contingent deferred sales charge will be charged for redemptions from the Liberty Family Retirement Program. For additional information, see "Other Payments to Financial Institutions."

REDEMPTION BEFORE PURCHASE INSTRUMENTS CLEAR

When Shares are purchased by check or through the Automated Clearing House ("ACH"), the proceeds from the redemption of those Shares are not available, and the Shares may not be exchanged, until the Fund or its agents are reasonably certain that the purchase check has cleared, which could take up to ten calendar days.

SYSTEMATIC WITHDRAWAL PROGRAM

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

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem Shares in any account, except retirement accounts, and pay the proceeds to the shareholder if the account balance

falls below a required minimum value of \$250 due to shareholder redemptions. This requirement does not apply, however, if the balance falls below \$250 because of changes in the Fund's net asset value. Before Shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional Shares to meet the minimum requirement.

SHAREHOLDER INFORMATION

VOTING RIGHTS

Each Share gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Fund have equal voting rights, except that only shares of that particular portfolio or class are entitled to vote in matters affecting that portfolio or class.

As a Maryland corporation, the Fund is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Fund's operation and for the election of Directors under certain circumstances.

Directors may be removed by a majority vote of the shareholders at a special meeting. A special meeting of shareholders shall be called by the Directors upon the written request of shareholders owning at least 25% of the Fund's outstanding shares of all series entitled to vote.

TAX INFORMATION

FEDERAL INCOME TAX

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

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

those realized by the Fund.

Unless otherwise exempt, shareholders are required to pay federal income tax on any dividends and other distributions, including capital gains distributions, received. This applies whether dividends and distributions are received in cash or as additional Shares. Distributions representing long-term capital gains, if any, will be taxable to shareholders as long-term capital gains no matter how long the shareholders have held the Shares. No federal income tax is due on any dividends earned in an IRA or qualified retirement plan until distributed.

PENNSYLVANIA CORPORATE AND PERSONAL PROPERTY TAXES

In the opinion of Houston, Houston & Donnelly, counsel to the Fund:

- the Fund is subject to the Pennsylvania corporate franchise tax; and
- Fund shares are exempt from personal property taxes imposed by counties, municipalities, and school districts in Pennsylvania.

Shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

PERFORMANCE INFORMATION

From time to time the Fund advertises the total return and yield for Shares.

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

The yield of Shares is calculated by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by Shares over a thirty-day period by the maximum offering price per share of Shares on the last day of the period. This number is then annualized using semi-annual compounding. The yield does not necessarily reflect income actually earned by Shares and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

The performance information reflects the effect of non-recurring charges, such as a contingent deferred sales charge, which, if excluded, would increase the total return and yield.

Total return and yield will be calculated separately for Class C Shares and Class A Shares. Because Class C Shares are subject to a Rule 12b-1 fee and a shareholder services fee, the total return and yield for Class A Shares, for the same period, will exceed that of Class C Shares.

From time to time, the Fund may advertise the performance of Class C Shares using certain reporting services and/or compare the performance of Class C Shares to certain indices.

OTHER CLASSES OF SHARES

The Fund does not presently offer Class B Shares. Class A Shares, the other class of shares offered by the Fund, are sold to customers of financial institutions without a sales charge. Investments in Class A Shares are subject to a minimum initial investment of \$25,000. Class A Shares are not subject to a distribution plan pursuant to Rule 12b-1, a shareholder services fee, or a contingent deferred sales charge. Additionally, Class A Shares are not a member of the Liberty Family of Funds.

The amount of dividends payable to Class A Shares will generally exceed that payable to Class C Shares by the difference between Class Expenses borne by shares of each respective class.

The stated advisory fee is the same for both classes of shares.

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)
Reference is made to the Independent Auditors' Report on page 33.

<TABLE>
<CAPTION>

YEAR ENDED OCTOBER 31,

YEAR ENDED DECEMBER 31,

	1993	1992	1991	1990*	1989	1988	1987	1986	1985	1984	1983
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 15.91	\$ 15.74	\$ 13.60	\$ 15.11	\$ 14.94	\$ 14.89	\$ 15.34	\$ 15.24	\$ 13.60	\$ 12.82	\$ 11.33
INCOME FROM INVESTMENT OPERATIONS											
Net investment income	0.55	0.65	0.74	1.37	0.91	0.85	0.81	0.85	0.90	0.91	0.87
Net realized and unrealized gain (loss) on investments	1.58	0.39	2.17	(2.22)	0.91	0.52	(0.24)	1.17	2.18	0.77	1.48
Total from investment operations	2.13	1.04	2.91	(0.85)	1.82	1.37	0.57	2.02	3.08	1.68	2.35
LESS DISTRIBUTIONS											
Dividends to shareholders from net investment income	(0.56)	(0.68)	(0.77)	(0.66)	(0.94)	(0.86)	(0.79)	(0.86)	(0.90)	(0.90)	(0.86)
Distributions to shareholders from net realized gain on investments	(0.61)	(0.19)	--	--	(0.71)	(0.46)	(0.23)	(1.06)	(0.54)	--	--
Total distributions	(1.17)	(0.87)	(0.77)	(0.66)	(1.65)	(1.32)	(1.02)	(1.92)	(1.44)	(0.90)	(0.86)
NET ASSET VALUE, END OF PERIOD	\$ 16.87	\$ 15.91	\$ 15.74	\$ 13.60	\$ 15.11	\$ 14.94	\$ 14.89	\$ 15.34	\$ 15.24	\$ 13.60	\$ 12.82
TOTAL RETURN**	14.10%	7.94%	21.78%	(5.90%) (a)	12.46%	9.28%	3.58%	13.77%	24.09%	13.81%	21.26%
RATIOS TO AVERAGE NET ASSETS											
Expenses	1.04%	1.04%	1.01%	1.01% (b)	1.01%	1.00%	1.00%	1.00%	1.30%	1.52%	1.51%
Net investment income	3.49%	4.15%	4.91%	5.77% (b)	5.82%	5.53%	5.07%	5.43%	6.42%	7.08%	7.04%
Expense adjustment (c)	0.20%	0.21%	0.45%	0.54% (b)	0.51%	0.39%	0.22%	0.30%	0.27%	--	--
SUPPLEMENTAL DATA											
Net assets, end of period (000 omitted)	\$124,583	\$ 95,387	\$ 88,534	\$ 79,003	\$ 88,367	\$ 90,504	\$ 92,105	\$ 75,441	\$37,792	\$23,167	\$28,489
Portfolio turnover											

</TABLE>

* For the ten months ended October 31, 1990.

** Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

*** Represents portfolio turnover for the entire Fund.

(a) Cumulative total return.

(b) Computed on an annualized basis.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 4).

(See Notes which are an integral part of the Financial Statements)

Further information about the Fund's performance is contained in the Fund's annual report dated October 31, 1993, which can be obtained free of charge.

STOCK AND BOND FUND, INC.
(FORMERLY FEDERATED STOCK AND BOND FUND, INC.)

PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1993

<TABLE>
<CAPTION>
SHARES

SHARES		VALUE
<C>	<C> <S>	<C>
COMMON STOCKS--45.6%		
BASIC INDUSTRY--3.1%		
10,500	Aluminum Co. of America	\$ 714,000
23,000	+ FMC Corp.	1,129,875
32,000	Lubrizol Corp.	1,112,000
20,000	Phelps Dodge Corp.	852,500
	Total	3,808,375
CONSUMER DURABLES--2.6%		
26,000	Eastman Kodak Co.	1,638,000
34,000	General Motors Corp.	1,619,250
	Total	3,257,250
CONSUMER NON-DURABLES--2.8%		
21,000	Nike, Inc., Class B	1,015,875
27,000	Philip Morris Cos., Inc.	1,451,250
35,000	Reebok International, Ltd.	1,067,500
	Total	3,534,625
CONSUMER SERVICES--5.2%		
26,000	American Stores Co.	1,053,000
12,000	Dun & Bradstreet Corp.	804,000
20,000	McKesson Corp.	1,067,500
37,700	Sears, Roebuck & Co.	2,163,037
45,000	+ Tele-Communications, Inc.	1,372,500
	Total	6,460,037
ENERGY--4.3%		
9,000	Atlantic Richfield Co.	992,250

38,500

Baker Hughes, Inc.

866,250

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE>

<CAPTION>

SHARES

VALUE

<C> <C> <S> <C>

COMMON STOCKS--CONTINUED

ENERGY--CONTINUED

14,000	Chevron Corp.	\$ 1,358,000
--------	---------------	--------------

14,000	Exxon Corp.	915,250
--------	-------------	---------

20,000	Mapco, Inc.	1,190,000
--------	-------------	-----------

	Total	5,321,750
--	-------	-----------

FINANCE--7.4%

39,000	American General Corp.	1,145,625
--------	------------------------	-----------

15,000	CIGNA Corp.	1,006,875
--------	-------------	-----------

14,714	Dean Witter, Discover & Co.	605,113
--------	-----------------------------	---------

12,000	Federal National Mortgage Association	934,500
--------	---------------------------------------	---------

44,000	National City Corp.	1,144,000
--------	---------------------	-----------

24,000	PNC Financial Corp.	690,000
--------	---------------------	---------

42,666	Primerica Corp.	1,882,637
--------	-----------------	-----------

23,000	TIG Holdings, Inc.	549,125
--------	--------------------	---------

22,000	Transamerica Corp.	1,254,000
--------	--------------------	-----------

	Total	9,211,875
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HEALTHCARE--5.4%

25,300	American Home Products Corp.	1,581,250
--------	------------------------------	-----------

3,100	Becton, Dickinson Corp.	117,800
-------	-------------------------	---------

22,500	Bristol-Myers Squibb Co.	1,321,875
--------	--------------------------	-----------

30,900	Marion Merrell Dow, Inc.	606,412
--------	--------------------------	---------

16,500	Schering Plough Corp.	1,122,000
--------	-----------------------	-----------

22,000	U.S. Healthcare, Inc.	1,020,250
--------	-----------------------	-----------

14,000	Warner Lambert Co.	973,000
--------	--------------------	---------

	Total	6,742,587
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</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE>

<CAPTION>

SHARES

VALUE

<C> <C> <S> <C>

COMMON STOCKS--CONTINUED

INDUSTRIAL/MANUFACTURING--5.8%

12,000	Dover Corp.	\$ 690,000
--------	-------------	------------

17,000	General Electric Co.	1,649,000
--------	----------------------	-----------

14,000	ITT Corp.	1,303,750
19,800	Loews Corp.	1,853,775
31,000	Textron Inc.	1,732,125
	Total	7,228,650
	TECHNOLOGY--4.7%	
9,000	+ Computer Sciences Corp.	826,875
17,000	E Systems, Inc.	771,375
5,000	General Dynamics Corp.	478,750
25,000	Harris Corp.	1,156,250
26,000	Raytheon Co.	1,582,750
26,000	Tandy Corp.	1,062,750
	Total	5,878,750
	TRANSPORTATION--1.0%	
44,000	Ryder Systems, Inc.	1,248,500
	UTILITIES--3.3%	
14,900	American Telephone & Telegraph Co.	858,613
40,000	MCI Communications Corp.	1,140,000
33,000	Nipsco Industries, Inc.	1,122,000
50,000	Portland General Corp.	1,081,250
	Total	4,201,863
	TOTAL COMMON STOCKS (IDENTIFIED COST, \$46,106,553)	56,894,262
	PREFERRED STOCKS--1.5%	
	CONSUMER DURABLE--1.2%	
14,000	Ford Motor Co., Cumulative Conv. Pfd., Series A, 8.40%	1,466,500

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE>

<CAPTION>

PRINCIPAL
AMOUNT
OR SHARES

VALUE

<C> <C> <S> <C>

PREFERRED STOCKS--CONTINUED

	TECHNOLOGY--.3%	
13,000	Tandy Corp., Conv. Pfd., Series C	\$458,250
	TOTAL PREFERRED STOCKS (IDENTIFIED COST, \$1,374,269)	1,924,750

CORPORATE BONDS--3.9%

	ENERGY--.9%	
\$1,000,000	Exxon Capital Corp., Note 7.875%, 4/15/96	1,078,460
	FINANCE--.8%	
1,000,000	IBM Credit Corp., Note 7.20%, 2/19/94	1,008,740
	INDUSTRIAL/MANUFACTURING--.8%	
1,000,000	General Electric Co., Note 7.875%, 5/1/96	1,073,460
	UTILITIES--1.4%	

500,000	Chesapeake & Potomac Bell Telephone Co., Note 7.875%, 1/15/2022	576,085
1,000,000	Michigan Bell Telephone Co., Note 7.85%, 1/15/2022	1,150,990
	Total	1,727,075
	TOTAL CORPORATE BONDS (IDENTIFIED COST, \$4,476,138)	4,887,735

GOVERNMENT OBLIGATIONS--45.0%

GOVERNMENT AGENCY SECURITIES--3.5%		
1,000,000	Federal Farm Credit Bank, 4.25%, 3/24/98	1,002,940
500,000	Federal Home Loan Bank, 3.49%, 1/15/98	498,280
1,500,000	Federal Home Loan Mortgage Corp., Deb., 3.15%, 3/25/96	1,492,965
1,000,000	Federal National Mortgage Association, 4.03%, 3/25/96	1,002,160
350,000	Federal National Mortgage Association, 4.22%, 6/1/98	349,517
	Total	4,345,862

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE>

<CAPTION>

PRINCIPAL
AMOUNT
OR SHARES

VALUE

<C> <C> <S> <C>

GOVERNMENT OBLIGATIONS--CONTINUED

MORTGAGE PASS-THROUGH SECURITIES--4.9%		
\$ 1,180,000	Federal National Mortgage Association MPT, 7.00%, 1/1/2001	\$ 1,220,557
1,170,000	Federal National Mortgage Association MPT, 7.50%, 1/1/2001	1,215,700
1,150,000	Federal National Mortgage Association MPT, 9.00%, 1/1/2001	1,224,750
1,170,000	Government National Mortgage Association MPT, 7.50%, 1/1/2001	1,224,475
1,130,000	Government National Mortgage Association MPT, 9.50%, 9/15/2020	1,218,276
	Total	6,103,758
TREASURY SECURITIES--36.6%		
14,470,000	United States Treasury Bonds, 7.25--9.375%, 2/15/2006--11/15/2021	18,253,889
27,200,000	United States Treasury Notes, 3.875--5.375%, 1/31/94--3/31/95	27,370,429
	Total	45,624,318
	TOTAL GOVERNMENT OBLIGATIONS (IDENTIFIED COST, \$52,374,359)	56,073,938

*REPURCHASE AGREEMENT--2.7%

3,420,000	J.P. Morgan Securities, Inc., 2.99%, dated 10/29/93, due 11/01/93 (at amortized cost) (Note 2B)	3,420,000
	TOTAL INVESTMENTS (IDENTIFIED COST, \$107,751,319)	\$123,200,685++

</TABLE>

Note: The categories of investments are shown as a percentage of net assets (\$124,678,928) at October 31, 1993.

+ Non-income producing.

++ The cost for federal income tax purposes amounts to \$107,751,319. The net unrealized appreciation of investments on a federal income tax basis amounts to \$15,449,366 which is comprised of \$16,471,892 appreciation and \$1,022,526 depreciation at October 31, 1993.

* The repurchase agreement is fully collateralized by U.S. government and/or

agency obligations. The investment in the repurchase agreement was through participation in a joint account with other Federated funds.

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1993

<S>	<C>	<C>
ASSETS:		
Investments in securities, at value (Notes 2A and 2B) (identified and tax cost \$107,751,319)		\$123,200,685
Cash		6,268
Receivable for investments sold		6,735,816
Dividends and interest receivable		1,150,946
Receivable for capital stock sold		71,525
Deferred expenses (Note 2F)		12,320
Total assets		131,177,560
LIABILITIES:		
Payable for investments purchased	\$6,247,722	
Payable for capital stock redeemed	197,471	
Accrued expenses and other liabilities	53,439	
Total liabilities		6,498,632
NET ASSETS for 7,392,081 shares of capital stock outstanding		\$124,678,928
NET ASSETS CONSIST OF:		
Paid-in capital		\$107,195,285
Unrealized appreciation of investments		15,449,366
Accumulated net realized loss on investments		(648,826)
Undistributed net investment income		2,683,103
Total		\$124,678,928
NET ASSET VALUE, Offering Price, and Redemption Price Per Share		
Class A; (\$124,582,763 / 7,386,371 shares of capital stock outstanding)		\$16.87
Class C; (\$96,165 / 5,710 shares of capital stock outstanding)		\$16.84

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1993

<S>	<C>	<C>
INVESTMENT INCOME:		
Interest		\$ 3,342,987
Dividends		1,679,201
Total investment income (Note 2G)		5,022,188
EXPENSES:		
Investment advisory fee (Note 4)	\$ 834,842	
Directors' fees	10,127	

Administrative personnel and services fees (Note 4)	291,137	
Custodian, transfer and dividend disbursing agent fees and expenses	126,534	
Capital stock registration fees	27,020	
Auditing fees	21,046	
Legal fees	14,385	
Insurance	9,125	
Printing and postage	25,474	
Taxes	14,615	
Miscellaneous	2,157	
Total expenses	1,376,462	
Deduct--Waiver of investment advisory fee (Note 4)	222,090	
Net expenses		1,154,372
Net investment income		3,867,816
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized loss on investments (identified cost basis)		(648,826)
Net change in unrealized appreciation on investments		11,161,979
Net realized and unrealized gain on investments		10,513,153
Change in net assets resulting from operations		\$14,380,969

</TABLE>

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1993	1992
	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	\$ 3,867,816	\$ 3,856,185
Net realized gain (loss) on investment transactions (\$648,826 net loss, and \$3,676,954 net gain, respectively, as computed for federal income tax purposes)	(648,826)	3,676,954
Change in unrealized appreciation (depreciation) of investments	11,161,979	(545,343)
Change in net assets from operations	14,380,969	6,987,796
NET EQUALIZATION CREDITS (NOTE 2D)--	129,581	61,076
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 2G)--		
Dividends to shareholders from net investment income:		
Class A Shares	(3,755,624)	(3,947,981)
Class C Shares	(38)	--
Dividends to shareholders from net realized gain on investment transactions Class A Shares	(3,675,092)	(1,912,566)
Change in net assets resulting from distributions to shareholders	(7,430,754)	(5,860,547)
CAPITAL STOCK TRANSACTIONS (NOTE 3)		

(EXCLUSIVE OF AMOUNTS ALLOCATED TO NET INVESTMENT INCOME)--

Net proceeds from sale of shares	38,398,216	24,185,605
Net asset value of shares issued to shareholders electing to receive payment of dividends in capital stock	5,226,747	3,719,313
Cost of shares redeemed	(21,412,900)	(22,240,017)
Change in net assets from capital stock transactions	22,212,063	5,664,901
Change in net assets	29,291,859	6,853,226
NET ASSETS:		
Beginning of period	95,387,069	88,533,843
End of period (including undistributed net investment income of \$2,683,103 and \$1,451,859 respectively)	\$124,678,928	\$ 95,387,069

</TABLE>

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1993

(1) ORGANIZATION

The Stock and Bond Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company.

Effective April 17, 1993, the Fund provides two classes of shares ("Class A Shares" and "Class C Shares"). Class C Shares are identical in all respects to Class A Shares except that Class C Shares will be sold pursuant to a distribution plan ("Plan") adopted in accordance with Rule 12b-1 of the investment Company Act of 1940, as amended. Under the Plan, the Fund may pay Federated Securities Corp. (the "distributor") a fee at an annual rate up to 0.75 of 1% of the average net asset value of Class C Shares to finance any activity which is principally intended to result in the sale of Class C Shares. In addition, Class C Shares are subject to a shareholder services fee of 0.25 of 1% of the Class C Shares' average daily net assets. Class C Shares may be subject to a contingent deferred sales charge of 1.00%.

(2) SIGNIFICANT ACCOUNTING POLICIES

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.

<TABLE>

<S> <C>

- A. INVESTMENT VALUATIONS--Listed equity securities are valued at last sale prices reported on national securities exchanges. Unlisted securities or listed securities in which there were no sales are valued at the mean between bid and asked prices. Bonds and other fixed income securities are valued at the last sale price on a national securities exchange, if available. Otherwise, they are valued on the basis of prices furnished by independent pricing services. Short-term obligations are ordinarily valued at the mean between bid and asked prices as furnished by an independent pricing service. However, short-term obligations with maturities of sixty days or less are valued at amortized cost, which approximates value. All other securities are appraised at fair value as determined in good faith by the Board of Directors.
- B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession, to have legally segregated in the Federal Reserve Book Entry System or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying securities to ensure the existence of a proper level of collateral.
- The Fund will only enter into repurchase agreements with banks and other recognized financial institutions such as broker/dealers which are deemed by the Fund's adviser to be creditworthy

</TABLE>

STOCK AND BOND FUND, INC.

<TABLE>

<S> <C>

pursuant to guidelines established by the Board of Directors. Risks may arise from the

potential inability of counterparties to honor the terms of the repurchase agreement. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

- C. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Internal Revenue Code applicable to investment companies and to distribute to shareholders each year all of its taxable income, including any net realized gain on investments. Accordingly, no provision for federal tax is necessary. At October 31, 1993 the Fund, for federal tax purposes had a capital loss carryforward of \$648,826 which will expire in 2001, which will reduce the Fund's taxable income arising from future net realized gain on investments, if any, to the extent permitted by the Internal Revenue Code, and thus will reduce the amount of the distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal tax.
- D. EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.
- E. RECLASSIFICATIONS--During the current period, the Fund adopted Statement of Position 93-2 Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. Accordingly, permanent book and tax basis differences relating to shareholder distributions have been reclassified to paid-in-capital. As of November 1, 1992, the cumulative effect of such differences, totaling \$6,066,544 was reclassified from accumulated undistributed net realized gain on investments and undistributed net investment income to paid-in capital. Net investment income, net realized gains, and net assets were not affected by this change.
- F. DEFERRED EXPENSES--The costs incurred by the Fund with respect to registration of Class C Shares in its first fiscal year, excluding the initial expense of registering the shares, have been deferred and are being amortized using the straight-line method through April 1998.
- G. OTHER--Investment transactions are accounted for on the date of the transaction. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Dividends to shareholders and capital gain distributions are recorded on the ex-dividend date.

</TABLE>

STOCK AND BOND FUND, INC.

(3) CAPITAL STOCK

At October 31, 1993, there were 2,000,000,000 shares par value \$0.001 per share of capital stock authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

CLASS A SHARES	YEAR ENDED 10/31/93		YEAR ENDED 10/31/92	
	SHARES	DOLLARS	SHARES	DOLLARS
Shares outstanding, beginning of period	5,996,334	\$ 78,993,303	5,623,862	\$ 73,328,402
Shares sold	2,386,696	38,303,285	1,552,653	24,185,605
Shares issued to shareholders electing to receive payment of distributions in capital stock	334,836	5,226,710	245,024	3,719,313
Shares redeemed	(1,331,495)	(21,412,848)	(1,425,205)	(22,240,017)
Shares outstanding, end of period	7,386,371	\$101,110,450	5,996,334	\$ 78,993,303

</TABLE>

<TABLE>
<CAPTION>

CLASS C SHARES	YEAR ENDED 10/31/93*	
	SHARES	DOLLARS
Shares outstanding, beginning of period	--	\$ --
Shares sold	5,711	94,931
Shares issued to shareholders electing to receive payment of dividends in capital stock	2	37
Shares redeemed	(3)	(52)

Shares outstanding, end of period	5,710	\$94,916
-----------------------------------	-------	----------

</TABLE>

* For the period from April 17, 1993 (date of initial public offering) to October 31, 1993.

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Federated Management, the Fund's investment adviser ("Adviser"), receives for its services an annual investment advisory fee equal to .55% of the Fund's average daily net assets, plus 4.5% of the Fund's gross income, excluding capital gains or losses. Adviser has voluntarily agreed to waive all or a portion of its fee. The Adviser can terminate this voluntary waiver of expenses at any time at its sole discretion. For the fiscal year ended October 31, 1993, the investment advisory fee amounted to \$834,842 of which \$222,090 was voluntarily waived by Adviser in accordance with the above undertaking.

With respect to Class C, the Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940. The Fund will compensate Federated Securities Corp., ("FSC"), the principal distributor, from the assets of the Fund, for fees it paid which relate to the

STOCK AND BOND FUND, INC.

distribution and administration of the Fund's Class C Shares. The Plan provides that the Fund may incur distribution expenses up to 0.75 of 1% of the average daily net assets of the Class C Shares. During the period ended October 31, 1993, FSC earned \$73 in distribution services fees for Class C Shares.

Administrative personnel and services were provided at approximate cost by Federated Administrative Services, Inc. Certain of the Officers and Directors of the Fund are Officers and Directors of the above corporations.

(5) INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short-term obligations) for the year ended October 31, 1993, were as follows:

<TABLE>	
<S>	<C>
-----	-----
PURCHASES--	\$74,767,500
-----	-----
SALES--	\$53,156,627
-----	-----
</TABLE>	

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
 STOCK AND BOND FUND, INC.:
 (formerly Federated Stock and Bond Fund, Inc.)

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Stock and Bond Fund, Inc. (formerly Federated Stock and Bond Fund, Inc.) as of October 31, 1993, the related statement of operations for the year then ended, the statement of changes in net assets for the years ended October 31, 1993 and 1992, and the financial highlights (see pages 2 and 20 of the prospectus) for each of the years in the three-year period ended October 31, 1993, the ten-month period ended October 31, 1990 and each of the years in the seven-year period ended December 31, 1989. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993 by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of Stock and Bond Fund, Inc. as of October 31, 1993, the results of its operations, the changes in its

net assets, and its financial highlights for the respective stated periods in conformity with generally accepted accounting principles.
DELOITTE & TOUCHE

Boston, Massachusetts
December 17, 1993

ADDRESSES

<TABLE>		
<S>	<C> Stock and Bond Fund, Inc.	<C> Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser	Federated Management	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian	State Street Bank and Trust Company	P.O. Box 8604 Boston, Massachusetts 02266-8604
Transfer Agent and Dividend Disbursing Agent	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Legal Counsel	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222
Legal Counsel	Dickstein, Shapiro & Morin	2101 L Street, N.W. Washington, D.C. 20037
Independent Auditors	Deloitte & Touche	125 Summer Street Boston, Massachusetts 02110-1617
</TABLE>		

STOCK AND BOND FUND, INC.
CLASS C SHARES

PROSPECTUS

An Open-End, Diversified
Management Investment Company

December 31, 1993

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER
PITTSBURGH, PA 15222-3779

8012905A-C (12/93)

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STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
CLASS A SHARES
PROSPECTUS

The Class A Shares offered by this prospectus represent interests in an open-end, diversified management investment company (a mutual fund) known as Stock and Bond Fund, Inc. (the "Fund").

The investment objectives of the Fund are to provide relative safety of capital

with the possibility of long-term growth of capital and income. Consideration is also given to current income. The Fund pursues these objectives by investing in a professionally managed, diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, and short-term obligations.

This prospectus contains the information you should read and know before you invest in Class A Shares of the Fund. Keep this prospectus for future reference.

THE CLASS A SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF ANY BANK, ARE NOT ENDORSED OR GUARANTEED BY ANY BANK, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

The Fund has also filed a Combined Statement of Additional Information for Class A Shares and Class C Shares dated December 31, 1993, with the Securities and Exchange Commission. The information contained in the Combined Statement of Additional Information is incorporated by reference in this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge by calling 1-800-235-4669. To obtain other information or to make inquiries about the Fund, contact the Fund at the address listed in the back of this prospectus.

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

Prospectus dated December 31, 1993

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SUMMARY OF FUND EXPENSES	

<TABLE>		
<S>		<C>
	CLASS A SHARES	
	SHAREHOLDER TRANSACTION EXPENSES	
Maximum Sales Load Imposed on Purchases		
(as a percentage of offering price).....		None
Maximum Sales Load Imposed on Reinvested Dividends		
(as a percentage of offering price).....		None
Deferred Sales Load (as a percentage of original		
purchase price or redemption proceeds, as applicable).....		None
Redemption Fee (as a percentage of amount redeemed, if applicable).....		None
Exchange Fee.....		None
	ANNUAL CLASS A SHARES OPERATING EXPENSES	
	(As a percentage of average net assets)	
Management Fee (after waiver) (1).....		0.55%
12b-1 Fee.....		None

Other Expenses.....	0.49%
Total Class A Shares Operating Expenses(2).....	1.04%

</TABLE>

(1) The management fee has been reduced to reflect the voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.55% of average daily net assets plus 4.5% of gross income, excluding capital gains or losses.

(2) The Total Class A Shares Operating Expenses would have been 1.24% absent the voluntary waiver of a portion of the management fee.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF CLASS A SHARES OF THE FUND WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE " INVESTING IN CLASS A SHARES" AND "FUND INFORMATION." Wire-transferred redemptions of less than \$5,000 may be subject to additional fees.

<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years	5 years	10 years
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a \$1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period. As noted in the table above, the Fund charges no redemption fees for Class A Shares.....	\$ 11	\$33	\$57	\$127

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

The information set forth in the foregoing table and example relates only to Class A Shares of the Fund. The Fund also offers another class of shares called Class C Shares. Class A Shares and Class C Shares are subject to certain of the same expenses; however, Class C Shares are subject to a 12b-1 fee of 0.75%, a shareholder servicing fee of 0.25%, and a contingent deferred sales charge of 1.00%. See "Other Classes of Shares."

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)
FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)
Reference is made to the Independent Auditors' Report on page 29.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,				YEAR ENDED DECEMBER 31,						
	1993	1992	1991	1990*	1989	1988	1987	1986	1985	1984	1983
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 15.91	\$ 15.74	\$ 13.60	\$ 15.11	\$ 14.94	\$ 14.89	\$ 15.34	\$ 15.24	\$ 13.60	\$ 12.82	\$ 11.33
INCOME FROM INVESTMENT OPERATIONS											
Net investment income	0.55	0.65	0.74	1.37	0.91	0.85	0.81	0.85	0.90	0.91	0.87
Net realized and unrealized gain (loss) on investments	1.58	0.39	2.17	(2.22)	0.91	0.52	(0.24)	1.17	2.18	0.77	1.48
Total from investment operations	2.13	1.04	2.91	(0.85)	1.82	1.37	0.57	2.02	3.08	1.68	2.35
LESS DISTRIBUTIONS											

Dividends to shareholders from net investment income	(0.56)	(0.68)	(0.77)	(0.66)	(0.94)	(0.86)	(0.79)	(0.86)	(0.90)	(0.90)	(0.86)

Distributions to shareholders from net realized gain on investments	(0.61)	(0.19)	--	--	(0.71)	(0.46)	(0.23)	(1.06)	(0.54)	--	--

Total distributions	(1.17)	(0.87)	(0.77)	(0.66)	(1.65)	(1.32)	(1.02)	(1.92)	(1.44)	(0.90)	(0.86)

NET ASSET VALUE, END OF PERIOD											
\$	16.87	\$ 15.91	\$ 15.74	\$ 13.60	\$ 15.11	\$ 14.94	\$ 14.89	\$ 15.34	\$ 15.24	\$ 13.60	\$ 12.82

TOTAL RETURN**	14.10%	7.94%	21.78%	(5.90%) (a)	12.46%	9.28%	3.58%	13.77%	24.09%	13.81%	21.26%

RATIOS TO AVERAGE NET ASSETS											

Expenses	1.04%	1.04%	1.01%	1.01% (b)	1.01%	1.00%	1.00%	1.00%	1.30%	1.52%	1.51%

Net investment income	3.49%	4.15%	4.91%	5.77% (b)	5.82%	5.53%	5.07%	5.43%	6.42%	7.08%	7.04%

Expense adjustment (c)	0.20%	0.21%	0.45%	0.54% (b)	0.51%	0.39%	0.22%	0.30%	0.27%	--	--

SUPPLEMENTAL DATA											

Net assets, end of period (000 omitted)	\$124,583	\$ 95,387	\$ 88,534	\$ 79,003	\$ 88,367	\$ 90,504	\$ 92,105	\$ 75,441	\$37,792	\$23,167	\$28,489

Portfolio turnover rate***	51%	43%	72%	49%	26%	131%	110%	40%	42%	49%	33%

</TABLE>

* For the ten months ended October 31, 1990.

** Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

*** Represents portfolio turnover for the entire Fund.

(a) Cumulative total return.

(b) Computed on an annualized basis.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 4).

(See Notes which are an integral part of the Financial Statements)

Further information about the Fund's performance is contained in the Fund's annual report dated October 31, 1993, which can be obtained free of charge.

GENERAL INFORMATION

The Fund was incorporated under the laws of the State of Maryland on October 31, 1934. On April 16, 1993, the shareholders of the Fund voted to (1) change the name of the Fund from Federated Stock and Bond Fund, Inc., to Stock and Bond Fund, Inc., and (2) amend the Fund's Articles of Incorporation to permit the Fund to offer separate series of shares representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in

separate classes. With respect to this Fund, as of the date of this prospectus, the Board of Directors ("Directors") has established two classes of shares known as Class A Shares and Class C Shares. This prospectus relates only to Class A Shares ("Shares") of the Fund.

Shares of the Fund are designed for institutions, pension plans, and individuals as a convenient means of accumulating an interest in a professionally managed, diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, and short-term obligations. A minimum initial investment of \$25,000 over a 90-day period is required.

Shares are currently sold and redeemed at net asset value without a sales charge imposed by the Fund.

LIBERTY FAMILY RETIREMENT PROGRAM

The Fund is a member of the Liberty Family Retirement Program ("Program"), an integrated program of investment options, plan recordkeeping, and consultation services for 401(k) and other participant-directed benefit and savings plans. Under the Program, employers or plan trustees may select a group of investment options to be offered in a plan which also uses the Program for recordkeeping and administrative services. Additional fees are charged to participating plans for these services. Plans with over \$1 million invested in funds participating in the Program may purchase Class A Shares without a sales load. As part of the Program, exchanges may readily be made between investment options selected by the employer or a plan trustee. The other funds participating in the Program are:

AMERICAN LEADERS FUND, INC., providing growth of capital and income through high-quality stocks;

CAPITAL GROWTH FUND (CLASS A SHARES AND CLASS C SHARES), providing appreciation of capital primarily through equity securities;

FUND FOR U.S. GOVERNMENT SECURITIES, INC., providing current income through long-term U.S. government securities;

INTERNATIONAL EQUITY FUND, providing long-term capital growth and income through international securities;

INTERNATIONAL INCOME FUND, providing a high level of current income consistent with prudent investment risk through high-quality debt securities denominated primarily in foreign currencies;

LIBERTY EQUITY INCOME FUND, INC., providing above-average income and capital appreciation through income-producing equity securities;

LIBERTY HIGH INCOME BOND FUND, INC., providing high current income through high-yielding, lower-rated, corporate bonds;

LIBERTY UTILITY FUND, INC., providing current income and long-term growth of income, primarily through electric, gas, and communication utilities; and

PRIME CASH SERIES, providing current income consistent with stability of principal and liquidity through money market instruments maturing in thirteen months or less.

Prospectuses for these funds are available by writing to Federated Securities Corp.

Each of the funds may also invest in certain other types of securities as described in each fund's prospectus.

INVESTMENT INFORMATION

INVESTMENT OBJECTIVES

The investment objectives of the Fund are to provide relative safety of capital with the possibility of long-term growth of capital and income. Consideration is also given to current income. The Fund pursues these investment objectives by investing in a professionally managed, diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, and short-term obligations. While there is no assurance that the Fund will achieve its investment objectives, it endeavors to do so by following the investment policies described in this prospectus. The investment objectives and the policies and limitations described below cannot be changed without approval of shareholders, unless otherwise noted.

INVESTMENT POLICIES

As a matter of investment policy, which may be changed without shareholder

approval, under normal circumstances, the Fund will invest at least 65% of its total assets in stocks and bonds.

ACCEPTABLE INVESTMENTS. The Fund invests primarily in a diversified portfolio of common stocks, bonds, convertible securities, and preferred stocks which provide characteristics of stability and relative safety, and marketable securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. The Fund anticipates that it will experience characteristics of stability and relative safety by investing primarily in securities of larger, well-established companies which have a history of lower volatility in earnings and price fluctuations.

COMMON STOCKS. The common stocks in which the Fund invests are selected by the Fund's investment adviser on the basis of traditional research techniques, including assessment of earnings and dividend growth prospects and of the risk and volatility of the company's industry. However, other factors, such as product position, market share, or profitability, will also be considered by the Fund's investment adviser.

CONVERTIBLE SECURITIES. Convertible securities are fixed income securities which may be exchanged or converted into a predetermined number of the issuer's underlying common stock at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, units consisting of "usable" bonds and warrants, or a combination of the features of several of these securities. The investment characteristics of each convertible security vary widely, which allows convertible securities to be

employed for different investment objectives. In selecting convertible securities for the Fund, the Fund's investment adviser evaluates the investment potential of the underlying security for capital appreciation. The convertible securities in which the Fund invests will be rated "investment grade" or of comparable quality at the time of purchase. See "Investment-Grade Bonds."

INVESTMENT-GRADE BONDS. The bonds in which the Fund invests will be rated investment grade (i.e., rated Baa or better by Moody's Investors Service, Inc., or BBB or better by Standard & Poor's Corporation or Fitch Investors Service, Inc., or, if unrated, deemed to be of comparable quality by the Fund's investment adviser). Bonds rated BBB by Standard and Poor's Corporation or Fitch Investors Service, Inc., or Baa by Moody's Investors Service, Inc., have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. If a security's rating is reduced below the required minimum after the Fund has purchased it, the Fund is not required to sell the security but may consider doing so. A description of the rating categories is contained in the Appendix to the Combined Statement of Additional Information. (The Fund intends to restrict investments to securities rated investment grade in the current fiscal year. However, the Fund reserves the right to, in the future, invest in securities rated below investment grade. The Fund will notify shareholders of such a change in investment policy prior to its implementation.)

U.S. GOVERNMENT SECURITIES. The U.S. government securities in which the Fund invests are either issued or guaranteed by the U.S. government, its agencies or instrumentalities. These securities include, but are not limited to:

- direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds; and
- notes, bonds, and discount notes of U.S. government agencies or instrumentalities such as Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Banks for Cooperatives (including Central Bank for Cooperatives), Federal Land Banks, Federal Intermediate Credit Banks, Tennessee Valley Authority, Export-Import Bank of the United States, Commodity Credit Corporation, Federal Financing Bank, Student Loan Marketing Association, Federal Home Loan Mortgage Corporation, or National Credit Union Administration.

Some obligations issued or guaranteed by agencies or instrumentalities of the U.S. government, such as Government National Mortgage Association participation certificates, are backed by the full faith and credit of the U.S. Treasury. Others for which no assurances can be given that the U.S. government will provide financial support to the agencies or instrumentalities, since it is not obligated to do so, are supported by:

- the issuer's right to borrow an amount limited to a specific line of credit from the U.S. Treasury;
- discretionary authority of the U.S. government to purchase certain obligations of an agency or instrumentality; or
- the credit of the agency or instrumentality.

FOREIGN ISSUERS. The Fund may invest in the securities of foreign issuers which are freely traded on United States securities exchanges or in the over-the-counter market in the form of depository receipts. The Fund will limit its investments in non-ADR foreign obligations to less than 5% of its

assets. Securities of a foreign issuer may present greater risks in the form of nationalization, confiscation, domestic marketability, or other national or international restrictions. As a matter of practice, the Fund will not invest in the securities of a foreign issuer if any such risk appears to the investment adviser to be substantial.

TEMPORARY INVESTMENTS. In such proportions as, in the judgment of its investment adviser, prevailing market conditions warrant, the Fund may, for temporary defensive purposes, invest in:

- short-term money market instruments;
- securities issued and/or guaranteed as to payment of principal and interest by the U.S. government, its agencies or instrumentalities; and
- repurchase agreements.

REPURCHASE AGREEMENTS. Repurchase agreements are arrangements in which banks, broker/ dealers, and other recognized financial institutions sell U.S. government securities or other securities to the Fund and agree at the time of sale to repurchase them at a mutually agreed upon time and price. The Fund or its custodian will take possession of the securities subject to repurchase agreements and these securities will be marked to market daily. To the extent that the original seller does not repurchase the securities from the Fund, the Fund could receive less than the repurchase price on any sale of such securities. In the event that such a defaulting seller filed for bankruptcy or became insolvent, disposition of such securities by the Fund might be delayed pending court action. The Fund believes that under the regular procedures normally in effect for custody of the Fund's portfolio securities subject to repurchase agreements, a court of competent jurisdiction would rule in favor of the Fund and allow retention or disposition of such securities. The Fund will only enter into repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are found by the Fund's adviser to be creditworthy.

RESTRICTED AND ILLIQUID SECURITIES. As a matter of investment policy, which may be changed without shareholder approval, the Fund may invest up to 10% of its total assets in restricted securities. This restriction is not applicable to commercial paper issued under Section 4(2) of the Securities Act of 1933. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objectives and policies, but which are subject to restriction on resale under federal securities law. The Fund will limit investments in illiquid securities, including certain restricted securities not determined by the Directors to be liquid, non-negotiable time deposits, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of its net assets.

LENDING OF PORTFOLIO SECURITIES. In order to generate additional income, the Fund may lend portfolio securities on a short-term or a long-term basis to broker/dealers, banks, or other institutional borrowers of securities. The Fund will only enter into loan arrangements with broker/dealers, banks, or other institutions which the investment adviser has determined are creditworthy under guidelines established by the Fund's Directors and will receive collateral in the form of cash or U.S. government securities equal to at least 100% of the value of the securities loaned.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The Fund engages in when-issued

and delayed delivery transactions only for the purpose of acquiring portfolio securities consistent with the Fund's investment objectives and policies, not for investment leverage. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

INVESTMENT LIMITATIONS

The Fund will not:

- borrow money directly or through reverse repurchase agreements (arrangements in which the Fund sells a portfolio instrument for at least a percentage of its cash value with an agreement to buy it back on a set date) except, under certain circumstances, the Fund may borrow up to one-third of the value of its net assets;

- invest more than 5% of its total assets in securities of one issuer (except U.S. government securities);
- invest in more than 10% of the voting securities of one issuer;
- invest in more than 10% of any class of securities of one issuer;
- invest more than 5% of its total assets in securities of issuers that have records of less than three years of continuous operations; or
- invest more than 5% of its assets in warrants, except under certain circumstances.

FUND INFORMATION

MANAGEMENT OF THE FUND

BOARD OF DIRECTORS. The Fund is managed by a Board of Directors. The Directors are responsible for managing the Fund's business affairs and for exercising all the Fund's powers except those reserved for the shareholders. An Executive Committee of the Board of Directors handles the Board's responsibilities between meetings of the Board.

INVESTMENT ADVISER. Investment decisions for the Fund are made by Federated Management, the Fund's investment adviser, subject to direction by the Directors. The adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES. The Fund's adviser receives an annual investment advisory fee equal to 0.55 of 1% of the Fund's average daily net assets, plus 4.5% of the Fund's annual gross income, excluding any capital gains or losses. Gross income includes interest accrued, including discount earned on U.S. Treasury bills and agency discount notes, interest received or receivable on all interest-bearing obligations, and dividend income. The adviser may voluntarily choose to waive a portion of its fee or reimburse the Fund for certain operating expenses. The adviser can terminate this voluntary waiver of its advisory fee at any time at its sole discretion. This does not include reimbursement to the Fund of any expenses incurred by shareholders who use the transfer agent's subaccounting facilities. The adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND. Federated Management, a Delaware business trust organized on April 11, 1989, is a registered investment adviser under the Investment Advisers Act of 1940. It is a subsidiary of Federated Investors. All of the Class A (voting) shares of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, Chairman and Trustee of Federated Investors, Mr. Donahue's wife, and Mr. Donahue's son, J. Christopher Donahue, who is President and Trustee of Federated Investors.

Federated Management and other subsidiaries of Federated Investors serve as investment advisers to a number of investment companies and private accounts. Certain other subsidiaries also provide administrative services to a number of investment companies. Total assets under management or administration by these and other subsidiaries of Federated Investors are approximately \$70 billion. Federated Investors, which was founded in 1956 as Federated Investors, Inc., develops and manages mutual funds primarily for the financial services industry. Federated Investors' track record of competitive performance and its disciplined, risk-averse investment philosophy serve approximately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Robert J. Ostrowski has been the Fund's co-portfolio manager since April, 1990. Mr. Ostrowski joined Federated Investors in 1987 and has been a Vice President of the Fund's investment adviser since 1993. Mr. Ostrowski served as an Assistant Vice President of the investment adviser from 1990 until 1992, and from 1987 and 1990 he acted as an investment analyst. Mr. Ostrowski is a Chartered Financial Analyst and received his M.S. in Industrial Administration from Carnegie Mellon University.

Michael P. Donnelly has been the Fund's co-portfolio manager since February, 1993. Mr. Donnelly joined Federated Investors in 1989 and has been an Assistant Vice President of the Fund's investment adviser since 1992. From 1989 until 1991, Mr. Donnelly acted as an investment analyst for the investment adviser. Mr. Donnelly was a Fixed Income Associate at Donaldson, Lufkin & Jenrette from 1987 until 1989. Mr. Donnelly is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Virginia.

DISTRIBUTION OF CLASS A SHARES

Federated Securities Corp. is the principal distributor for Shares. Federated Securities Corp. is located at Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS. Federated Securities Corp. will pay financial institutions, at the time of purchase, an amount equal to 0.50 of 1% of the net asset value of Shares purchased by their clients or customers under the Liberty Family Retirement Program or by certain qualified plans as approved by Federated Securities Corp. (Such payments are subject to a reclaim from the financial institution should the assets leave the Program within 12 months after purchase.) These payments will be made directly by the distributor from its assets and will not be made from the assets of the Fund or by the assessment of a sales charge on Shares.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, Inc., Pittsburgh, Pennsylvania, a subsidiary of Federated Investors, provides the Fund with the administrative personnel and services

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necessary to operate the Fund and the separate classes. Such services include shareholder servicing and certain legal and accounting services. Federated Administrative Services, Inc., provides these at approximate cost.

ADMINISTRATIVE ARRANGEMENTS. The distributor may select brokers and dealers to provide distribution and administrative services. The distributor may also select administrators (including depository institutions such as commercial banks and savings and loan associations) to provide administrative services. These administrative services include, but are not limited to, distributing prospectuses and other information, providing accounting assistance, and communicating or facilitating purchases and redemptions of Shares.

Brokers, dealers, and administrators will receive fees from the distributor based upon Shares owned by their clients or customers. The fees are calculated as a percentage of the average aggregate net asset value of shareholder accounts during the period for which the brokers, dealers, and administrators provide services. The current annual rate of such fees is 0.25 of 1%. Any fees paid for these services by the distributor will be reimbursed by the adviser.

The Glass-Steagall Act prohibits a depository institution (such as a commercial bank or a savings and loan association) from being an underwriter or distributor of most securities. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from acting in the capacities described above or should Congress relax current restrictions on depository institutions, the Directors will consider appropriate changes in the services.

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

CUSTODIAN. State Street Bank and Trust Company, P. O. Box 8604, Boston, Massachusetts 02266-8604, is custodian for the securities and cash of the Fund.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT. Federated Services Company, Pittsburgh, Pennsylvania 15222-3779, is transfer agent for the Fund, and dividend disbursing agent for the Fund.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, 2510 Centre City Tower, Pittsburgh, Pennsylvania 15222, and Dickstein, Shapiro & Morin, 2101 L Street, N.W., Washington, D.C. 20037.

INDEPENDENT AUDITORS. The independent auditors for the Fund are Deloitte & Touche, 125 Summer Street, Boston, Massachusetts 02110-1617.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the adviser looks for prompt execution of the order at a favorable price. In working with dealers, the adviser will generally utilize those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. In selecting among firms believed to meet these criteria, the adviser may give consideration to those firms which have sold or are selling Shares of the Fund and other funds distributed by Federated Securities Corp. The adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Directors.

EXPENSES OF THE FUND AND CLASS A SHARES

Holders of each class of shares pay their allocable portion of Fund and portfolio expenses.

The Fund expenses for which holders of Shares pay their allocable portion include, but are not limited to: the cost of organizing the Fund and continuing its existence; registering the Fund with federal and state securities authorities; Directors' fees; auditors' fees; the cost of meetings of Directors; legal fees of the Fund; association membership dues; and such non-recurring and extraordinary items as may arise from time to time.

The portfolio expenses for which holders of Shares each pay their allocable portion include, but are not limited to: registering the portfolio and Shares of the portfolio; investment advisory services; taxes and commissions; custodian fees; insurance premiums; auditors' fees; and such non-recurring and extraordinary items as may arise from time to time.

At present, no expenses are allocated specifically to Shares as a class. However, the Directors reserve the right to allocate certain other expenses to holders of Shares as they deem appropriate ("Class Expenses"). In any case, Class Expenses would be limited to: distribution fees; transfer agent fees as identified by the transfer agent as attributable to holders of Shares; fees under the Fund's Shareholder Services Plan, if any; printing and postage expenses related to preparing and distributing materials such as shareholder reports, prospectuses, and proxies to current shareholders; registration fees paid to the Securities and Exchange Commission and to state securities commissions; expenses related to administrative personnel and services as required to support holders of Shares; legal fees relating solely to Shares; and Directors' fees incurred as a result of issues relating solely to Shares.

NET ASSET VALUE

The Fund's net asset value per Share fluctuates. The net asset value for Class A Shares is determined by adding the interest of the Class A Shares in the market value of all securities and other assets of the Fund, subtracting the interest of the Class A Shares in the liabilities of the Fund and those attributable to Class A Shares, and dividing the remainder by the number of Class A Shares outstanding. The net asset value for Class A Shares may differ from that of Class C Shares due to the variance in daily net income realized by each class. Such variance will reflect only accrued net income to which the shareholders of a particular class are entitled.

INVESTING IN CLASS A SHARES

SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange is open. Shares may be purchased either by wire or mail.

To purchase Shares, open an account by calling Federated Securities Corp. Information needed to establish the account will be taken over the telephone. The Fund reserves the right to reject any purchase request.

Participants in plans under the Liberty Family Retirement Program shall purchase Shares in accordance with the requirements of their respective plans.

BY WIRE. To purchase Shares by Federal Reserve Wire, call the Fund to place an order. The order is considered received immediately. Payment by federal funds must be received before 3:00 p.m. (Boston time) on the next business day following the order. Federal funds should be wired as follows: State Street Bank and Trust Company, Boston, Massachusetts; Attention: EDGEWIRE; For Credit to: Stock and Bond Fund, Inc.--Class A Shares; Fund Number (this number can be found on the account statement or by contacting the Fund); Group Number or Order Number; Nominee or Institution Name; and ABA #011000028. Shares cannot be purchased by wire on Columbus Day, Veterans' Day, or Martin Luther King Day.

BY MAIL. To purchase Shares by mail, send a check made payable to Stock and Bond Fund, Inc.--Class A Shares, State Street Bank and Trust Company, P.O. Box 8604, Boston, Massachusetts 02266-8604. Orders by mail are considered received after payment by check is converted by State Street Bank into federal funds. This is normally the next business day after State Street Bank receives the check.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in Shares is \$25,000 plus any non-affiliated bank or broker's fee, if applicable. However, an account may be opened with a smaller amount as long as the \$25,000 minimum is reached within 90 days. An institutional investor's minimum investment will be calculated by combining all

accounts it maintains with the Fund. Accounts established through a non-affiliated bank or broker may be subject to a smaller minimum investment. (Other minimum investment requirements may apply to investments through the Liberty Family Retirement Program.)

WHAT SHARES COST

Shares are sold at their net asset value next determined after an order is received. There is no sales charge imposed by the Fund. Investors who purchase Shares through a non-affiliated bank or broker may be charged an additional service fee by that bank or broker.

The net asset value is determined at 4:00 p.m. (Boston time), Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of the Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no Shares are tendered for redemption and no orders to purchase Shares are received; and (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

SUBACCOUNTING SERVICES

Institutions are encouraged to open single master accounts. However, certain institutions may wish to use the transfer agent's subaccounting system to minimize their internal recordkeeping requirements. The transfer agent charges a fee based on the level of subaccounting services rendered. Institutions holding Shares in a fiduciary, agency, custodial, or similar capacity may charge or pass through subaccounting fees as part of or in addition to normal trust or agency account fees. They may also charge fees for other services provided which may be related to the ownership of Shares. This prospectus should, therefore, be read together with any agreement between the customer and the institution with regard to the services provided, the fees charged for those services, and any restrictions and limitations imposed.

CERTIFICATES AND CONFIRMATIONS

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

Detailed confirmations of each purchase or redemption are sent to each shareholder. Quarterly confirmations are sent to report dividends paid during that quarter.

DIVIDENDS

Dividends are declared and paid quarterly to all shareholders invested in the Fund on the record date. Unless shareholders request cash payments by writing to the Fund, dividends are automatically reinvested in additional Shares on payment dates at the ex-dividend date net asset value without a sales charge. All shareholders on the record date are entitled to the dividend. If Shares are redeemed or exchanged prior to the record date or purchased after the record date, those Shares are not entitled to that quarter's dividend.

CAPITAL GAINS

Capital gains realized by the Fund, if any, will be distributed at least once every twelve months.

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans or for IRA accounts. For further details, including prototype retirement plans, contact the Fund and consult a tax adviser.

REDEEMING CLASS A SHARES

The Fund redeems Shares at their net asset value next determined after the Fund receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemption requests must be received in proper form and can be made by telephone request or by written request. Redemptions of Shares held through the Liberty Family Retirement Program will be governed by the requirements of the respective plans.

TELEPHONE REDEMPTION

Shareholders may redeem their Shares by telephoning the Fund before 4:00 p.m. (Boston time). The proceeds will normally be wired the following business day, but in no event more than seven days, to the shareholder's account at a domestic commercial bank that is a member of the Federal Reserve System. If at any time, the Fund shall determine it necessary to terminate or modify this method of

redemption, shareholders would be promptly notified.

An authorization form permitting the Transfer agent or the Fund to accept telephone requests must first be completed. Authorization forms and information on this service are available from Federated Securities Corp. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as "Written Requests," should be considered.

WRITTEN REQUESTS

Shares may also be redeemed by sending a written request to the Fund. Call the Fund for specific instructions before redeeming by letter. The shareholder will be asked to provide in the request his name, the Fund name, the class of shares, his account number, and the Share or dollar amount requested. If Share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request.

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

- a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund ("BIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC");
- a member of the New York, American, Boston, Midwest or Pacific Stock Exchanges;
- a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the FDIC; or
- any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Fund does not accept signatures guaranteed by a notary public.

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

Normally, a check for the proceeds is mailed within one business day, but in no event more than seven days, after receipt of a proper written redemption request.

REDEMPTION BEFORE PURCHASE INSTRUMENTS CLEAR

When Shares are purchased by check, the proceeds from the redemption of those Shares are not available, and the Shares may not be exchanged, until the Fund or its agents are reasonably certain that the purchase check has cleared, which could take up to ten calendar days.

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem Shares in any account and pay the proceeds to the shareholder if the account balance falls below a required minimum value of \$250 due to shareholder redemptions. This requirement does not apply, however, if the balance falls below \$250 because of changes in the Fund's net asset value. Before Shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional Shares to meet the minimum requirement.

SHAREHOLDER INFORMATION

VOTING RIGHTS

Each Share gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Fund have equal voting rights, except that only shares of that particular portfolio or class are entitled to vote in matters affecting that portfolio or class.

As a Maryland corporation, the Fund is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Fund's operation and for the election of Directors under certain circumstances.

Directors may be removed by a majority vote of the shareholders at a special meeting. A special meeting of shareholders shall be called by the Directors upon the written request of shareholders owning at least 25% of the Fund's outstanding shares of all series entitled to vote.

TAX INFORMATION

FEDERAL INCOME TAX

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

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

Unless otherwise exempt, shareholders are required to pay federal income tax on any dividends and other distributions, including capital gains distributions, received. This applies whether dividends and distributions are received in cash or as additional Shares. Distributions representing long-term capital gains, if any, will be taxable to shareholders as long-term capital gains no matter how long the shareholders have held the Shares. No federal income tax is due on any dividends earned in an IRA or qualified retirement plan until distributed.

PENNSYLVANIA CORPORATE AND PERSONAL PROPERTY TAXES

In the opinion of Houston, Houston & Donnelly, counsel to the Fund:

- the Fund is subject to the Pennsylvania corporate franchise tax; and
- Fund shares are exempt from personal property taxes imposed by counties, municipalities, and school districts in Pennsylvania.

Shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

PERFORMANCE INFORMATION

From time to time the Fund advertises the total return and yield for Shares.

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

The yield of Shares is calculated by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by Shares over a thirty-day period by the maximum offering price per share of Shares on the last day of the period. This number is then annualized using semi-annual compounding. The yield does not necessarily reflect income actually earned by Shares and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

The Class A Shares are sold without a sales load or other similar non-recurring charges.

Total return and yield will be calculated separately for Class A Shares and Class C Shares. Because Class C Shares are subject to a Rule 12b-1 fee and a shareholder services fee, the total return and yield for Class A Shares, for the same period, will exceed that of Class C Shares.

From time to time, the Fund may advertise the performance of Class A Shares using certain reporting services and/or compare the performance of Class A Shares to certain indices.

OTHER CLASSES OF SHARES

The Fund does not presently offer Class B Shares. Class C Shares, the other class of shares offered by the Fund, are sold primarily to customers of financial institutions at net asset value with no initial sales charge. Class C Shares are distributed pursuant to a Rule 12b-1 Plan adopted by the Fund whereby the distributor is paid a fee of up to 0.75 of 1% in addition to a shareholder services fee of 0.25 of 1% of the Class C Shares' average daily net assets.

Class C Shares may be subject to a contingent deferred sales charge. Investments in Class C Shares are subject to a minimum initial investment of \$1,500, unless the investment is in a retirement account, in which case the minimum investment is \$50.

The amount of dividends payable to Class A Shares will generally exceed that of Class C Shares by the difference between Class Expenses borne by shares of each respective class.

The stated advisory fee is the same for both classes of shares.

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

FINANCIAL HIGHLIGHTS--CLASS C SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

Reference is made to the Independent Auditors' Report on page 29.

<TABLE>
<CAPTION>

	PERIOD ENDED OCTOBER 31, 1993*
	----- <C>
<S>	
NET ASSET VALUE, BEGINNING OF PERIOD	\$16.18

INCOME FROM INVESTMENT OPERATIONS	

Net investment income	0.38

Net realized and unrealized gain (loss) on investments	0.48

Total from investment operations	0.86

LESS DISTRIBUTIONS	

Dividends to shareholders from net investment income	(0.20)

NET ASSET VALUE, END OF PERIOD	\$16.84

TOTAL RETURN**	5.54% (a)

RATIOS TO AVERAGE NET ASSETS	

Expenses	2.04% (b)

Net investment income	2.01% (b)

Expense adjustment (c)	0.20% (b)

SUPPLEMENTAL DATA	

Net assets, end of period (000 omitted)	\$96

Portfolio turnover rate***	51%

</TABLE>

* Reflects operations for the period from April 19, 1993 (start of performance) to October 31, 1993.

** Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

*** Represents portfolio turnover for the entire Fund.

<TABLE>
<S> <C>
(a) Cumulative total return.
(b) Computed on an annualized basis.
(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 4).
</TABLE>

(See Notes which are an integral part of the Financial Statements)

Further information about the Fund's performance is contained in the Fund's annual report dated October 31, 1993, which can be obtained free of charge.

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1993

<TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES		VALUE
<S>	<C> <C>	<C>
COMMON STOCKS--45.6%		
BASIC INDUSTRY--3.1%		
10,500	Aluminum Co. of America	\$ 714,000
23,000	+ FMC Corp.	1,129,875
32,000	Lubrizol Corp.	1,112,000
20,000	Phelps Dodge Corp.	852,500
	Total	3,808,375
CONSUMER DURABLES--2.6%		
26,000	Eastman Kodak Co.	1,638,000
34,000	General Motors Corp.	1,619,250
	Total	3,257,250
CONSUMER NON-DURABLES--2.8%		
21,000	Nike, Inc., Class B	1,015,875
27,000	Philip Morris Cos., Inc.	1,451,250
35,000	Reebok International, Ltd.	1,067,500
	Total	3,534,625
CONSUMER SERVICES--5.2%		
26,000	American Stores Co.	1,053,000
12,000	Dun & Bradstreet Corp.	804,000
20,000	McKesson Corp.	1,067,500
37,700	Sears, Roebuck & Co.	2,163,037
45,000	+ Tele-Communications, Inc.	1,372,500
	Total	6,460,037
ENERGY--4.3%		
9,000	Atlantic Richfield Co.	992,250
38,500	Baker Hughes, Inc.	866,250
14,000	Chevron Corp.	1,358,000

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES		VALUE
<S>	<C> <C>	<C> <C>
COMMON STOCKS--CONTINUED		

ENERGY--CONTINUED

14,000	Exxon Corp.	\$ 915,250
20,000	Mapco, Inc.	1,190,000
	Total	5,321,750

FINANCE--7.4%

39,000	American General Corp.	1,145,625
15,000	CIGNA Corp.	1,006,875
14,714	Dean Witter, Discover & Co.	605,113
12,000	Federal National Mortgage Association	934,500
44,000	National City Corp.	1,144,000
24,000	PNC Financial Corp.	690,000
42,666	Primerica Corp.	1,882,637
23,000	TIG Holdings, Inc.	549,125
22,000	Transamerica Corp.	1,254,000
	Total	9,211,875

HEALTHCARE--5.4%

25,300	American Home Products Corp.	1,581,250
3,100	Becton, Dickinson Corp.	117,800
22,500	Bristol-Myers Squibb Co.	1,321,875
30,900	Marion Merrell Dow, Inc.	606,412
16,500	Schering Plough Corp.	1,122,000
22,000	U.S. Healthcare, Inc.	1,020,250
14,000	Warner Lambert Co.	973,000
	Total	6,742,587

INDUSTRIAL/MANUFACTURING--5.8%

12,000	Dover Corp.	690,000
17,000	General Electric Co.	1,649,000
14,000	ITT Corp.	1,303,750

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE>

<CAPTION>

PRINCIPAL
AMOUNT
OR SHARES

VALUE

COMMON STOCKS--CONTINUED

<S>	<C> INDUSTRIAL/MANUFACTURING--CONTINUED	<C>
19,800	Loews Corp.	\$ 1,853,775
31,000	Textron Inc.	1,732,125
	Total	7,228,650
	TECHNOLOGY--4.7%	
9,000	+ Computer Sciences Corp.	826,875

17,000	E Systems, Inc.	771,375
5,000	General Dynamics Corp.	478,750
25,000	Harris Corp.	1,156,250
26,000	Raytheon Co.	1,582,750
26,000	Tandy Corp.	1,062,750
	Total	5,878,750
	TRANSPORTATION--1.0%	
44,000	Ryder Systems, Inc.	1,248,500
	UTILITIES--3.3%	
14,900	American Telephone & Telegraph Co.	858,613
40,000	MCI Communications Corp.	1,140,000
33,000	Nipsco Industries, Inc.	1,122,000
50,000	Portland General Corp.	1,081,250
	Total	4,201,863
	TOTAL COMMON STOCKS (IDENTIFIED COST, \$46,106,553)	56,894,262

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES		VALUE
COMMON STOCKS--CONTINUED		
<S>	<C> UTILITIES--CONTINUED	<C>
PREFERRED STOCKS--1.5%		
CONSUMER DURABLE--1.2%		
14,000	Ford Motor Co., Cumulative Conv. Pfd., Series A, 8.40%	1,466,500
TECHNOLOGY--.3%		
13,000	Tandy Corp., Conv. Pfd., Series C	458,250
	TOTAL PREFERRED STOCKS (IDENTIFIED COST, \$1,374,269)	1,924,750

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES		VALUE
CORPORATE BONDS--3.9%		
<S>	<C> ENERGY--.9%	<C>
\$1,000,000	Exxon Capital Corp., Note 7.875%, 4/15/96	\$ 1,078,460
FINANCE--.8%		
1,000,000	IBM Credit Corp., Note 7.20%, 2/19/94	1,008,740

INDUSTRIAL/MANUFACTURING--.8%		
1,000,000	General Electric Co., Note 7.875%, 5/1/96	1,073,460
UTILITIES--1.4%		
500,000	Chesapeake & Potomac Bell Telephone Co., Note 7.875%, 1/15/2022	576,085
1,000,000	Michigan Bell Telephone Co., Note 7.85%, 1/15/2022	1,150,990
	Total	1,727,075
	TOTAL CORPORATE BONDS (IDENTIFIED COST, \$4,476,138)	4,887,735

GOVERNMENT OBLIGATIONS--45.0%

GOVERNMENT AGENCY SECURITIES--3.5%		
1,000,000	Federal Farm Credit Bank, 4.25%, 3/24/98	1,002,940
500,000	Federal Home Loan Bank, 3.49%, 1/15/98	498,280
1,500,000	Federal Home Loan Mortgage Corp., Deb., 3.15%, 3/25/96	1,492,965
1,000,000	Federal National Mortgage Association, 4.03%, 3/25/96	1,002,160
350,000	Federal National Mortgage Association, 4.22%, 6/1/98	349,517
	Total	4,345,862
MORTGAGE PASS-THROUGH SECURITIES--4.9%		
1,180,000	Federal National Mortgage Association MPT, 7.00%, 1/1/2001	1,220,557
1,170,000	Federal National Mortgage Association MPT, 7.50%, 1/1/2001	1,215,700
1,150,000	Federal National Mortgage Association MPT, 9.00%, 1/1/2001	1,224,750
1,170,000	Government National Mortgage Association MPT, 7.50%, 1/1/2001	1,224,475
1,130,000	Government National Mortgage Association MPT, 9.50%, 9/15/2020	1,218,276
	Total	6,103,758

</TABLE>

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

<TABLE>		
<CAPTION>		
PRINCIPAL AMOUNT OR SHARES		VALUE
GOVERNMENT OBLIGATIONS--CONTINUED		
<S>	<C>	<C>
TREASURY SECURITIES--36.6%		
\$14,470,000	United States Treasury Bonds, 7.25%--9.375%, 2/15/2006--11/15/2021	\$ 18,253,889
27,200,000	United States Treasury Notes, 3.875--5.375%, 1/31/94--3/31/95	27,370,429
	Total	45,624,318
	TOTAL GOVERNMENT OBLIGATIONS (IDENTIFIED COST, \$52,374,359)	56,073,938
*REPURCHASE AGREEMENT--2.7%		
3,420,000	J.P. Morgan Securities, Inc., 2.99%, dated 10/29/93, due 11/01/93 (at amortized cost) (Note 2B)	3,420,000
	TOTAL INVESTMENTS (IDENTIFIED COST, \$107,751,319)	\$123,200,685++

</TABLE>

Note: The categories of investments are shown as a percentage of net assets (\$124,678,928) at October 31, 1993.

+ Non-income producing.

++ The cost for federal income tax purposes amounts to \$107,751,319. The net

unrealized appreciation of investments on a federal income tax basis amounts to \$15,449,366 which is comprised of \$16,471,892 appreciation and \$1,022,526 depreciation at October 31, 1993.

* The repurchase agreement is fully collateralized by U.S. government and/or agency obligations. The investment in the repurchase agreement was through participation in a joint account with other Federated funds.

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1993

<S>	<C>	<C>
ASSETS:		
Investments in securities, at value (Notes 2A and 2B) (identified and tax cost \$107,751,319)		\$123,200,685
Cash		6,268
Receivable for investments sold		6,735,816
Dividends and interest receivable		1,150,946
Receivable for capital stock sold		71,525
Deferred expenses (Note 2F)		12,320
Total assets		131,177,560
LIABILITIES:		
Payable for investments purchased	\$6,247,722	
Payable for capital stock redeemed	197,471	
Accrued expenses and other liabilities	53,439	
Total liabilities		6,498,632
NET ASSETS for 7,392,081 shares of capital stock outstanding		\$124,678,928
NET ASSETS CONSIST OF:		
Paid-in capital		\$107,195,285
Unrealized appreciation of investments		15,449,366
Accumulated net realized loss on investments		(648,826)
Undistributed net investment income		2,683,103
Total		\$124,678,928
NET ASSET VALUE, Offering Price, and Redemption Price Per Share		
Class A; (\$124,582,763 / 7,386,371 shares of capital stock outstanding)		\$16.87
Class C; (\$96,165 / 5,710 shares of capital stock outstanding)		\$16.84

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1993

<S>	<C>	<C>
INVESTMENT INCOME:		
Interest		\$ 3,342,987
Dividends		1,679,201

Total investment income (Note 2G)		5,022,188
EXPENSES:		
Investment advisory fee (Note 4)	\$ 834,842	
Directors' fees	10,127	
Administrative personnel and services fees (Note 4)	291,137	
Custodian, transfer and dividend disbursing agent fees and expenses	126,534	
Capital stock registration fees	27,020	
Auditing fees	21,046	
Legal fees	14,385	
Insurance	9,125	
Printing and postage	25,474	
Taxes	14,615	
Miscellaneous	2,157	
Total expenses	1,376,462	
Deduct--Waiver of investment advisory fee (Note 4)	222,090	
Net expenses		1,154,372
Net investment income		3,867,816
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized loss on investments (identified cost basis)		(648,826)
Net change in unrealized appreciation on investments		11,161,979
Net realized and unrealized gain on investments		10,513,153
Change in net assets resulting from operations		\$14,380,969

</TABLE>

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1993	1992
	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	\$ 3,867,816	\$ 3,856,185
Net realized gain (loss) on investment transactions (\$648,826 net loss, and \$3,676,954 net gain, respectively, as computed for federal income tax purposes)	(648,826)	3,676,954
Change in unrealized appreciation (depreciation) of investments	11,161,979	(545,343)
Change in net assets from operations	14,380,969	6,987,796
NET EQUALIZATION CREDITS (NOTE 2D)--	129,581	61,076
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 2G)--		
Dividends to shareholders from net investment income:		
Class A Shares	(3,755,624)	(3,947,981)
Class C Shares	(38)	--

Dividends to shareholders from net realized gain on investment transactions Class A Shares	(3,675,092)	(1,912,566)
Change in net assets resulting from distributions to shareholders	(7,430,754)	(5,860,547)
CAPITAL STOCK TRANSACTIONS (NOTE 3) (EXCLUSIVE OF AMOUNTS ALLOCATED TO NET INVESTMENT INCOME)--		
Net proceeds from sale of shares	38,398,216	24,185,605
Net asset value of shares issued to shareholders electing to receive payment of dividends in capital stock	5,226,747	3,719,313
Cost of shares redeemed	(21,412,900)	(22,240,017)
Change in net assets from capital stock transactions	22,212,063	5,664,901
Change in net assets	29,291,859	6,853,226
NET ASSETS:		
Beginning of period	95,387,069	88,533,843
End of period (including undistributed net investment income of \$2,683,103 and \$1,451,859 respectively)	\$124,678,928	\$ 95,387,069

</TABLE>

(See Notes which are an integral part of the Financial Statements)

STOCK AND BOND FUND, INC.
(FORMERLY, FEDERATED STOCK AND BOND FUND, INC.)

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1993

(1) ORGANIZATION

The Stock and Bond Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company.

Effective April 17, 1993, the Fund provides two classes of shares ("Class A Shares" and "Class C Shares"). Class C Shares are identical in all respects to Class A Shares except that Class C Shares will be sold pursuant to a distribution plan ("Plan") adopted in accordance with Rule 12b-1 of the Investment Company Act of 1940, as amended. Under the Plan, the Fund may pay Federated Securities Corp. (the "distributor") a fee at an annual rate up to 0.75 of 1% of the average net asset value of Class C Shares to finance any activity which is principally intended to result in the sale of Class C Shares. In addition, Class C Shares are subject to a shareholder service fee of 0.25 of 1% of the Class C Shares' average daily net assets. Class C Shares may be subject to a contingent deferred sales charge of 1.00%

(2) SIGNIFICANT ACCOUNTING POLICIES

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.

<TABLE>

<S> <C>

- A. INVESTMENT VALUATIONS--Listed equity securities are valued at last sale prices reported on national securities exchanges. Unlisted securities or listed securities in which there were no sales are valued at the mean between bid and asked prices. Bonds and other fixed income securities are valued at the last sale price on a national securities exchange, if available. Otherwise, they are valued on the basis of prices furnished by independent pricing services. Short-term obligations are ordinarily valued at the mean between bid and asked prices as furnished by an independent pricing service. However, short-term obligations with maturities of sixty days or less are valued at amortized cost, which approximates value. All other securities are appraised at fair value as determined in good faith by the Board of Directors.
- B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession, to have legally segregated in the Federal Reserve Book Entry System or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying securities to ensure the existence of a proper level of collateral.
- The Fund will only enter into repurchase agreements with banks and other recognized financial institutions such as broker/dealers which are deemed by the Fund's adviser to be creditworthy

</TABLE>

STOCK AND BOND FUND, INC.

<TABLE>

<S> <C>

pursuant to guidelines established by the Board of Directors. Risks may arise from the potential inability of counterparties to honor the terms of the repurchase agreement. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

- C. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Internal Revenue Code applicable to investment companies and to distribute to shareholders each year all of its taxable income, including any net realized gain on investments. Accordingly, no provision for federal tax is necessary. At October 31, 1993 the Fund, for federal tax purposes had a capital loss carryforward of \$648,826 which will expire in 2001, which will reduce the Fund's taxable income arising from future net realized gain on investments, if any, to the extent permitted by the Internal Revenue Code, and thus will reduce the amount of the distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal tax.
- D. EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.
- E. RECLASSIFICATIONS--During the current period, the Fund adopted Statement of Position 93-2 Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies. Accordingly, permanent book and tax basis differences relating to shareholder distributions have been reclassified to paid-in-capital. As of November 1, 1992, the cumulative effect of such differences, totaling \$6,066,544 was reclassified from accumulated undistributed net realized gain on investments and undistributed net investment income to paid-in capital. Net investment income, net realized gains, and net assets were not affected by this change.
- F. DEFERRED EXPENSES--The costs incurred by the Fund with respect to registration of Class C Shares in its first fiscal year, excluding the initial expense of registering the shares, have been deferred and are being amortized using the straight-line method through April 1998.
- G. OTHER--Investment transactions are accounted for on the date of the transaction. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Dividends to shareholders and capital gain distributions are recorded on the ex-dividend date.

</TABLE>

STOCK AND BOND FUND, INC.

(3) CAPITAL STOCK

At October 31, 1993, there were 2,000,000,000 shares par value \$0.001 per share of capital stock authorized. Transactions in capital stock were as follows:

<TABLE>

<CAPTION>

CLASS A SHARES	YEAR ENDED 10/31/93		YEAR ENDED 10/31/92	
	SHARES	DOLLARS	SHARES	DOLLARS
Shares outstanding, beginning of period	5,996,334	\$ 78,993,303	5,623,862	\$ 73,328,402
Shares sold	2,386,696	38,303,285	1,552,653	24,185,605
Shares issued to shareholders electing to receive payment of distributions in capital stock	334,836	5,226,710	245,024	3,719,313
Shares redeemed	(1,331,495)	(21,412,848)	(1,425,205)	(22,240,017)
Shares outstanding, end of period	7,386,371	\$101,110,450	5,996,334	\$ 78,993,303

</TABLE>

<TABLE>

<CAPTION>

CLASS C SHARES	YEAR ENDED 10/31/93*	
	SHARES	DOLLARS
Shares outstanding, beginning of period	--	\$ --
Shares sold	5,711	94,931

Shares issued to shareholders electing to receive payment of dividends in capital stock	2	37

Shares redeemed	(3)	(52)

Shares outstanding, end of period	5,710	\$94,916

</TABLE>

* For the period from April 17, 1993 (date of initial public offering) to October 31, 1993.

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Federated Management, the Fund's investment adviser ("Adviser"), receives for its services an annual investment advisory fee equal to .55% of the Fund's average daily net assets, plus 4.5% of the Fund's gross income, excluding capital gains or losses. Adviser has voluntarily agreed to waive all or a portion of its fee. The Adviser can terminate this voluntary waiver of expenses at any time at its sole discretion. For the fiscal year ended October 31, 1993, the investment advisory fee amounted to \$834,842 of which \$222,090 was voluntarily waived by Adviser in accordance with the above undertaking.

With respect to Class C, the Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940. The Fund will compensate Federated Securities Corp. ("FSC"), the principal distributor, from the assets of the Fund, for fees it paid which relate to the

STOCK AND BOND FUND, INC.

distribution and administration of the Fund's Class C Shares. The Plan provides that the Fund may incur distribution expenses up to 0.75 of 1% of the average daily net assets of the Class C Shares. During the period ended October 31, 1993, FSC earned \$73 in distribution services fees for Class C Shares.

Administrative personnel and services were provided at approximate cost by Federated Administrative Services, Inc. Certain of the Officers and Directors of the Fund are Officers and Directors of the above corporations.

(5) INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short-term obligations) for the year ended October 31, 1993, were as follows:

<TABLE>	
<S>	

PURCHASES--	\$74,767,500

SALES--	\$53,156,627

</TABLE>	

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of

STOCK AND BOND FUND, INC.:
(formerly Federated Stock and Bond Fund, Inc.)

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Stock and Bond Fund, Inc. (formerly Federated Stock and Bond Fund, Inc.) as of October 31, 1993, the related statement of operations for the year then ended, the statement of changes in net assets for the years ended October 31, 1993 and 1992, and the financial highlights (see pages 2 and 16 of the prospectus) for each of the years in the three-year period ended October 31, 1993, the ten-month period ended October 31, 1990 and each of the years in the seven-year period ended December 31, 1989. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993 by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of Stock and Bond Fund, Inc. as of October 31, 1993, the results of its operations, the changes in its net assets, and its financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE

Boston, Massachusetts

December 17, 1993

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ADDRESSES

<TABLE>

<S>	<C> Stock and Bond Fund, Inc.	<C> Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser	Federated Management	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian	State Street Bank and Trust Company	P.O. Box 8604 Boston, Massachusetts 02266-8604
Transfer Agent and Dividend Disbursing Agent	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Legal Counsel	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222
Legal Counsel	Dickstein, Shapiro & Morin	2101 L Street, N.W. Washington, D.C. 20037
Independent Auditors	Deloitte & Touche	125 Summer Street Boston, Massachusetts 02110-1617

</TABLE>

STOCK AND BOND FUND, INC.
CLASS A SHARES
PROSPECTUS

An Open-End, Diversified
Management Investment Company

December 31, 1993

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER

PITTSBURGH, PA 15222-3779

8012905A-A (12/93)

STOCK AND BOND FUND, INC.

[FORMERLY, FEDERATED STOCK AND BOND FUND, INC.]

COMBINED STATEMENT OF ADDITIONAL INFORMATION

This Combined Statement of Additional Information should be read with the respective prospectus for Class A Shares and Class C Shares of Stock and Bond Fund, Inc. (the "Fund"), dated December 31, 1993. This Combined Statement is not a prospectus itself. To receive a copy of either prospectus, write or call the Fund.

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779

Statement dated December 31, 1993

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

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GENERAL INFORMATION ABOUT THE FUND

The Fund was incorporated under the laws of the State of Maryland on October 31, 1934. The name of the Fund was Boston Foundation Fund Incorporated prior to January 11, 1985. On April 16, 1993, the shareholders voted to change the name of the Fund from Federated Stock and Bond Fund, Inc., to Stock and Bond Fund, Inc., and to permit the Fund to offer separate series and classes of shares.

Shares of the Fund are offered in two classes, Class A Shares and Class C Shares (individually and collectively referred to as "Shares" as the context may require). The Fund does not presently offer Class B Shares. This Combined Statement of Additional Information relates to both classes of the above-mentioned Shares.

INVESTMENT OBJECTIVES AND POLICIES

The Fund's investment objectives are to provide relative safety of capital with the possibility of long-term growth of capital and income. Consideration is also given to current income. The investment objectives cannot be changed without approval of shareholders.

As a matter of investment policy, under normal circumstances, the Fund will invest at least 65% of its total assets in stocks and bonds.

TYPES OF INVESTMENTS

The Fund invests primarily in a diversified portfolio of common and preferred stocks and other equity securities, bonds, notes, U.S. government securities, repurchase agreements, short-term obligations and instruments secured by any of these obligations.

OBLIGATIONS OF FOREIGN ISSUERS

Obligations of a foreign issuer may present greater risks than investments in U.S. securities, including higher transaction costs as well as the imposition of additional taxes by foreign governments. In addition, investments in foreign issuers may include additional risks associated with less complete financial information about the issuers, less market liquidity, and political instability. Future political and economic developments, the possible imposition of withholding taxes on interest income, the possible seizure or nationalization of foreign holdings, the possible establishment of exchange controls, or the adoption of other governmental restrictions might adversely affect the payment of principal and interest on obligations of foreign issuers. As a matter of practice, the Fund will not invest in the obligations of a foreign issuer if any such risk appears to the Fund's adviser to be substantial.

TEMPORARY INVESTMENTS

The Fund may also invest in temporary investments from time to time for defensive purposes.

MONEY MARKET INSTRUMENTS

The Fund may invest in money market instruments such as:

- instruments of domestic and foreign banks and savings and loans if they

have capital, surplus, and undivided profits of over \$100,000,000, or if the principal amount of the instrument is federally insured; or

- commercial paper rated A-1 by Standard and Poor's Corporation, Prime-1 by Moody's Investors Service, Inc., or F-1 by Fitch Investors Service, Inc.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

These transactions are made to secure what is considered to be an advantageous price and yield for the Fund. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices.

No fees or other expenses, other than normal transaction costs, are incurred. However, liquid assets of the Fund sufficient to make payment for securities to be purchased are segregated at the trade date. These securities are marked to market daily and are maintained until the transaction is settled.

The Fund may engage in these transactions to an extent that would cause the segregation of an amount up to 20% of the total value of its assets.

LENDING PORTFOLIO SECURITIES

The collateral received when the Fund lends portfolio securities must be valued daily and, should the market value of the loaned securities increase, the borrower must furnish additional collateral to the Fund. During the time portfolio securities are on loan, the borrower pays the Fund any dividends or interest paid on such securities. Loans are subject to termination at the option of the Fund or the borrower. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or equivalent collateral to the borrower or placing broker. The Fund does not have the right to vote securities on loan, but would terminate the loan and regain the right to vote if that were considered important with respect to the investment.

REVERSE REPURCHASE AGREEMENTS

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

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

RESTRICTED AND ILLIQUID SECURITIES

The Fund may invest in commercial paper issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933. Section 4(2) commercial paper is restricted as to disposition under federal securities law and is generally sold to institutional investors, such as the Fund, who agree that they are purchasing the paper for investment purposes and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) commercial paper is normally resold to other institutional investors like the Fund through or with the assistance of the issuer or investment dealers who make a market in Section 4(2) commercial paper, thus providing liquidity.

The ability of the Directors to determine the liquidity of certain restricted securities is permitted under a Securities and Exchange Commission ("SEC") Staff position set forth in the adopting release for Rule 144A under the Securities Act of 1933 (the "Rule"). The Rule is a nonexclusive safe-harbor for certain secondary market transactions involving securities subject to restrictions on resale under federal securities laws. The Rule provides an exemption from registration for resales of otherwise restricted securities to qualified institutional buyers. The Rule was expected to further enhance the liquidity of the secondary market for securities eligible for resale under the Rule. The Fund believes that the Staff of the SEC has left the question of determining the liquidity of all restricted securities to the Directors. The Directors may consider the following criteria in determining the liquidity of certain restricted securities:

- - the frequency of trades and quotes for the security;
- - the number of dealers willing to purchase or sell the security and the number of other potential buyers;
- - dealer undertakings to make a market in the security; and
- - the nature of the security and the nature of the marketplace trades.

PORTFOLIO TURNOVER

The Fund normally holds or disposes of portfolio securities in order to work toward its investment objectives. Securities held by the Fund are selected because they are considered to represent real value and will be held or disposed of accordingly. The Fund's investment adviser will not generally seek profits through short-term trading.

The Fund will not attempt to set or meet a portfolio turnover rate since any turnover would be incidental to transactions undertaken in an attempt to achieve the Fund's investment objective. For the fiscal years ended October 31, 1993, and 1992, the portfolio turnover rates were 51% and 43%, respectively.

INVESTMENT LIMITATIONS

SELLING SHORT AND BUYING ON MARGIN

The Fund will not sell any securities short or purchase any securities on margin.

ISSUING SENIOR SECURITIES AND BORROWING MONEY

The Fund will not issue senior securities, except as permitted by its investment objective and policies, and except that the Fund may enter into reverse repurchase agreements and otherwise borrow up to one-third of the value of its net assets including the amount borrowed, as a temporary, extraordinary or emergency measure or to facilitate management of the portfolio by enabling the Fund to meet redemption requests when the liquidation of portfolio instruments would be inconvenient or disadvantageous. This practice is not for investment leverage. The Fund will not purchase any portfolio instruments while any borrowings (including reverse repurchase agreements) are outstanding.

DIVERSIFICATION OF INVESTMENTS

The Fund will not invest more than 5% of the value of its total assets in the securities of any one issuer, except U.S. government securities; invest in more than 10% of the voting securities of one issuer; or invest in more than 10% of any class of securities of one issuer.

ACQUIRING SECURITIES

The Fund will not invest in securities issued by any other investment company or investment trust except in regular open-market transactions or as part of a plan of merger or consolidation. It will not invest in securities of a company for the purpose of exercising control or management.

INVESTING IN NEW ISSUERS

The Fund will not invest more than 5% of the value of its total assets in securities of issuers which have records of less than three years of continuous operations.

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

The Fund will not purchase or retain the securities of any issuer in which the officers and Directors of the Fund or its investment adviser own a substantial financial interest.

INVESTING IN COMMODITIES, COMMODITY CONTRACTS, OR REAL ESTATE

The Fund will not invest in commodities, commodity contracts, or real estate.

UNDERWRITING

The Fund will not engage in underwriting or agency distribution of securities issued by others.

LENDING CASH OR SECURITIES

The Fund will not lend any assets except portfolio securities. The purchase of corporate or government bonds, debentures, notes or other evidences of indebtedness shall not be considered a loan for purposes of this limitation.

CONCENTRATION OF INVESTMENTS

The Fund will not invest more than 25% of the value of its total assets in securities of companies in any one industry.

INVESTING IN WARRANTS

The Fund will not invest more than 5% of its assets in warrants, including those acquired in units or attached to other securities. To comply with certain state restrictions, the Fund will limit its investment in such warrants not listed on recognized stock exchanges to 2% of its total assets. (If state restrictions change, this latter restriction may be revised without notice to shareholders.) For purposes of this investment restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

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

INVESTING IN RESTRICTED SECURITIES

The Fund will not invest more than 10% of its total assets in securities subject to restrictions on resale under the Securities Act of 1933, except for commercial paper issued under Section 4(2) of the Securities Act of 1933 and certain other restricted securities which meet the criteria for liquidity as established by the Directors. To comply with certain state restrictions, the Fund will limit these transactions to 5% of its total assets. (If state restrictions change, this latter restriction may be revised without shareholder approval or notification.)

INVESTING IN ILLIQUID SECURITIES

The Fund will not invest more than 15% of its net assets in illiquid securities, including repurchase agreements providing for settlement more than seven days after notice and certain restricted securities not determined by the Directors to be liquid. To comply with certain state restrictions, the Fund will limit these transactions to 10% of its net assets. (If state restrictions change, this latter restriction may be revised without shareholder approval or notification.)

If a percentage limitation is adhered to at the time of investment, a later increase or decrease in percentage resulting from any change in value or net assets will not result in a violation of such restriction.

The Fund did not borrow money or lend portfolio securities in excess of 5% of the value of its net assets during the last fiscal year and has no present intent to do so in the coming fiscal year.

In addition, to comply with certain state restrictions, the Fund will not invest in oil, gas, or other mineral leases, nor will it invest in real estate limited partnerships. If state restrictions change, these limitations may be revised without notice to shareholders.

FUND MANAGEMENT

OFFICERS AND DIRECTORS

Officers and Directors are listed with their addresses, principal occupations, and present positions, including any affiliation with Federated Management, Federated Investors, Federated Securities Corp., Federated Administrative Services, Inc., or the Funds (as defined below).

<TABLE>
<CAPTION>

NAME AND ADDRESS <S> <C>	POSITIONS WITH THE FUND <C>	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS <C>
John F. Donahue+* Federated Investors Tower Pittsburgh, PA	President and Director	Chairman and Trustee, Federated Investors; Chairman and Trustee, Federated Advisers, Federated Management, and Federated Research; Director, Aetna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds; formerly, Director, The Standard Fire Insurance Company. Mr. Donahue is the father of J. Christopher Donahue, Vice

President of the Fund.

John T. Conroy, Jr. Wood/IPC Commercial Department John R. Wood and Associates, Inc., Realtors 3255 Tamiami Trail North Naples, FL	Director	President, Investment Properties Corporation; Senior Vice-President, John R. Wood and Associates, Inc., Realtors; President, Northgate Village Development Corporation; General Partner or Trustee in private real estate ventures in Southwest Florida; Director, Trustee, or Managing General Partner of the Funds; formerly, President, Naples Property Management, Inc.
William J. Copeland One PNC Plaza 23rd Floor Pittsburgh, PA	Director	Director and Member of the Executive Committee, Michael Baker, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman and Director, PNC Bank, N.A., and PNC Bank Corp. and Director, Ryan Homes, Inc.
James E. Dowd 571 Hayward Mill Road Concord, MA	Director	Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Director, Blue Cross of Massachusetts, Inc.
Lawrence D. Ellis, M.D. 3471 Fifth Avenue Suite 1111 Pittsburgh, PA	Director	Hematologist, Oncologist, and Internist, Presbyterian and Montefiore Hospitals; Clinical Professor of Medicine and Trustee, University of Pittsburgh; Director, Trustee, or Managing General Partner of the Funds.
Edward L. Flaherty, Jr.+ 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Director, Eat'N Park Restaurants, Inc., and Statewide Settlement Agency, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Counsel, Horizon Financial, F.A., Western Region.
Peter E. Madden 225 Franklin Street Boston MA	Director	Consultant; State Representative, Commonwealth of Massachusetts; Trustee, Lahey Clinic Foundation, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly President, State Street Bank and Trust Company and State Street Boston Corporation and Trustee, Lahey Clinic Foundation, Inc.
Gregor F. Meyer 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Chairman, Meritcare, Inc.; Director, Eat'N Park Restaurants, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman, Horizon Financial, F.A.

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS <S> <C>	POSITIONS WITH THE FUND <C>	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS <C>
Wesley W. Posvar 1202 Cathedral of Learning University of Pittsburgh Pittsburgh, PA	Director	Professor, Foreign Policy and Management Consultant; Trustee, Carnegie Endowment for International Peace, RAND Corporation, Online Computer Library Center, Inc., and U.S. Space Foundation; Chairman, National Advisory Council for Environmental Policy and Technology; Chairman, Czecho Slovak Management Center; Director, Trustee, or Managing General Partner of the Funds; President Emeritus, University of Pittsburgh; formerly, Chairman, National Advisory Council for Environmental Policy and Technology.
Marjorie P. Smuts 4905 Bayard Street Pittsburgh, PA	Director	Public relations/marketing consultant; Director, Trustee, or Managing General Partner of the Funds.
J. Christopher Donahue Federated Investors Tower Pittsburgh, PA	Vice President	President and Trustee, Federated Investors; Trustee, Federated Advisers, Federated Management, and Federated Research; President and Director, Federated Administrative Services, Inc.; President or Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds. Mr. Donahue is the son of John F. Donahue, President and Director of the Fund.
Richard B. Fisher Federated Investors Tower Pittsburgh, PA	Vice President	Executive Vice President and Trustee, Federated Investors; Chairman and Director, Federated Securities Corp.; President or Vice President of the Funds; Director or Trustee of some of the Funds.
Edward C. Gonzales Federated Investors Tower Pittsburgh, PA	Vice President and Treasurer	Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Chairman, Treasurer, and Director, Federated Administrative Services, Inc.; Trustee or Director of some of the Funds;

Vice President and Treasurer of the Funds.

John W. McGonigle Federated Investors Tower Pittsburgh, PA	Vice President and Secretary	Vice President, Secretary, General Counsel, and Trustee, Federated Investors; Vice President, Secretary, and Trustee, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Secretary, and Director, Federated Administrative Services, Inc.; Director and Executive Vice President, Federated Securities Corp.; Vice President and Secretary of the Funds.
John A. Staley, IV Federated Investors Tower Pittsburgh, PA	Vice President	Vice President and Trustee, Federated Investors; Executive Vice President, Federated Securities Corp.; President and Trustee, Federated Advisers, Federated Management, and Federated Research; Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds; formerly, Vice President, The Standard Fire Insurance Company and President of its Federated Research Division.

</TABLE>

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

+ Member of the Executive Committee. The Executive Committee of the Board of Directors handles the responsibilities of the Board of Directors between meetings of the Board.

THE FUNDS

"The Funds" and "Funds" mean the following investment companies: A.T. Ohio Tax-Free Money Fund; American Leaders Fund, Inc.; Annuity Management Series; Automated Cash Management Trust; Automated Government Money Trust; The Boulevard Funds; California Municipal Cash Trust; Cash Trust Series II; Cash Trust Series, Inc.; DG Investor Series; Edward D. Jones & Co. Daily Passport Cash Trust; FT Series, Inc.; Federated ARMS Fund; Federated Exchange Fund, Ltd.; Federated GNMA Trust; Federated Government Trust; Federated Growth Trust; Federated High Yield Trust; Federated Income Securities Trust; Federated Income Trust; Federated Index Trust; Federated Intermediate Government Trust; Federated Master Trust; Federated Municipal Trust; Federated Short-Intermediate Government Trust; Federated Short-Term U.S. Government Trust; Federated Stock Trust; Federated Tax-Free Trust; Federated U.S. Government Bond Fund; First Priority Funds; Fixed Income Securities, Inc.; Fortress Adjustable Rate U.S. Government Fund, Inc.; Fortress Municipal Income Fund, Inc.; Fortress Utility Fund, Inc.; Fund for U.S. Government Securities, Inc.; Government Income Securities, Inc.; High Yield Cash Trust; Intermediate Municipal Trust; Investment Series Funds, Inc.; Investment Series Trust; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Municipal Securities Fund, Inc.; Liberty Term Trust, Inc.-1999; Liberty U.S. Government Money Market Trust; Liberty Utility Fund, Inc.; Liquid Cash Trust; Mark Twain Funds; Money Market Management, Inc.; Money Market Obligations Trust; Money Market Trust; Municipal Securities Income Trust; New York Municipal Cash Trust; 111 Corcoran Funds; The Planters Funds; Portage Funds; RIMCO Monument Funds; The Shawmut Funds; Short-Term Municipal Trust; Signet Select Funds; Star Funds; The Starburst Funds; The Starburst Funds II; Stock and Bond Fund, Inc.; Targeted Duration Trust; Tax-Free Instruments Trust; Trademark Funds; Trust for Financial Institutions; Trust for Government Cash Reserves; Trust for Short-Term U.S. Government Securities; and Trust for U.S. Treasury Obligations.

FUND OWNERSHIP

Officers and Directors own less than 1% of the Fund's outstanding shares.

As of November 29, 1993, the following shareholder of record owned 5% or more of the outstanding Class A Shares of the Fund: Systematics, Inc., Denver, Colorado, owned approximately 682,560 Class A Shares (9.2%).

As of November 29, 1993, the following shareholder of record owned 5% or more of the outstanding Class C Shares of the Fund: Donaldson Lufkin Jenrette Securities Corporation Inc., Jersey City, New Jersey, owned approximately 477 Class C Shares (7.1%); State Street Bank and Trust Company, as custodian for the rollover IRA of Sandra N. Hartley, Warwick, Rhode Island, owned approximately 496 Class C Shares (7.3%); Edward D. Jones & Co., as custodian for the account of Charles S. Inkster, Jr., owned approximately 536 Class C Shares (7.9%); Edward D. Jones & Co., as custodian for the account of William G. Bensberg, Maryland Heights, Missouri, owned approximately 599 Class C Shares (8.9%); Edward D. Jones & Co., for the account of Geneva M. Waithall and Durwin Urserly, Maryland Heights, Missouri, owned approximately 656 Class C Shares (9.7%); Edward D. Jones & Co., as custodian for the account of J. W. Carney M.D., P.A., Employees Retirement Plan, Maryland Heights, Missouri, owned approximately 789 Class C Shares (11.07%); and State Street Bank and Trust Company, as custodian for the IRA of Thomas J. Masso, North Providence, Rhode Island, owned approximately 1,488 Class C Shares (22.0%).

INVESTMENT ADVISORY SERVICES

ADVISER TO THE FUND

The Fund's investment adviser is Federated Management. It is a subsidiary of Federated Investors. All the voting securities of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, his wife, and his son, J. Christopher Donahue. John F. Donahue is Chairman and Trustee of Federated Management; Chairman and Trustee, Federated Investors; and President and Director of the Fund. John A. Staley, IV, is President of Federated Management; Vice President and Trustee, Federated Investors; Executive Vice President, Federated Securities Corp.; and Vice President of the Fund. J. Christopher Donahue is Trustee of Federated Management; President and Trustee, Federated Investors; President and Director, Federated Administrative Services, Inc.; and Vice President of the Fund. John W. McGonigle is Trustee of Federated Management; Trustee, Vice President, Secretary, and General Counsel, Federated Investors; Director, Executive Vice President, and Secretary, Federated Administrative Services, Inc.; Executive Vice President and Director, Federated Securities Corp.; and Vice President and Secretary of the Fund.

The adviser shall not be liable to the Fund or any shareholder for any losses that may be sustained in the purchase, holding, or sale of any security or for anything done or omitted by it, except acts or omissions involving willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties imposed upon it by its contract with the Fund.

ADVISORY FEES

For its advisory services, Federated Management receives an annual investment advisory fee as described in the prospectus. During the fiscal years ended October 31, 1993, 1992, and 1991, the Fund's adviser earned \$834,842, \$726,717, and \$704,002, respectively, of which \$222,090, \$196,556, and \$383,665, respectively, was voluntarily waived because of undertakings to limit the Fund's expenses. All advisory fees were computed on the same basis as described in the prospectus.

STATE EXPENSE LIMITATIONS

The adviser has undertaken to comply with the expense limitations established by certain states for investment companies whose shares are registered for sale in those states. If the Fund's normal operating expenses (including the investment advisory fee, but not including brokerage commissions, interest, taxes and extraordinary expenses) exceed 2 1/2% per year of the first \$30 million of average net assets, 2% per year of the next \$70 million of average net assets, and 1 1/2% per year of the remaining average net assets, the adviser will reimburse the Fund for its expenses over the limitation.

If the Fund's monthly projected operating expenses exceed this limitation, the investment advisory fee paid will be reduced by the amount of the excess, subject to an annual adjustment. If the expense limitation is exceeded, the amount to be reimbursed by the adviser will be limited, in any single fiscal year, by the amount of the investment advisory fee.

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

OTHER RELATED SERVICES

Affiliates of the adviser may, from time to time, provide certain electronic equipment and software to institutional customers in order to facilitate the purchase of shares of funds offered by Federated Securities Corp.

SHAREHOLDER SERVICES PLAN (CLASS C SHARES ONLY)

The Fund has adopted a Shareholder Services Plan (the "Services Plan") with respect to Class C Shares of the Fund. Pursuant to the Services Plan, financial institutions will enter into shareholder service agreements with the Fund to provide administrative support services to their customers who from time to time may be owners of record or beneficial owners of Class C Shares of the Fund. In return for providing these support services, a financial institution may receive payments from Class C Shares at a rate not exceeding 0.25% of the average daily net assets of Class C Shares beneficially owned by the financial institution's customers for whom it is holder of record or with whom it has a servicing relationship. The Services Plan is designed to stimulate financial institutions to render administrative support services to the Fund and its shareholders. These administrative support services include, but are not limited to, the following functions: providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as is

necessary or beneficial to establish and maintain shareholders' accounts and records, processing purchase and redemption transactions and automatic investments to client account cash balances, answering routine client inquiries regarding Class C Shares, assisting clients in changing dividend options, account designations, and addresses, and providing such other services as the Fund may reasonably request.

Among the benefits the directors expect to achieve in adopting the Services Plan are the following: (1) an efficient and effective administrative system; (2) a more efficient use of shareholder assets by having them rapidly invested in Class C Shares, through an automatic transfer of funds from a demand deposit account to an investment account, with a minimum of delay and administrative detail; and (3) an efficient and reliable shareholder records system and prompt responses to shareholder requests and inquiries concerning their accounts.

In addition to receiving payments under the Services Plan, financial institutions may be compensated by the investment adviser and/or the administrator, or affiliates thereto, for providing administrative support services to holders of Class C Shares of the Fund. These payments will be made directly by the investment adviser and/or the administrator and will not be made from the assets of the Class C Shares of the Fund.

During the period from April 17, 1993 (date of initial public offering) to October 31, 1993, Class C Shares incurred shareholder service fees under the Services Plan (all of which was received by the distributor) in the amount of \$24.

ADMINISTRATIVE SERVICES

Federated Administrative Services, Inc., a subsidiary of Federated Investors, provides administrative personnel and services to the Fund at approximate cost. For the fiscal years ended October 31, 1993, 1992, and 1991, the Fund incurred costs for administrative services of \$291,137, \$229,879, and \$340,071, respectively. John A. Staley, IV, an officer of the Fund, and Dr. Henry J. Gailliot, an officer of Federated Management, the adviser to the Fund, hold

approximately 15% and 20%, respectively, of the outstanding common stock and serve as Directors of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services, Inc. For the fiscal years ended October 31, 1993, 1992, and 1991, Federated Administrative Services, Inc., paid approximately \$165,431, \$189,741, and \$187,677, respectively, for services provided by Commercial Data Services, Inc.

ADMINISTRATIVE ARRANGEMENTS (CLASS A SHARES)

The administrative services include, but are not limited to, providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as is necessary or beneficial to establish and maintain shareholders' accounts and records, process purchase and redemption transactions, process automatic investments of client account cash balances, answer routine client inquiries regarding the Fund, assist clients in changing dividend options, account designations, and addresses, and providing such other services as the Fund may reasonably request.

BROKERAGE TRANSACTIONS

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

- - advice as to the advisability of investing in securities;
- - security analysis and reports;
- - economic studies;
- - industry studies;
- - receipt of quotations for portfolio evaluations; and
- - similar services.

The adviser and its affiliates exercise reasonable business judgment in selecting brokers who offer brokerage and research services to execute securities transactions. They determine in good faith that commissions charged

by such persons are reasonable in relationship to the value of the brokerage and research services provided.

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

For the fiscal years ended October 31, 1993, 1992, and 1991, the Fund paid \$69,262, \$44,963, and \$54,357, respectively, in brokerage commissions on brokerage transactions.

PURCHASING SHARES

Shares are sold at their net asset value without a sales charge on days the New York Stock Exchange is open for business. The procedure for purchasing Shares is explained in the respective prospectus under "Investing in Class A Shares" and "Investing in Class C Shares."

DISTRIBUTION PLAN (CLASS C SHARES)

With respect to the Class C Shares, the Fund has adopted a distribution plan pursuant to Rule 12b-1 which was promulgated by the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 (the "Plan"). The Plan provides for payment of fees to Federated Securities Corp. to finance any activity which is principally intended to result in the sale of the Fund's Shares subject to the Plan. Such activities may include the advertising and marketing of Shares of the Fund; preparing, printing, and distributing prospectuses and sales literature to prospective shareholders, brokers, or administrators; and implementing and operating the Plan. Pursuant to the Plan, Federated Securities Corp. may pay fees to financial institutions, fiduciaries, custodians for public funds, investment advisers, and brokers for distribution and administrative services and to administrators for administrative services provided as to Shares. The administrative services are provided by a representative who has knowledge of the shareholder's particular circumstances and goals, and include, but are not limited to: communicating account openings; communicating account closings; entering purchase transactions; entering redemption transactions; providing or arranging to provide accounting support for all transactions; wiring funds and receiving funds for Share purchases and redemptions; confirming and reconciling all transactions; reviewing the activity in Fund accounts and providing training and supervision of broker personnel; posting and reinvesting dividends to Fund accounts or arranging for this service to be performed by the Fund's transfer agent; and maintaining and distributing current copies of prospectuses and shareholder reports to the beneficial owners of Shares and prospective shareholders.

The Board of Directors expect that the adoption of the Plan will result in the sale of a sufficient number of Shares so as to allow the Fund to achieve economic viability. It is also anticipated that an increase in the size of the Fund will facilitate more efficient portfolio management and assist the Fund in seeking to achieve its investment objectives.

CONVERSION TO FEDERAL FUNDS

The Fund's transfer agent acts as the shareholder's agent in depositing checks and converting them to federal funds.

DETERMINING NET ASSET VALUE

Net asset value generally changes each day. The days on which net asset value is calculated by the Fund are described in the prospectus.

DETERMINING MARKET VALUE OF SECURITIES

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

- - for equity securities, according to the last sale price on a national securities exchange, if available;
- - in the absence of recorded sales for equity securities, according to the mean between the last closing bid and asked prices;
- - for bonds and other fixed income securities, at the last sale price on a national securities exchange if available, otherwise as determined by an independent pricing service;

- - for short-term obligations, according to the mean between the bid and asked prices as furnished by an independent pricing service; or

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

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

REDEEMING SHARES

The Fund redeems Shares at the next computed net asset value after the Fund receives the redemption request. Redemption procedures and any fees are explained in the respective prospectus under "Redeeming Class A Shares" and "Redeeming Class C Shares." Although the Fund's transfer agent does not charge for telephone redemptions, it reserves the right to charge a fee for the cost of wire-transferred redemptions of less than \$5,000.

REDEMPTION IN KIND

The Fund is obligated to redeem Shares solely in cash up to \$250,000 or 1% of the Fund's net asset value, whichever is less, for any one shareholder within a 90-day period.

Any redemption beyond this amount will also be in cash unless the Board of Directors determines that payments should be in kind. In such a case, the Fund will pay all or a portion of the remainder of the redemption in portfolio instruments, valued in the same way that net asset value is determined. The portfolio instruments will be selected in a manner that the Board of Directors deem fair and equitable.

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

TAX STATUS

THE FUND'S TAX STATUS

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

- - derive at least 90% of its gross income from dividends, interest, and gains from the sale of securities;
- - derive less than 30% of its gross income from the sale of securities held less than three months;
- - invest in securities within certain statutory limits; and
- - distribute to its shareholders at least 90% of its net income earned during the year.

SHAREHOLDERS' TAX STATUS

Shareholders are subject to federal income tax on dividends and capital gains received as cash or additional Shares. The dividends received deduction for corporations will apply to ordinary income distributions to the extent the

distribution represents amounts that would qualify for the dividends received deduction to the Fund if the Fund were a regular corporation and to the extent designated by the Fund as so qualifying. These dividends and any short-term capital gains are taxable as ordinary income.

CAPITAL GAINS

Long-term capital gains distributed to shareholders will be treated as long-term capital gains regardless of how long shareholders have held the Shares.

TOTAL RETURN

Prior to the creation of separate classes of Shares, the Fund's average annual total returns for the one-year, five-year, and ten-year periods ended October 31, 1992, were 7.94%, 8.84% and 12.35%, respectively. The total return for Class A, for the year ended October 31, 1993, was 14.10% and Class C, for the period from April 19, 1993 to October 31, 1993 was 4.54%.

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

YIELD

The Fund's yield for Class A Shares for the thirty-day period ended October 31, 1993, was 2.56%. The yield for Class C Shares was 1.56% for the same period.

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

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

PERFORMANCE COMPARISONS

The performance of both classes of Shares depends upon such variables as:

- - portfolio quality;
- - average portfolio maturity;
- - type of instruments in which the portfolio is invested;
- - changes in interest rates and market value of portfolio securities;
- - changes in the Fund's or either class of Share's expenses; and
- - various other factors.

The Fund's performance fluctuates on a daily basis largely because net earnings and offering price per Share fluctuate daily. Both net earnings and offering price per Share are factors in the computation of yield and total return.

From time to time the Fund may advertise the performance of both classes of Shares compared to similar funds or portfolios using certain indices, reporting services, and financial publications. These may include the following:

- - STANDARD & POOR'S DAILY STOCK PRICE INDEX OF 500 COMMON STOCKS is a composite index of common stocks in industry, transportation, and financial and public utility companies, compares total returns of funds whose portfolios are invested primarily in common stocks. In addition, Standard and Poor's index assumes reinvestment of all dividends paid by stocks listed on its index. Taxes due on any of these distributions are not included nor are brokerage or other fees calculated in Standard & Poor's figures.

- - SALOMON BROTHERS AAA-AA CORPORATES calculates total returns of approximately 775 issues, which include long-term, high-grade domestic corporate taxable bonds, rated AAA-AA, with maturities of twelve years or more. It also includes companies in industry, public utilities, and finance.

- - LIPPER ANALYTICAL SERVICES, INC., ranks funds in various categories by making comparative calculations using total return. Total return assumes the reinvestment of all capital gains distributions and income dividends and takes into account any change in net asset value over a specific period of time.

From time to time, the Fund will quote its Lipper ranking in advertising and sales literature.

- - SHEARSON LEHMAN GOVERNMENT/CORPORATE (TOTAL) is comprised of approximately 5,000 issues which include non-convertible bonds publicly issued by the U.S. government or its agencies; corporate bonds guaranteed by the U.S. government and quasi-federal corporations; and publicly issued, fixed rate, non-convertible domestic bonds of companies in industry, public utilities, and finance. The average maturity of these bonds approximates nine years. Tracked by Shearson Lehman Brothers, Inc., the index calculates total returns for one-month, three-month, twelve-month, and ten-year periods and year-to-date.
- - S&P 500/SHEARSON LEHMAN GOVERNMENT/CORPORATE (WEIGHTED INDEX) AND THE S&P 500/SHEARSON LEHMAN GOVERNMENT (WEIGHTED INDEX) combine the components of a stock-oriented index and a bond-oriented index to obtain results which can be compared to the performance of a managed fund. The indices' total returns will be assigned various weights depending upon the Fund's current asset allocation.
- - MORNINGSTAR, INC., an independent rating service, is the publisher of the bi-weekly Mutual Fund Values. Mutual Fund Values rates more than 1,000 NASDAQ-listed mutual funds of all types, according to their risk-adjusted returns. The maximum rating is five stars, and ratings are effective for two weeks.

Investors may also consult the fund evaluation consulting universe listed below. Consulting universes may be composed of pension, profit-sharing, commingled, endowment/foundation and mutual funds.

- - SEI BALANCED UNIVERSE is composed of 916 portfolios managed by 390 managers representing \$86 billion in assets. To be included in the universe, a portfolio must contain a 5% minimum commitment in both equity and fixed-income securities.

Investors may use indices and reporting services in addition to either class of Share's prospectus to obtain a more complete view of the Share's performance before investing. Of course, when comparing performance of either class of Shares to any index, conditions such as composition of the index and prevailing market conditions should be considered in assessing the significance of such comparisons.

When comparing funds using reporting services, or total return and yield, investors should take into consideration any relevant differences in funds such as permitted portfolio compositions and methods used to value portfolio securities and compute the offering price.

Advertisements and other sales literature for both classes of Shares may quote total returns which are calculated on non-standardized base periods. These total returns also represent the historic change in the value of an investment in either class of Shares based on quarterly reinvestment of dividends over a specified period of time.

DURATION

Duration is a commonly used measure of the potential volatility in the price of a bond, other fixed income security, or in a portfolio of fixed income securities, prior to maturity. Volatility is the magnitude of the change in the price of a bond relative to a given change in the market rate of interest. A bond's price volatility depends on three primary variables: the bond's coupon rate; maturity date; and the level of market yields of similar fixed-income securities. Generally, bonds with lower coupons or longer maturities will be more volatile than bonds with higher coupons or shorter maturities. Duration combines these variables into a single measure.

Duration is calculated by dividing the sum of the time-weighted values of the cash flows of a bond or bonds, including interest and principal payments, by the sum of the present values of the cash flows.

When the Fund invests in mortgage pass-through securities, its duration will be calculated in a manner which requires assumptions to be made regarding future capital prepayments. A more complete description of this calculation is available upon request from the Fund.

APPENDIX

STANDARD AND POOR'S CORPORATION CORPORATE BOND RATINGS

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

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

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

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.

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

MOODY'S INVESTORS SERVICE, INC., CORPORATE BOND RATINGS

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

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

A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment 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. Such bonds lack outstanding investment characteristics and, in fact, have speculative characteristics as well.

NR--Not rated by Moody's.

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

FITCH INVESTORS SERVICE, INC., LONG-TERM DEBT RATINGS

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

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

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

BBB--Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds and, therefore, impair timely payment.

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

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

STANDARD AND POOR'S CORPORATION COMMERCIAL PAPER RATINGS

A-1--This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to

possess overwhelming safety characteristics are denoted with a plus (+) sign designation.

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

MOODY'S INVESTORS SERVICE, INC., COMMERCIAL PAPER RATINGS

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

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

FITCH INVESTORS SERVICE, INC., SHORT-TERM RATINGS

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

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

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

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