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UNITED VANGUARD FUND INC

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UNITED VANGUARD FUND, INC.

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December 31, 1993

PROSPECTUS

United Vanguard Fund, Inc. (the "Fund") is a management investment company which seeks the appreciation of your investment through a diversified holding of securities issued primarily by companies which the Fund's Manager, Waddell & Reed Investment Management Company (the "Manager"), believes have appreciation possibilities and through proper timing of purchases and sales of securities.

This Prospectus contains concise information about the Fund of which you should be aware before investing. Additional information has been filed with the Securities and Exchange Commission and is contained in a Statement of Additional Information (the "SAI"), dated December 31, 1993. You may obtain a copy of the SAI free of charge by request to the Fund or its Underwriter, Waddell & Reed, Inc., at the address or telephone number shown below. The SAI is incorporated by reference into this Prospectus and you will not be aware of all facts unless you read both this Prospectus and the SAI.

Retain This Prospectus For Future Reference

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.

This supplement is required by the Office of the Commissioner of Securities of the State of Wisconsin

The security offered hereby may be considered to be speculative due to the Fund's ability to engage in short-term trading which may result in a high rate of portfolio turnover and correspondingly greater commission expenses and transaction costs.

To be attached on the front cover of United Vanguard Fund, Inc. prospectus

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UNITED VANGUARD FUND, INC.
Summary of Expenses

Shareholder Transaction Expenses
- --------------------------------

Maximum Sales Load Imposed on Purchases (as a percentage of offering price)	5.75%
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 Fees (as a percentage of amount redeemed, if applicable)	None
Exchange Fee	None

Annual Fund Operating Expenses
- ------------------------------
(as a percentage of average net assets)

Management Fees	0.72%

12b-1 Service Fees*	0.25%
Other Expenses** (Includes, among other expenses, transfer agency, accounting, custodian, audit and legal fees)	0.25%
Total Fund Operating Expenses***	1.22%

Example	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:	$69	$94	$121	$197

The purpose of this table is to assist investors in understanding the various costs and expenses that an investor in the Fund will bear directly or indirectly. The example should not be considered a representation of past or future expenses. Actual expenses may be greater or less than those shown.

*Expense information reflects the 12b-1 service fee which became effective October 1, 1993, which fee will not exceed .25% of the Fund's average annual net assets. It is possible that long-term shareholders of the Fund may bear 12b-1 fees which are more than the economic equivalent of the maximum front-end sales charge permitted under the rules of the National Association of Securities Dealers, Inc.

**Expense information has been restated to reflect current transfer agency fees which became effective November 1, 1992.

***Expense information has been restated to reflect current transfer agency fees which became effective November 1, 1992 and the current maximum 12b-1 service fee which became effective October 1, 1993.

United Vanguard Fund, Inc.
Financial Highlights*
(Audited)

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

For a Share of Capital Stock Outstanding Throughout Each Period:

<TABLE>
<CAPTION>

	For the fiscal year ended September 30,									
	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$6.03	$6.36	$5.18	$6.91	$5.82	$8.23	$6.92	$5.61	$5.35	$6.85
Income from investment operations:										
Net investment income ...	.04	.06	.14	.17	.22	.14	.16	.17	.25	.30
Net realized and unrealized gain (loss) on investments	1.07	(0.10)	1.39	(0.95)	1.12	(1.00)	2.28	1.34	.30	(0.98)
Total from investment operations	1.11	(0.04)	1.53	(0.78)	1.34	(0.86)	2.44	1.51	.55	(0.68)
Less distributions:										
Dividends from net investment income	(0.04)	(0.09)	(0.14)	(0.22)	(0.18)	(0.18)	(0.16)	(0.20)	(0.29)	(0.20)
Distributions from capital gains	(0.00)	(0.20)	(0.21)	(0.73)	(0.07)	(1.37)	(0.97)	(0.00)	(0.00)	(0.62)
Total distributions	(0.04)	(0.29)	(0.35)	(0.95)	(0.25)	(1.55)	(1.13)	(0.20)	(0.29)	(0.82)
Net asset value, end of period	$7.10	$6.03	$6.36	$5.18	$6.91	$5.82	$8.23	$6.92	$5.61	$5.35
Total return**	18.38%	-0.58%	30.88%	-12.67%	23.69%	-8.52%	40.12%	27.30%	10.56%	-10.40%
Net assets, end of period (000 omitted)	$921,816	$843,978	$875,293	$679,765	$781,650	$659,184	$727,022	$493,844	$386,314	$345,691
Ratio of expenses to average net assets	0.97%	0.96%	0.97%	0.98%	0.95%	1.00%	0.93%	0.98%	1.05%	1.04%
Ratio of net investment income to average										

net assets	0.50%	0.96%	2.28%	2.85%	3.62%	2.39%	2.30%	2.51%	4.47%	5.88%
Portfolio turnover rate***	62.12%	84.82%	173.44%	161.54%	172.59%	128.91%	160.63%	125.52%	160.27%	165.81%

*Per-share and share amounts have been adjusted retroactively to reflect the 3-for-1 stock split effected December 2, 1983.
**Total return calculated without taking into account the sales load deducted on an initial purchase.
***This rate is, in general, calculated by dividing the average value of the Fund's portfolio during the period into the lesser of its purchases or sales in the period, excluding short-term securities. For periods ended prior to April 1, 1985, U.S. Government Securities were excluded from the calculation.

</TABLE>

What is United Vanguard Fund, Inc.?

United Vanguard Fund, Inc. is a corporation organized under Maryland law on February 15, 1974 as successor to a Delaware corporation which commenced operations in 1969. It is an open-end diversified management investment company commonly called a "mutual fund." The Fund has a Board of Directors which has overall responsibility for the management of its affairs. For the names of the Directors and other information about them, see the SAI. The Fund has only one class of shares. Each share has the same rights to dividends and to vote. Shares are fully paid and nonassessable when bought. The Fund does not hold annual meetings of shareholders; however, certain significant corporate matters, such as the approval of a new investment advisory agreement or a change in a fundamental investment policy, which require shareholder approval, will be presented to shareholders at an annual or special meeting called by the Board of Directors for such purpose.

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

Performance Information

From time to time Waddell & Reed, Inc. or the Fund may include performance data in advertisements or in information furnished to present or prospective shareholders. Fund performance may be shown by presenting one or more performance measurements, including total return and performance rankings.

The Fund's total return is its overall change in value for the period shown including the effect of reinvesting dividends and capital gains distributions and any change in the net asset value per share. A cumulative total return reflects the Fund's change in value over a stated period of time. An average annual total return reflects the hypothetical annually compounded return that would have produced the cumulative total return for a stated period if the Fund's performance had been constant during each year of that period. Average annual total returns are not actual year-by-year results and investors should realize that total returns will fluctuate.

Standardized total return figures reflect payment of the maximum sales charge. The Fund may also provide non-standardized performance information which does not reflect deduction of such sales charge, which is for periods other than those required to be presented or which differs otherwise from standardized performance information. See the SAI for further information regarding total return and method of computation.

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

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

Information regarding the performance of the Fund is contained in the Fund's annual report to shareholders, which may be obtained without charge by request to the Fund at the address or phone number shown on the cover of this

Prospectus.

Goal of the Fund

The goal of the Fund is the appreciation of your investment. It tries to achieve this goal through a diversified holding of securities, primarily issued by companies which the Manager believes have appreciation possibilities and by trying to achieve proper timing of purchases and sales relative to market conditions. This goal, the type of securities the Fund may invest in, and the proportion of its assets which may be invested in each such type are matters of fundamental policy and may not be changed without the approval of shareholders. There can be no assurance that the Fund will achieve its goals; some market risks are inherent in all securities to varying degrees.

The Manager will attempt to select securities with appreciation possibilities by looking at many factors. These include: (1) changes in economic and political conditions; (2) the short-term and long-term outlook for the industry being analyzed; (3) the management capability of the company being considered; and (4) the company's market position, product line, technological position and prospects for increased earnings. The Manager will also analyze the demands of investors for the security relative to its price. Securities may be chosen when the Manager anticipates a development which might have an effect on the value of a security. There may be times when a substantial part of the Fund's assets may be invested temporarily for defensive purposes in either debt securities (including commercial paper or short-term U. S. Government Securities) or preferred stocks or both. There are three main kinds of securities that the Fund will own: common stocks, preferred stocks and debt securities.

Investment Policies

As an operating (i.e., nonfundamental) policy, the Fund does not intend to invest in non-investment grade debt securities if as a result of such investment more than 5% of its assets would consist of such investments. See the SAI for a discussion of the risks associated with non-investment grade debt securities.

The Fund may invest up to two percent of its net assets in warrants, which are rights to purchase securities. For the purpose of increasing income the Fund may also purchase securities subject to repurchase agreements (which can be considered as collateralized loans by the Fund) but may not cause more than ten percent of its assets to be subject to repurchase agreements with a maturity of more than seven days. The majority of the repurchase transactions in which the Fund would engage run from day to day, and the delivery pursuant to the resale typically will occur within one to five days of the purchase. The Fund's risk is limited to the ability of the vendor to pay the agreed-upon sum upon the delivery day.

The Fund may purchase an unlimited amount of foreign securities. There are certain risks associated with foreign securities not usually associated with U. S. securities, including the absence of uniform accounting, auditing and financial standards, less government regulation, changes in currency rates and in exchange regulations, and political instability. See the SAI for a discussion of these risks. The Fund may buy shares of other investment companies which do not redeem their shares, subject to the conditions stated in the SAI.

The Fund may also lend its securities for the purpose of realizing income. The Fund will not loan more than 10% of its assets at any one time. The percentage limit and the requirement that such loans be on a collateralized basis in accordance with certain regulatory requirements are fundamental policies which can only be changed by shareholder vote. There are certain risks associated with lending securities in that the Fund may experience delay in recovering the collateral or even loss of the collateral. See the SAI for further discussion of these risks.

The Fund may write (sell) listed covered calls on securities on not more than 10% of its assets and may purchase calls and write and purchase puts on securities. "Covered" means that the Fund owns the securities which are subject to the call or has the right to acquire them without additional payment. The purchaser of a call has the right to purchase from the Fund the securities covered by the call at a fixed price for a fixed period. The Fund has an operating policy which provides that only options on securities which are issued by the Options Clearing Corporation may be purchased or sold except the Fund may write unlisted put options and purchase unlisted put and call options on securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities.

The Fund may write options on securities for the purpose of increasing income in the form of premiums paid by the purchaser of the option. While writing covered calls may increase the Fund's income, the Fund will lose the opportunity to profit from an increase in the price of the security subject to the call over the exercise price. When the Fund writes a put it will maintain designated cash or readily marketable assets adequate to purchase the related investments should the put be exercised. In writing puts, the Fund assumes the risk of loss should the market value of the underlying security decline below the exercise price at which the Fund is obligated to purchase the security. The Fund will write a put only when it has determined that it would be willing to purchase the underlying security at the exercise price.

The Fund may purchase calls to take advantage of an expected rise in the market value of securities which the Fund does not hold in its portfolio and to close positions in calls it has written. It may purchase puts on related investments it owns ("protective puts") or on related investments it does not own ("nonprotective puts"). Buying a protective put permits the Fund to protect itself during the put period against a decline in the value of the related investments below the exercise price by selling them through the exercise of the put. Buying a nonprotective put permits the Fund, if the market price of the related investments is below the put price during the put period, either to resell the put or to buy the related investments and sell them at the exercise price. The Fund may also purchase puts to close positions in puts it has written. If an option purchased by the Fund is not exercised or sold it will become worthless at its expiration date and the Fund will lose the amount of the premium it paid.

The Fund may also, for non-speculative purposes, write and purchase listed options on stock indexes which are not limited to stocks of any industry or group of industries ("broadly-based stock indexes"). It will write options on stock indexes primarily to generate income. It will purchase calls on stock indexes to hedge against an anticipated increase in the price of securities it wishes to acquire and will purchase puts on stock indexes to hedge against an anticipated decline in the market value of its portfolio securities. Because stock index options are settled in cash, the Fund cannot provide in advance for its potential settlement obligations on a call it has written on a stock index by holding the underlying securities. The Fund bears the risk that the value of the securities it holds will vary from the value of the index.

Options offer large amounts of leverage which will result in the Fund's net asset value being more sensitive to changes in the value of the related investment. There is no assurance that a liquid secondary market will exist for exchange-listed options. The market for options which are not listed on an exchange may be less active than the market for exchange-listed options. If the Fund is not able to enter into a closing transaction on an option it has written it will be required to maintain the securities, or cash in the case of an option on a stock index, subject to the call or the collateral underlying the put until a closing purchase transaction can be entered into or the option expires. Option transactions may increase the portfolio turnover rate creating greater commission expenses, transaction costs and certain tax consequences.

The Fund may also buy and sell futures contracts on debt securities ("Debt Futures"), futures contracts on broadly-based stock indexes ("Stock Index Futures") and options on Debt Futures and Stock Index Futures. The Fund will purchase or sell futures contracts only for the purpose of hedging against changes in the market value of its portfolio securities or changes in the market value of securities which the Manager anticipates it may wish to include in the Fund's portfolio. At the present time, the debt securities to which Debt Futures relate are long-term U.S. Treasury Bonds, Treasury Notes, Government National Mortgage Association pass-through mortgage-backed securities and three-month U.S. Treasury Bills. Since futures contracts and options thereon can replicate movements in the cash markets for the securities in which the Fund invests without the large cash investments required for dealing in such markets, they may subject the Fund to greater and more volatile risks than might otherwise be the case. The principal risks related to the use of such instruments are (i) imperfect correlation between movements in the market price of the portfolio investments (held or intended) being hedged and in the price of the futures contract or option; (ii) possible lack of a liquid secondary market for closing out futures or options positions; (iii) the need for additional portfolio management skills and techniques; and (iv) losses due to unanticipated market price movements. For a hedge to be completely effective, the price change of the hedging instrument should equal the price change of the security being hedged. Such equal price changes are not always possible because the investment underlying the hedging instrument may not be the same investment that is being hedged. The Manager will attempt to create a closely correlated hedge but hedging activity may not be completely successful in eliminating market value fluctuation. The ordinary spreads between prices in the cash and futures markets, due to the differences in the natures of those markets, are subject to distortion. Due to the possibility of distortion, a correct forecast of general interest or stock market trends by the Manager may still not result in a successful transaction. The Manager may be incorrect in its expectations as to the extent of various interest rate movements or stock market movements or the time span within which the movements take place. As of the date of this Prospectus, except as to covered call writing, the Fund intends to limit purchase and sale of options and futures contracts to buying and selling broadly-based stock index futures contracts and options thereon for the purpose of hedging not more than 10% of total assets.

The Fund may have a high portfolio turnover. See the Financial Highlights table for past turnover. This results in correspondingly greater commission expenses and transaction costs and may result in certain tax consequences.

Management and Services

Waddell & Reed, Inc. and its predecessors served as investment manager to each of the registered investment companies in the United Group of Mutual Funds since 1940 or the inception of the investment company, whichever was later, and to TMK/United Funds, Inc. since its inception. On January 8, 1992, subject to the authority of the Fund's Board of Directors, Waddell & Reed, Inc. assigned its investment management duties (and assigned its professional staff for investment management services) to Waddell & Reed Investment Management Company, a wholly-owned subsidiary of Waddell & Reed, Inc. The Manager has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. since each commenced operations in February 1993. Waddell & Reed, Inc. serves as the Fund's underwriter and as underwriter for each of the investment companies in the United Group of Mutual Funds, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. Waddell & Reed, Inc. is an indirect subsidiary of Torchmark Corporation, a holding company, and United Investors Management Company, a holding company, and a direct subsidiary of Waddell & Reed Financial Services, Inc., a holding company.

Subject to authority of the Fund's Board of Directors, the Manager provides investment advice and supervises investments for which it is paid a fee, consisting of two elements: (i) a "Specific" fee computed on the Fund's net asset value as of the close of business each day at the annual rate of .30 of 1% of net assets and (ii) a pro rata participation based on the relative net asset size of the Fund in a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group at the annual rates shown in the following table. The fee is accrued and paid daily. Prior to the above-described assignment to the Manager on January 8, 1992, the fees were paid to Waddell & Reed, Inc.

Group Fee Rate

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

Waddell & Reed Services Company, a subsidiary of Waddell & Reed, Inc., acts as transfer agent ("Shareholder Servicing Agent") for the Fund and processes the payments of dividends. See the SAI for the fees paid for these services. Inquiries concerning shareholder accounts should be sent to that company at the address shown on the inside back cover of this Prospectus or to the Fund at the address shown on the front cover of this Prospectus.

Waddell & Reed Services Company also acts as agent ("Accounting Services Agent") in providing bookkeeping and accounting services and assistance to the Fund and pricing daily the value of shares of the Fund. For these services, the Fund pays the Accounting Services Agent a monthly fee of one-twelfth of the annual fee shown in the following table.

Accounting Services Fee

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

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

The combined net asset values of all of the funds in the United Group were approximately $11.3 billion on September 30, 1993. Management fees for the fiscal year ended September 30, 1993 were 0.72% of the Fund's average net assets. The Fund's total expenses for that year were 0.97% of its average net assets.

The Manager places transactions for the Fund's portfolio and in doing so may consider sales of shares of the Fund and other funds it manages as a factor in the selection of brokers to execute portfolio transactions. See the SAI for further information.

James D. Wineland is primarily responsible for the day-to-day management of the portfolio of the Fund. Mr. Wineland is Vice President of the Manager and Vice President of the Fund. He is also Vice President of other investment companies for which the Manager serves as investment manager. Mr. Wineland has held his Fund responsibilities since February 1992. He has been an employee of the Manager since January 8, 1992. Prior to that date, Mr. Wineland was an employee of Waddell & Reed, Inc., the then investment manager of the Fund, and served as the portfolio manager for other investment companies managed by Waddell & Reed, Inc. Other members of the Manager's investment management department provide input on market outlook, economic conditions, investment research and other considerations relating to the Fund's investments.

Dividends, Distributions and Taxes

Ordinarily, dividends are paid semiannually from net investment income, which includes dividends, accrued interest, earned discount and other income earned on portfolio securities less expenses. The Fund also distributes substantially all of its net capital gains (the excess of net long-term capital gains over net short-term capital losses) and net short-term capital gains, if any, after deducting any available capital loss carryovers, and any net realized gains from foreign currency transactions, with its regular dividend at the end of the calendar year. The Fund may make additional distributions if necessary to avoid Federal income or excise taxes on certain undistributed income and capital gains.

You have the option to receive dividends and distributions in cash, to reinvest them in additional Fund shares without charge or to receive dividends in cash and reinvest distributions, as you may instruct. In the absence of instructions, dividends and distributions will be reinvested.

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

Dividends from the Fund's investment company taxable income are taxable to you as ordinary income, to the extent of the Fund's earnings and profits, whether received in cash or reinvested in additional Fund shares. Distributions of the Fund's realized net capital gains, when designated as such, are taxable to you as long-term capital gains, whether received in cash or reinvested in additional Fund shares and regardless of the length of time you have owned your shares. The Fund notifies you after each calendar year-end as to the amounts of dividends and distributions paid (or deemed paid) to you for that year.

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

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

Your redemption of Fund shares will result in taxable gain or loss to you, depending on whether the redemption proceeds are more or less than your adjusted basis for the redeemed shares (which normally includes any sales charge paid). An exchange of Fund shares for shares of any other fund in the United Group generally will have similar tax consequences. However, special rules apply when you dispose of Fund shares through a redemption or exchange within 90 days after your purchase thereof and subsequently reacquire Fund shares or acquire shares of another fund in the United Group without paying a sales charge due to the thirty-day reinvestment privilege or exchange privilege. In these cases, any gain on the disposition of the Fund shares would be increased, or loss decreased, by the amount of the sales charge you paid when those shares were acquired, and that amount will increase the adjusted basis of the shares subsequently acquired. In addition, if you purchase Fund shares within thirty days after redeeming other Fund shares at a loss, all or part of that loss will not be deductible and will increase the basis of the newly purchased shares.

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

Purchase of Shares

You may purchase shares through Waddell & Reed, Inc. and its sales representatives. To open an account you must complete an application. Orders are accepted only at the home office of Waddell & Reed, Inc. (see inside back cover of this Prospectus for address) and it need not accept any orders. The offering price of a share is its net asset value next determined following acceptance plus the sales charge shown in the table below. This net asset value per share is the value of the Fund's assets, less liabilities, divided by the number of shares outstanding. Net asset value is determined once each day as of the later of the close of the regular session of the New York Stock Exchange or the close of the regular session of any domestic securities exchange or commodities exchange on which an option or future held by the Fund is traded, on each day the New York Stock Exchange is open. The Fund's portfolio securities listed or traded on an exchange are valued using market quotations or, if not available, at their fair value in a manner determined in good faith by the Board of Directors. Short-term debt securities are valued at amortized cost which approximates market value. Other assets are valued at their fair value.

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

Ordinarily the minimum initial investment is $500. A $50 minimum initial investment pertains to sales in California, Maine, Montana, Washington and Wisconsin and to certain retirement plan accounts. A $100 minimum initial investment pertains to certain exchanges of shares from other funds in the United Group.

A shareholder may arrange with Waddell & Reed, Inc. to purchase shares by having regular monthly withdrawals of $25 or more made from a checking account or by having regular monthly exchanges of shares with a value of $25 or more made from United Cash Management, Inc., subject to certain conditions explained in the SAI.

Lower sales charges are available by combining additional purchases of any of the funds in the United Group except United Municipal Bond Fund, Inc., United Cash Management, Inc., United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc. with net asset value of shares already held ("rights of accumulation") and by grouping all purchases made during a thirteen-month period ("Statement of Intention"). Shares of the Fund or another fund purchased through a "contractual plan" may not be included unless the plan has been completed. Purchases by certain related persons may be grouped. Shares of the Fund may be exchanged for shares of another fund in the United Group without payment of an additional sales charge. Subject to certain conditions, automatic monthly exchanges of shares of United Cash Management, Inc. and exchanges of shares of certain other funds in the United Group (listed on the back cover of this Prospectus) may be made into the Fund. These exchange privileges may be eliminated or modified at any time, upon notice in certain instances. Information as to rights of accumulation, Statements of Intention, grouping by related persons, exchange privileges, Flexible Withdrawal Service, Individual Retirement Accounts, Section 403(b) plans, Keogh, 401(k), 457 plans and other qualified employee benefit plans is contained in the SAI. Applicable forms are available from Waddell & Reed, Inc.'s representatives.

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

Redemption

You have the right to sell your shares back to the Fund (redeem) at any time by sending a written request to the address on the front cover of this Prospectus, stating how many shares or the amount in dollars you wish to redeem. The written request must be in good order which requires that if more than one person owns the shares, each owner must sign the written request. If you hold a certificate, it must be properly endorsed and sent to the Fund. The Fund reserves the right to require a signature guarantee by a national bank, a federally chartered savings and loan or a member firm of a national stock exchange or other eligible guarantor in accordance with procedures of the Fund's transfer agent if the request for redemption is made by a corporation, partnership or fiduciary, or if the redemption request is made by, or if redemption proceeds are payable to, someone other than the owner of record. If you recently purchased the shares by check, the payment of redemption proceeds on these shares may be delayed. You may arrange for the bank upon which the purchase check was drawn to provide to the Fund telephone or written assurance, satisfactory to the Fund, that the check has cleared and been honored. If no such assurance is given, payment of the redemption proceeds on these shares will be delayed until the earlier of 10 days or when the Fund has been able to verify that your purchase check has cleared and been honored.

The Fund will redeem your shares at their net asset value (which may be more or less than what you paid) next computed after receipt of your written request for redemption in good order at the Fund's address shown on the front cover of this Prospectus. Payment is made within seven days, unless delayed because of emergency conditions determined by the Securities and Exchange Commission, when the New York Stock Exchange is closed (other than on weekends and holidays) or when trading on the Exchange is restricted. Payment is made in cash, although under extraordinary conditions redemptions may be made in portfolio securities.

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

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

Information concerning the establishment of automatic payments from an account is available from representatives of Waddell & Reed, Inc.

THE INVESTMENTS OF
UNITED VANGUARD FUND, INC.
SEPTEMBER 30, 1993

	Shares	Value
COMMON STOCKS		
Airlines - 3.69%		
Mesa Airlines, Inc.*	500,000	$ 9,750,000
Southwest Airlines Co.	700,000	24,237,500

Total		33,987,500
Automotive - 3.06%		
Harley-Davidson, Inc.	600,000	28,200,000
Banks and Savings and Loans - 6.93%		
Corporacion Bancaria de Espana, ADR* ...	175,500	3,663,563
HSBC Holdings plc (A)	1,150,000	12,118,700
Union Bank of Switzerland (A)	19,500	16,511,040
Wells Fargo & Company	250,000	31,593,750
Total		63,887,053
Beverages - 2.63%		
Cott Corporation	250,000	8,640,500
PepsiCo, Inc.	400,000	15,650,000
Total		24,290,500
Biotechnology and Medical Services - 4.34%		
Amgen Inc.*	275,000	10,621,875
Biogen, Inc.*	200,000	7,375,000
Chiron Corporation*	100,000	7,487,500
Ventritex, Inc.*	400,000	14,500,000
Total		39,984,375
Building - 5.19%		
Cemex, S.A., CPO Shares (A)	900,000	16,481,700
Georgia-Pacific Corporation	215,000	13,383,750
Sherwin-Williams Company (The)	500,000	18,000,000
Total		47,865,450
Business Machines and Office Equipment - 15.04%		
BMC Software*	270,000	15,693,750
Broderbund Software, Inc.*	303,600	12,144,000
Cerner Corporation*	1,000	37,000
Cheyenne Software, Inc.*	10,000	338,750
First Data Corporation	415,900	16,272,088
General Motors Corporation, Class E	500,000	14,562,500
Informix Corporation*	1,000,000	23,625,000
Microsoft Corporation*	500,000	41,187,500
Oracle Systems Corporation*	100,000	6,143,700
Silicon Graphics, Inc.*	200,000	8,600,000
Total		138,604,288
Chemicals Major - 0.63%		
Georgia Gulf Corporation*	300,000	5,812,500

See Notes to Schedule of Investments on page 17.

THE INVESTMENTS OF
UNITED VANGUARD FUND, INC.
SEPTEMBER 30, 1993

	Shares	Value
COMMON STOCKS (Continued)		
Chemicals Specialty and Miscellaneous Technology - 1.77%		
Calgon Carbon Corporation	500,000	$ 5,625,000
Raychem Corporation	250,000	10,656,250
Total		16,281,250
Drugs and Hospital Supply - 3.99%		
Johnson & Johnson	350,000	13,737,500
Pharmaceutical Marketing Services Inc.*	187,300	3,043,625
Sandoz Ltd. (A)	8,875	19,985,089
Total		36,766,214
Electronics - 6.64%		
AMP Incorporated	300,000	19,837,500
cisco Systems, Inc.*	350,000	17,456,250
Intel Corporation	200,000	14,125,000
Xilinx, Inc.*	200,000	9,775,000
Total		61,193,750
Hospital Management - 6.38%		
TakeCare, Inc.*	400,000	17,600,000
United HealthCare Corporation	600,000	41,175,000
Total		58,775,000

Household Products - 1.24%		
Gillette Company (The)	200,000	11,475,000
Insurance - 3.15%		
MBIA, Inc.	250,000	19,093,750
TIG Holdings, Inc.	400,000	9,950,000
Total		29,043,750
Leisure Time - 3.79%		
Comcast Corporation, Class A*	500,000	14,468,500
Walt Disney Company (The)	250,000	9,437,500
Viacom International Inc., Class B*	200,000	11,050,000
Total		34,956,000
Multi-Industry - 0.79%		
Grupo Carso, S.A. de C. V. (A)*	1,100,000	7,266,600
Oil Services - 2.17%		
Schlumberger Limited	300,000	19,987,500

See Notes to Schedule of Investments on page 17.

THE INVESTMENTS OF
UNITED VANGUARD FUND, INC.
SEPTEMBER 30, 1993

	Shares	Value
COMMON STOCKS (Continued)		
Publishing and Advertising - 1.52%		
News Corporation Limited, ADR	250,000	$ 14,062,500
Retailing - 3.47%		
Barnes & Noble, Inc.*	7,200	200,700
Cifra, S.A. de C. V., C (A)	9,315,000	20,250,810
Home Depot, Inc. (The)	300,000	11,550,000
Total		32,001,510
Telecommunications - 8.46%		
Alcatel Alsthom (A)	85,000	10,936,440
MCI Communications Corporation	600,000	16,500,000
Nokia Corporation (A)	186,100	8,116,007
Qualcomm Incorporated*	100,000	8,300,000
Telefonaktiebolaget LM Ericsson, ADR, Class B	400,000	21,500,000
Telefonos de Mexico S.A. de C.V., ADR ..	250,000	12,625,000
Total		77,977,447
Textiles and Apparel - 0.96%		
V. F. Corporation	200,000	8,825,000
Trucking - 0.87%		
Hunt (J. B.) Transport Services, Inc. ..	350,000	8,050,000
TOTAL COMMON STOCKS - 86.71% (Cost: $618,639,031)		$799,293,187

	Principal Amount in Thousands	
SHORT-TERM SECURITIES		
Banks and Savings and Loans - 0.52%		
U.S. Bancorp, Master Note	$ 4,750	4,750,000
Beverages - 0.94%		
PepsiCo, Inc.:		
3.06%, 10-25-93	7,600	7,584,496
3.06%, 10-28-93	1,100	1,097,476
Total		8,681,972
Consumer Electronics and Appliances - 0.81%		
Whirlpool Corporation, 3.08%, 10-8-93	7,500	7,495,508

See Notes to Schedule of Investments on page 17.

THE INVESTMENTS OF
UNITED VANGUARD FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
SHORT-TERM SECURITIES (Continued)		
Drugs and Hospital Supply - 0.55%		
Ciba Geigy Ltd.,		
3.1%, 11-30-93	$ 3,900	$ 3,879,850
Pfizer Inc.,		
3.1%, 10-5-93	1,200	1,199,587
Total		5,079,437
Electrical Equipment - 2.16%		
General Electric Capital Corp.,		
3.08%, 11-10-93	20,000	19,931,556
Financial - 2.28%		
Associates Corporation of North America,		
Master Note	856	856,000
United States Leasing International, Inc.:		
3.1%, 10-5-93	2,000	1,999,311
3.12%, 10-15-93	5,650	5,643,145
3.11%, 10-25-93	12,500	12,474,083
Total		20,972,539
Food and Related - 1.31%		
Golden Peanut Co.,		
3.08%, 5-4-93	1,400	1,394,232
McCormick & Co., Inc.,		
3.08%, 11-8-93	9,100	9,070,415
Sara Lee Corporation,		
Master Note	1,620	1,620,000
Total		12,084,647
Insurance - 0.16%		
Transamerica Financial Group,		
3.12%, 11-17-93	1,500	1,493,890
Metals and Mining - 1.91%		
Aluminum Company of America:		
3.12%, 10-8-93	10,000	9,993,933
3.09%, 11-8-93	7,650	7,625,048
Total		17,618,981
Multi-Industry - 0.28%		
Alco Standard Corp.,		
3.18%, 10-13-93	2,600	2,597,244
Paper - 0.53%		
Champion International Corporation,		
3.25%, 10-5-93	4,850	4,848,249

See Notes to Schedule of Investments on page 17.

THE INVESTMENTS OF
UNITED VANGUARD FUND, INC.
SEPTEMBER 30, 1993

	Principal Amount in Thousands	Value
SHORT-TERM SECURITIES (Continued)		
Public Utilities - Electric - 1.64%		
Duke Power Co.,		
3.06%, 10-12-93	$ 4,250	$ 4,246,026
Florida Power Corp.,		
3.09%, 10-5-93	5,000	4,998,283
PS Colorado Credit Corp.,		
3.25%, 10-8-93	1,050	1,049,336
Southern California Edison Co.,		
3.09%, 11-15-93	4,850	4,831,267
Total		15,124,912
Services, Consumer and Business - 1.16%		
Hertz Corp.:		

3.2%, 10-4-93	7,670	7,667,955
3.25%, 10-26-93	3,000	2,993,229
Total		10,661,184
Telecommunications - 1.34%		
GTE Florida Inc.,		
3.1%, 10-21-93	5,150	5,141,131
U.S. West Communications, Inc.,		
3.1%, 10-5-93	7,200	7,197,520
Total		12,338,651
TOTAL SHORT-TERM SECURITIES - 15.59% (Cost: $143,678,770)		$143,678,770
TOTAL INVESTMENT SECURITIES - 102.30% (Cost: $762,317,801)		$942,971,957
LIABILITIES, NET OF CASH AND OTHER ASSETS - (2.30%)		(21,155,557)
NET ASSETS - 100.00%		$921,816,400

Notes to Schedule of Investments
*No income dividends were paid during the preceding 12 months.

(A) Listed on an exchange outside the United States.

See Note 1 to financial statements for security valuation and other significant accounting policies concerning investments.

See Note 3 to financial statements for cost and unrealized appreciation and depreciation of investments owned for Federal income tax purposes.

UNITED VANGUARD FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
September 30, 1993

Assets	
Investment securities -- at value (Notes 1 and 3)	$942,971,957
Cash	39,366
Receivables:	
Dividends and interest	805,284
Fund shares sold	802,678
Prepaid insurance premium	43,572
Total assets	944,662,857
Liabilities	
Payable for investment securities purchased	19,789,300
Payable for Fund shares redeemed	2,819,251
Accrued transfer agency and dividend disbursing	160,924
Accrued accounting services fee	7,083
Other	69,899
Total liabilities	22,846,457
Total net assets	$921,816,400
Net Assets	
$1.00 par value capital stock, authorized -- 400,000,000; shares outstanding -- 129,840,802	
Capital stock	$129,840,802
Additional paid-in capital	586,563,438
Accumulated undistributed income:	
Accumulated undistributed net investment income	2,330,193
Accumulated undistributed net realized gain on investment transactions	22,427,811
Net unrealized appreciation in value of investments at end of period	180,654,156
Net assets applicable to outstanding units of capital	$921,816,400
Net asset value per share (net assets divided by shares outstanding)	$7.10
Sales load (offering price x 5.75%)	.43

Offering price per share (net asset value divided by 94.25%)	$7.53

See notes to financial statements.

On sales of $100,000 or more the sales load is reduced as set forth on page 10.

UNITED VANGUARD FUND, INC.
STATEMENT OF OPERATIONS
For the Fiscal Year Ended September 30, 1993

Investment Income	
Income:	
Dividends	$ 7,379,743
Interest	5,521,065
Total income	12,900,808
Expenses (Note 2):	
Investment management fee	6,340,220
Transfer agency and dividend disbursing	1,664,694
Custodian fees	189,208
Accounting services fee	85,000
Audit fees	32,493
Legal fees	13,910
Other	206,216
Total expenses	8,531,741
Net investment income	4,369,067
Realized and Unrealized Gain on Investments	
Realized net gain on investments	26,314,492
Unrealized appreciation in value of investments during the period	117,706,476
Net gain on investments	144,020,968
Net increase in net assets resulting from operations	$148,390,035

See notes to financial statements.

UNITED VANGUARD FUND, INC.
STATEMENT OF CHANGES IN NET ASSETS

	For the fiscal year ended September 30, 1993	1992
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	$ 4,369,067	$ 8,303,535
Realized net gain on investments	26,314,492	551,206
Unrealized appreciation (depreciation)	117,706,476	(14,330,207)
Net increase (decrease) in net assets resulting from operations	148,390,035	(5,475,466)
Dividends to shareholders from:*		
Net investment income	(4,820,030)	(11,902,424)
Realized gains on securities transactions	---	(28,027,931)
	(4,820,030)	(39,930,355)
Capital share transactions:		
Proceeds from sale of shares (10,417,512 and 13,846,291 shares, respectively)	67,105,227	85,180,195
Proceeds from reinvestment of dividends and/or capital gains distribution (713,365 and		

6,550,944 shares, respectively) ...	4,654,207	39,239,039
Payments for shares redeemed (21,266,075 and 17,947,492 shares, respectively)	(137,491,017)	(110,328,082)
Net increase (decrease) in net assets resulting from capital share transactions	(65,731,583)	14,091,152
Total increase (decrease)	77,838,422	(31,314,669)
Net Assets		
Beginning of period	843,977,978	875,292,647
End of period, including undistributed net investment income of $2,330,193 and $2,781,156, respectively	$921,816,400	$843,977,978

*See "Financial Highlights" on page 21.

See notes to financial statements.

UNITED VANGUARD FUND, INC.
FINANCIAL HIGHLIGHTS*
For a Share of Capital Stock Outstanding
Throughout Each Period:

<TABLE>
<CAPTION>

	For the fiscal year ended September 30,									
	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$6.03	$6.36	$5.18	$6.91	$5.82	$8.23	$6.92	$5.61	$5.35	$6.85
Income from investment operations:										
Net investment income ...	.04	.06	.14	.17	.22	.14	.16	.17	.25	.30
Net realized and unrealized gain (loss) on investments	1.07	(0.10)	1.39	(0.95)	1.12	(1.00)	2.28	1.34	.30	(0.98)
Total from investment operations	1.11	(0.04)	1.53	(0.78)	1.34	(0.86)	2.44	1.51	.55	(0.68)
Less distributions:										
Dividends from net investment income	(0.04)	(0.09)	(0.14)	(0.22)	(0.18)	(0.18)	(0.16)	(0.20)	(0.29)	(0.20)
Distributions from capital gains	(0.00)	(0.20)	(0.21)	(0.73)	(0.07)	(1.37)	(0.97)	(0.00)	(0.00)	(0.62)
Total distributions	(0.04)	(0.29)	(0.35)	(0.95)	(0.25)	(1.55)	(1.13)	(0.20)	(0.29)	(0.82)
Net asset value, end of period	$7.10	$6.03	$6.36	$5.18	$6.91	$5.82	$8.23	$6.92	$5.61	$5.35
Total return**	18.38%	-0.58%	30.88%	-12.67%	23.69%	-8.52%	40.12%	27.30%	10.56%	-10.40%
Net assets, end of period (000 omitted)	$921,816	$843,978	$875,293	$679,765	$781,650	$659,184	$727,022	$493,844	$386,314	$345,691
Ratio of expenses to average net assets	0.97%	0.96%	0.97%	0.98%	0.95%	1.00%	0.93%	0.98%	1.05%	1.04%
Ratio of net investment income to average net assets	0.50%	0.96%	2.28%	2.85%	3.62%	2.39%	2.30%	2.51%	4.47%	5.88%
Portfolio turnover rate***	62.12%	84.82%	173.44%	161.54%	172.59%	128.91%	160.63%	125.52%	160.27%	165.81%

*Per-share and share amounts have been adjusted retroactively to reflect the 3-for-1 stock split effected December 2, 1983.
**Total return calculated without taking into account the sales load deducted on an initial purchase.
***This rate is, in general, calculated by dividing the average value of the Fund's portfolio during the period into the lesser of its purchases or sales in the period, excluding short-term securities. For periods ended prior to April 1, 1985, U.S. Government Securities were excluded from the calculation.

</TABLE>

See notes to financial statements.

UNITED VANGUARD FUND, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1993

NOTE 1 -- Significant Accounting Policies

United Vanguard Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

A. Security valuation -- Each stock and convertible bond is valued at the latest sale price thereof on the last business day of the fiscal period as reported by the principal securities exchange on which the issue is traded or, if no sale is reported for a stock, the average of the latest bid and asked prices. Bonds, other than convertible bonds, are valued using a pricing system provided by a major dealer in bonds. Convertible bonds are valued using this pricing system only on days when there is no sale reported. Stocks which are traded over-the-counter are priced using NASDAQ (National Association of Securities Dealers Automated Quotations) which provides information on bid and asked or closing prices quoted by major dealers in such stocks. Short-term debt securities are valued at amortized cost, which approximates market.

B. Security transactions and related investment income -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Securities gains and losses are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. See Note 3 -- Investment Security Transactions.

C. Federal income taxes -- It is the Fund's policy to distribute all of its taxable income and capital gains to its shareholders and otherwise qualify as a regulated investment company under the Internal Revenue Code. In addition, the Fund intends to pay distributions as required to avoid imposition of excise tax. Accordingly, provision has not been made for Federal income taxes. See Note 4 -- Federal Income Tax Matters.

D. Dividends and distributions -- Dividends and distributions to shareholders are recorded by the Fund on the record date.

NOTE 2 -- Investment Management and Payments to Affiliated Persons

The Fund pays a fee for investment management services. The fee is computed daily based on the net asset value at the close of business. The fee consists of two elements: (i) a "Specific" fee computed on net asset value as of the close of business each day at the annual rate of .30% of net assets and (ii) a "Group" fee computed each day on the combined net asset values of all of the funds in the United Group of mutual funds (approximately $11.3 billion of combined net assets at September 30, 1993) at annual rates of .51% of the first $750 million of combined net assets, .49% on that amount between $750 million and $1.5 billion, .47% between $1.5 billion and $2.25 billion, .45% between $2.25 billion and $3 billion, .43% between $3 billion and $3.75 billion, .40% between $3.75 billion and $7.5 billion, .38% between $7.5 billion and $12 billion, and .36% of that amount over $12 billion. The Fund accrues and pays this fee daily.

Pursuant to assignment of the Investment Management Agreement between the Fund and Waddell & Reed, Inc. ("W&R"), Waddell & Reed Investment Management Company ("WRIMCO"), a wholly-owned subsidiary of W&R, serves as the Fund's investment manager.

The Fund has an Accounting Services Agreement with Waddell & Reed Services Company ("WARSCO"), a wholly-owned subsidiary of W&R. Under the agreement, WARSCO acts as the agent in providing accounting services and assistance to the Fund and pricing daily the value of shares of the Fund. For these services, the Fund pays WARSCO a monthly fee of one-twelfth of the annual fee shown in the following table.

Accounting Services Fee

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

The Fund also pays WARSCO a monthly per account charge for transfer agency and dividend disbursement services of $1.0208 for each shareholder account which was in existence at any time during the prior month ($0.9375 per account prior to November 1, 1992), plus $0.30 for each account on which a dividend or distribution of cash or shares had a record date in that month. The Fund also reimburses W&R and WARSCO for certain out-of-pocket costs.

As principal underwriter for the Fund's shares, W&R received direct and indirect gross sales commissions (which are not an expense of the Fund) of $3,548,594, out of which W&R paid sales commissions of $1,827,900 and all expenses in connection with the sale of Fund shares, except for registration fees and related expenses.

On September 28, 1993, shareholders of the Fund approved the adoption of a 12b-1 Service Plan with a maximum fee of .25%. The Plan went into effect October 1, 1993.

The Fund paid Directors' fees of $34,623.

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

NOTE 3 -- Investment Security Transactions

Purchases of investment securities, other than U.S. Government and short-term securities, aggregated $442,857,256 while proceeds from maturities and sales aggregated $503,778,407. Purchases of short-term securities aggregated $1,585,851,555 while proceeds from maturities and sales aggregated $1,578,842,518. There was no gain or loss on the sale of short-term securities. There were no transactions in U.S. Government securities during the period.

For Federal income tax purposes, cost of investments owned at September 30, 1993 was $762,508,665, resulting in net unrealized appreciation of $180,463,292, of which $187,724,403 related to appreciated securities and $7,261,111 related to depreciated securities.

NOTE 4 -- Federal Income Tax Matters

For Federal income tax purposes, the Fund realized net capital gains of $23,339,686 during its fiscal year ended September 30, 1993. These gains were partially offset by utilization of all available capital loss carryforwards, resulting in distributable capital gains of $22,563,386 which will be distributed to the Fund's shareholders.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
United Vanguard Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of United Vanguard Fund, Inc. (the "Fund") at September 30, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the ten years in the period then ended, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 1993 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE
Kansas City, Missouri
October 29, 1993

United Vanguard Fund, Inc.

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United Missouri Bank, n. a.
Kansas City, Missouri

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UNITED VANGUARD FUND, INC.
6300 Lamar Avenue
P. O. Box 29217
Shawnee Mission, Kansas 66201-9217

PROSPECTUS
December 31, 1993

The United Group of Mutual Funds

United Funds, Inc.
- United Bond Fund
- United Income Fund
- United Accumulative Fund
- United Science and Technology Fund

United International Growth Fund, Inc.
United Continental Income Fund, Inc.
United Vanguard Fund, Inc.
United Retirement Shares, Inc.
United Municipal Bond Fund, Inc.
United High Income Fund, Inc.
United Cash Management, Inc.
United Government Securities Fund, Inc.
United New Concepts Fund, Inc.
United Gold & Government Fund, Inc.
United Municipal High Income Fund, Inc.
United High Income Fund II, Inc.

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UNITED VANGUARD FUND, INC.

6300 Lamar Avenue

P. O. Box 29217

Shawnee Mission, Kansas 66201-9217

(913) 236-2000

December 31, 1993

STATEMENT OF ADDITIONAL INFORMATION

This Statement of Additional Information (the "SAI") is not a prospectus. Investors should read this SAI in conjunction with the prospectus (the "Prospectus") of United Vanguard Fund, Inc. (the "Fund"), dated December 31, 1993, which may be obtained from the Fund or its Underwriter, Waddell & Reed, Inc., at the address or telephone number shown above.

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PERFORMANCE INFORMATION

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

Total Return

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

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

Where : P = $1,000 initial payment
T = Average annual total return
n = Number of years
ERV = Ending redeemable value of the $1,000 investment for the periods shown.

Non-standardized performance information may also be presented and it may not reflect the sales charge. For example, the Fund may also compute total return without deduction of the sales load in which case the same formula noted above will be used but the entire amount of the $1,000 initial payment will be assumed to have been invested. If the sales charge were reflected, it would reduce the performance quoted.

The average annual total return quotations as of September 30, 1993, which is the most recent balance sheet included in the Prospectus, for the periods shown were as follows:

	With Sales Load Deducted	Without Sales Load Deducted
One-year period from October 1, 1992 to		

September 30, 1993:	11.57%	18.38%
Five-year period from October 1, 1988 to September 30, 1993:	9.41%	10.72%
Ten-year period from October 1, 1983 to September 30, 1993:	9.74%	10.39%

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

Performance Rankings

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

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

INVESTMENT OBJECTIVE AND POLICIES

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

Foreign Securities

The Fund may purchase an unlimited amount of foreign securities. However, the Fund does not expect to invest more than 20% of its total assets in foreign securities.

Waddell & Reed Investment Management Company ("the Manager"), the Fund's investment manager, believes that while there are investment risks (see below) in investing in foreign securities, there are also investment opportunities in foreign securities. Individual foreign economies may differ favorably or unfavorably from the U.S. economy or each other in such matters as gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. Individual foreign companies may also differ favorably or unfavorably from domestic companies in the same industry. Foreign currencies may be stronger or weaker than the U.S. dollar or than each other. The Manager believes that the Fund's ability to invest its assets abroad may enable it to take advantage of these differences and strengths where they are favorable.

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

Investment in Warrants

The Fund may not invest more than 2% of its net assets valued at the lower of cost or market in warrants. Warrants acquired in units or attached to other securities are not considered for purposes of computing the 2% limitation. Warrants basically are options to purchase equity securities at specific prices valid for a specific period of time. The prices do not necessarily move parallel to the prices of the underlying securities. Warrants have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer.

Lending Securities

Although income is not one of the Fund's goals, the Manager believes that it should realize income unless doing so would detract from the realization of its goal. One of the ways in which the Fund may try to realize income is by lending its securities. If the Fund does this, the borrower pays the Fund an amount equal to the dividends or interest on the securities that the Fund would have received if it had not loaned the securities. The Fund also receives additional compensation as discussed below.

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

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

The letters of credit which the Fund may accept as collateral are agreements by banks (other than the borrowers of the Fund's securities), entered into at the request of the borrower and for its account and risk, under which the banks are obligated to pay to the Fund, while the letter is in effect, amounts demanded by the Fund if the demand meets the terms of the letter. The Fund's right to make this demand secures the borrower's obligations to it. The terms of any such letters and the creditworthiness of the banks providing them (which might include the Fund's custodian bank) must be satisfactory to the Fund.

The Manager, subject to the direction and control of the Board of Directors, has adopted additional rules concerning lending of securities which may be changed without shareholder vote. At present, under these rules, the Fund will lend securities only to creditworthy broker-dealers and financial institutions. The Fund will make loans only under rules of the New York Stock Exchange, which presently require the borrower to give the securities back to the Fund within five business days after the Fund gives notice to do so. If the Fund loses its voting rights on securities loaned, it will have the securities returned to it in time to vote them if a material event affecting the investment is to be voted on. The Fund may pay reasonable finder's, administrative and custodian fees in connection with loans of securities.

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

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

Repurchase Agreements

The Fund may purchase securities subject to repurchase agreements. A repurchase transaction occurs when, at the time the Fund purchases securities, it also resells them to the vendor (normally a commercial bank or broker-dealer), and must deliver those securities and/or securities substituted for them under the repurchase agreement to the vendor on an agreed-upon date in the future. In this section, such securities, including any securities so substituted, are referred to as the "Resold Securities." The resale price is in excess of the purchase price in that it reflects an agreed-upon market interest rate effective for the period of time during which the Fund's money is invested in the Resold Securities. The majority of the repurchase transactions in which the Fund would engage run from day to day, and the delivery pursuant to the resale typically will occur within one to five days of the purchase. The Fund's risk is limited to the ability of the vendor to pay the agreed-upon sum upon the delivery date. In the event of bankruptcy or other default by the vendor, there may be possible delays or expenses in liquidating the Resold Securities, decline in their value or loss of interest. Upon default, the Resold Securities constitute collateral security for the repurchase obligation. The return on such collateral may be more or less than that from the repurchase agreement. Repurchase agreements will be structured so as to fully collateralize the loans, i.e., the value of the Resold Securities, which will be held by the Fund's Custodian bank or by a third party that qualifies as a custodian under Section 17(f) of the Investment Company Act of 1940, is and, during the entire term of the agreement, remains at least equal to the value of the loan, including the accrued interest earned thereon. Repurchase Agreements are entered into only with those entities approved on the basis of criteria established by the Board of Directors.

Illiquid Investments

The Fund has an operating policy, which may be changed without shareholder approval, which provides that due to their possible limited liquidity, the Fund may not make certain illiquid investments if as a result more than 10% of its net assets would consist of such investments. The investments which are included in this 10% limit are: (i) repurchase agreements not terminable within seven days; (ii) securities for which market quotations are not readily available; and (iii) unlisted options and their underlying collateral.

Writing Covered Calls on Securities

The Fund may not purchase or write put options ("puts"), call options ("calls") or combinations thereof; however, calls may be written on securities if (i) such calls are listed on a domestic securities exchange; (ii) when any such call is written and at all times prior to a closing purchase transaction as to such call, or its lapse or exercise, the Fund owns the securities which are subject to the call or has the right to acquire such securities without the payment of further consideration; and (iii) when any such call is written, not more than 10% of the Fund's total assets would be subject to calls; calls may be purchased to effect a closing purchase transaction as to any call written in accordance with the foregoing.

In short, the Fund can write calls, but only listed, covered calls and only if not more than 10% of the Fund's assets are subject to calls. "Covered" means that the Fund must own the securities which are subject to the call (or have the right to acquire them without additional payment). "Listed" calls are those which are listed on a domestic securities exchange.

If the Fund writes (i.e., sells) a call, it agrees to sell to a purchaser of a call the securities subject to the call. The price at which it must sell is fixed by the call; this price is referred to as the exercise price. This price may be equal to, or more or less than, the market price of the securities covered by the call. The period during which the Fund must sell at this price is also fixed by the call. Most calls run for periods of up to 9 months except that calls on certain debt securities may run for periods of up to 15 months. During the period of a call the Fund must, if the call is exercised, sell at the exercise price no matter what happens to the market price of the securities subject to the call.

As compensation for entering into this contract when it writes a call, the Fund receives a premium. The Manager believes that the Fund's income can be increased through the receipt of premiums on calls. Also should the market price of securities on which the Fund has written calls go down during the call period, the premium would help to offset that decline. However, if the Fund wrote a call, it would lose the opportunity to profit from an increase in the market price of securities which are subject to a call over the exercise price except to the extent that the premium represents such a profit. The Fund will write calls when it considers that the amount of the premium represents adequate compensation for the loss of the opportunity.

Writing calls is a highly specialized activity. Personnel of the Manager have had experience in this activity with respect to the Fund and other funds and accounts managed by the Manager and its affiliates. Writing calls involves investment techniques and risks different from those ordinarily associated with investment companies. It is believed that the Fund's limitations on writing calls will tend to reduce these risks.

The Fund may purchase calls only to close its position in a call which it has written. To do this, it will make a "closing purchase transaction"; this involves buying a call on the same security with the same exercise price and call period as the call it has written. When the Fund sells a security on which it has written a call, it will, so that the call will remain covered, effect a closing purchase transaction. The Fund may also effect a closing purchase transaction to avoid having to sell a security on which it has written a call if the call is exercised. The Fund will have a profit or loss from a closing purchase transaction, depending on whether the amount it paid to purchase the call is less or more than the premium it received on the call which is closed out. There is no assurance that the Fund will be able to effect a closing purchase transaction, due to the lack of a market in the call in question; if it cannot do so, it will have to hold the security on which the call was written until the call expires or is exercised even though it might otherwise be desirable to sell the security. If a call which the Fund wrote is exercised, it could deliver the securities which it owns (or the securities which it has the right to get). It could also deliver other securities which it purchases.

Portfolio securities will be bought and sold on the basis of attempting to achieve the goals of the Fund. However, the fact that listed calls can be written on a particular security may be a factor in buying or keeping it if it is otherwise considered suitable for the Fund.

The Fund's Custodian bank (or a securities depository acting for it) will act as the Fund's escrow agent as to securities on which the Fund has written calls (or other securities which, under the applicable rules, are acceptable for escrow arrangements). The securities will not be released from the escrow until the call expires or the Fund enters into a closing purchase transaction.

The writing of calls by the Fund may affect its turnover rate and the brokerage commissions it pays. Calls may be exercised causing the sale of securities, thus increasing its turnover rate. The increase would be beyond the Fund's control since it has no control over the exercise of calls written by it.

A premium received by the Fund upon writing a call will be included in its assets; an equal amount will be included in the liability section of the Statement of Assets and Liabilities as a deferred credit. This amount will be subsequently adjusted to the current market value of the call. For example, if the current market value of the call exceeds the premium received, the excess would be an unrealized loss; if the premium exceeds the current market value, the excess would be an unrealized gain. The current market value of a call will be the last sales price on the principal exchange in which the call is traded or, in the absence of transactions, the mean between the bid and asked prices.

Writing Puts on Securities

Subject to the limitations set forth under "Operating Restrictions," the Fund may write put options on securities in which it may invest. As with covered call writing, the Fund will write puts on securities for the purpose of increasing income by receiving premiums from the purchaser of the option. When the Fund writes a put, it receives a premium and agrees to purchase the related investments from a purchaser of a put during the put period at a fixed exercise price (which may differ from the market price of the related investments) regardless of market price changes during the put period. If the put is exercised, the Fund must purchase the related investments at the exercise price. Puts are ordinarily sold when it is anticipated that during the option period the market price of the underlying security will decline by less than the amount of the premium, adjusted for any amount by which the market price of the underlying security at the time of sale is greater than the strike price. In writing puts, the Fund assumes the risk of loss should the market value of the underlying security decline below the exercise price of the option. The Fund's cost of purchasing the investments will be adjusted by the amount of the premium it has received. The Fund will write a put only when it has determined that it would be willing to purchase the underlying security at the exercise price.

To terminate its obligation on a put which it has written, the Fund may purchase a put in a "closing purchase transaction." (As discussed below, it may also purchase puts other than as part of such closing transaction.) A profit or loss will be realized depending on the amount of option transaction costs and whether the premium previously received is more or less than the cost of the put purchased. A profit will also be realized if the put lapses unexercised because the Fund retains the premium received.

When the Fund writes a put it will, until it enters into a closing purchase transaction, maintain designated cash or readily marketable assets adequate to purchase the related investments should the put be exercised. The Fund may hold cash or acquire readily marketable assets for this purpose. The Fund will be unable to utilize such cash or assets for other investment purposes until the exercise or expiration of the put.

Purchasing Calls and Puts on Securities

Subject to the limitations set forth under "Operating Restrictions," the Fund may purchase options.

The Fund may purchase a call in a closing purchase transaction in order to terminate its obligation on a call it has written. In addition, the Fund may purchase calls on securities for the purpose of taking advantage of a rise in the market value of the underlying securities.

When a Fund buys a call, it pays a premium and has the right to buy the related investments from a seller of a call during the call period at a fixed exercise price. The Fund benefits only if the market price of the related investments is above the call price during the call period and the call is either exercised or sold at a profit. If the call is not exercised or sold (whether or not at a profit), it will become worthless at its expiration date and the Fund will lose the premium payment and the right to purchase the related investments.

The Fund will purchase puts on securities to protect against major price declines in the value of its portfolio securities. The Fund may purchase a put on a security it owns ("protective put") or on a security it does not own ("nonprotective put"). When a Fund buys a put, it pays a premium and has the right to sell the related investments to a seller of a put during the put period at a fixed exercise price. Buying a protective put (as defined above) permits the Fund to protect itself during the put period against a decline in the value of the related investments below the exercise price by selling them through the exercise of the put. Buying a nonprotective put (as defined above) permits the Fund, if the market price of the related investments is below the put price during the put period, either to resell the put or to buy the related investments and sell them at the exercise price. If the market price of the related investments is above the exercise price and as a result the put is not exercised or resold (whether or not at a profit), the put will become worthless at its expiration date.

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

Risks of Options on Securities

The Fund is authorized to write listed covered call options on securities and to write put options and purchase options which are listed or unlisted. The Fund has an operating policy, however, which provides that it will only purchase calls or write and purchase puts which are listed with two exceptions: (1) it may purchase calls and write and purchase puts which are not listed if the security underlying the option is a security issued or guaranteed by the U.S. Government or its agencies or instrumentalities; and (2) optional delivery standby commitments may be unlisted. Exchange-listed options are issued by the Options Clearing Corporation ("OCC"). A position in an exchange-listed option may be closed out only on an exchange which provides a secondary market for options covering the same related investment having the same exercise price and expiration date. There is no assurance that a liquid secondary market will exist for any particular option. In investing in options on securities which are not listed on an exchange, the Fund must rely on the creditworthiness of the party with whom it has entered into the options transaction. The Manager will evaluate the creditworthiness of all such parties and intends to enter into unlisted option transactions only with major dealers in such unlisted options. The market for these options may be less active than the market for exchange-listed options. The Manager will evaluate the ability to enter into closing purchase transactions on unlisted options prior to investing in them.

The Fund's put and call activities may affect its turnover rate and brokerage commission payments. The exercise of calls or puts written by the Fund may cause it to sell or purchase related investments, thus increasing its turnover rate in a manner beyond its control. The exercise of puts may also cause the sale of related investments, also increasing turnover; although such exercise is within the Fund's control, holding a protective put might cause it to sell the related investments for reasons which would not exist in the absence of the put. The Fund will pay a brokerage commission each time it buys or sells a put or call or buys or sells an underlying investment in connection with the exercise of a put or call. Such commissions may be higher than those which would apply to direct purchases or sales. The Fund's custodian bank, or a securities depository acting for it, will act as the Fund's escrow agent as to the related investments on which it has written covered calls, or as to other assets acceptable for such escrow, so that pursuant to the rules of the Option Clearing Corporation and certain exchanges, no margin deposit will be required of the Fund on such calls. Until the related investments or other investments held in escrow are released from escrow, they cannot be sold by the Fund; this release will take place on the expiration of the call or by the Fund's entering into a closing purchase transaction. Once the Fund has received an exercise notice on an option it has written, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver or receive the underlying securities at the exercise price.

Option premiums paid to control an amount of related investments are small in relation to the market value of related investments and, consequently, put and call options offer large amounts of leverage. The leverage offered by trading in options will result in the Fund's net asset value being more sensitive to changes in the value of the related investment. Markets for options on securities and options on futures contracts are relatively new so it is not possible to predict whether active exchange markets will continue over time.

Options On Stock Indexes

The Fund is permitted to write and purchase options on broadly-based stock indexes subject to the limitations set forth under "Operating Restrictions" and "Investment Restrictions." Broadly-based stock indexes are indexes which are not limited to stocks of any particular industry or industries. The Fund will write options on stock indexes primarily to generate income when the Manager anticipates that the index price will not increase or decrease by more than the premium received by the Fund. The Fund will purchase calls on stock indexes to hedge against anticipated increases in the price of securities it wishes to acquire and purchase puts on stock indexes to hedge against anticipated declines in the market value of portfolio securities. Puts and calls on stock indexes are similar to puts and calls on securities or futures contracts except that all settlements are in cash and gain or loss depends on changes in the broad-based index in question (and thus on price movements in the stock market generally) rather than on price movements in individual securities or futures contracts. When the Fund writes a call on a stock index, it receives a premium and agrees that during the call period a purchaser of a call, upon exercise of the call, will receive from the Fund an amount of cash if the closing level of the stock index upon which the call is based is greater than the exercise price of the call. The amount of cash is equal to the difference between the closing price of the index and the exercise price of the call times a specified multiple (the "multiplier") which determines the total dollar value for each point of such difference. When the Fund buys a call on a stock index it pays a premium and has the same rights as to such call as are indicated above as the Fund's obligation when it writes such a call. When the Fund buys a put on a stock index, it pays a premium and has the right during the put period to require a seller of such a put, upon the Fund's exercise of the put, to deliver to the Fund an amount of cash if the closing level of the stock index upon which the put is based is lesser than the exercise price of the put, which amount of cash is determined by the multiplier, as described above for calls. When the Fund writes a put on a stock index it receives a premium and the purchaser of such a put has the right during the put period to require the Fund to deliver to it an amount of cash equal to the difference between the closing level of the stock index and the exercise price times the multiplier, if the closing level is less than the exercise price.

When the Fund writes a call on a stock index it will, until it enters into a closing purchase transaction as to that call, segregate and maintain cash or readily marketable assets adequate to make the required cash delivery if the call is exercised. When it writes a put on a stock index, it will, until it enters into a closing purchase transaction as to that put, maintain designated cash or readily marketable assets adequate to purchase the related investments should the put be exercised.

Risks of Options on Stock Indexes

The risks of investment in options on stock indexes may be greater than options on securities. Because exercises of stock index options are settled in cash, when the Fund writes a call on a stock index it cannot provide in advance for its potential settlement obligations by acquiring and holding the underlying securities. The Fund can offset some of the risk of its writing position by holding a diversified portfolio of stocks similar to those on which the underlying index is based. However, the Fund cannot, as a practical matter, acquire and hold a portfolio containing exactly the same stocks as the underlying index and, as a result, bears a risk that the value of the securities held will vary from the value of the index. Even if the Fund could assemble a stock portfolio that exactly reproduced the composition of the underlying index, it still would not be fully covered from a risk standpoint because of the "timing risk" inherent in writing index options. When an index option is exercised, the amount of cash that the holder is entitled to receive is determined by the difference between the exercise price and the closing index level on the date when the option is exercised. As with other kinds of options, the Fund as the call writer will not learn that it has been assigned until the next business day at the earliest. The time lag between exercise and notice of assignment poses no risk for the writer of a covered call on a specific underlying security, such as a common stock, because there the writer's obligation is to deliver the underlying security, not to pay its value as of a fixed time in the past. So long as the writer already owns the underlying security, it can satisfy its settlement obligations by simply delivering it, and the risk that its value may have declined since the exercise date is borne by the exercising holder. In contrast, even if the writer of an index call holds stocks that exactly match the composition of the underlying index, it will not be able to satisfy its assignment obligations by delivering those stocks against payment of the exercise price. Instead, it will be required to pay cash in an amount based on the closing index value on the exercise date; and by the time it learns that it has been assigned, the index may have declined, with a corresponding decline in the value of its stock portfolio. This "timing risk" is an inherent limitation on the ability of index call writers to cover their risk exposure by holding stock positions.

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

Futures Contracts and Options on Futures Contracts

The Fund is permitted to purchase and sell futures contracts and options on futures contracts subject to the limitations set forth under "Operating Restrictions" and "Investment Restrictions." When the Fund purchases a futures contract, it incurs an obligation to take delivery of a specified amount of the obligation underlying the contract at a specified time in the future for a specified price. When the Fund sells a futures contract it incurs an obligation to deliver the specified amount of the underlying obligation at a specified time in return for an agreed upon price. In the case of futures contracts on broadly based stock indexes ("Stock Index Futures"), the obligation underlying the futures contract is an amount of cash equal to a specified dollar amount times the difference between the index value at the close of the last trading day of the futures contract and the price at which the futures contract is originally struck. In the case of a futures contract on debt securities ("Debt Future"), the underlying obligation is the related debt security.

When the Fund writes an option on a futures contract it becomes obligated, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time during the term of the option. If the Fund has written a call it becomes obligated to assume a "long" position in a futures contract which means that it is required to take delivery of the underlying securities. If it has written a put it is obligated to assume a "short" position in a futures contract which means that it is required to deliver the underlying securities. When the Fund purchases an option on a futures contract it acquires the right in return for the premium it pays to assume a position in a futures contract.

The Fund will not purchase or sell futures contracts and options thereon for speculative purposes but rather only for the purpose of hedging against changes in the market value of its portfolio securities or changes in the market value of securities which the Manager anticipates that it may wish to include in the portfolio of the Fund. The Fund may sell a Stock Index Future or write a call or purchase a put on a Stock Index Future if the Manager anticipates that a general market or market sector decline may adversely affect the market value of any or all of the Fund's common stock holdings. The Fund may buy a Stock Index Future or purchase a call or sell a put on a Stock Index Future if the Manager anticipates a significant market advance in the common stock it intends to purchase for the Fund's portfolio. The Fund may purchase a Stock Index Future or a call option thereon as a temporary substitute for the purchase of individual stocks which may then be purchased in a orderly fashion. In the case of debt securities the Fund could sell a Debt Future or write a call or buy a put on a Debt Future to attempt to protect against the risk that the value of debt securities held by the Fund might decline. The Fund could purchase a Debt Future or purchase a call or write a put on a Debt Future to protect against the risk of an increase in the value of debt securities at a time when the Fund is not invested in debt securities to the extent permitted by its investment policies. As securities are purchased, corresponding futures positions would be terminated by offsetting sales.

Unlike when the Fund purchases or sells securities, no price is paid or received by it upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit an amount of cash or U.S. Treasury Bills equal to a varying specified percentage of the contract amount. This amount is known as initial margin. Cash held in the margin account is not income producing. Subsequent payments, called variation margin, to and from the broker will be made on a daily basis as the price of the underlying index fluctuates making the futures contract more or less valuable, a process known as mark-to-the-market.

If the Fund writes an option on a futures contract it will be required to deposit initial and variation margin pursuant to requirements similar to those applicable to futures contracts. Premiums received from the writing of an option on a future are included in the initial margin deposit.

Changes in variation margin are recorded by the Fund as unrealized gains or losses. Initial margin payments will be deposited in the Fund's custodian bank in an account registered in the broker's name; access to the assets in that account may be made by the broker only under specified conditions. At any time prior to expiration of a futures contract or an option thereon, the Fund may elect to close the position by taking an opposite position which will operate to terminate its position in the futures contract or option. A final determination of variation margin is made at that time, additional cash is required to be paid by or released to it and it realizes a loss or gain. Although futures contracts by their terms call for the actual delivery or acquisition of the underlying obligation, in most cases the contractual obligation is so fulfilled without having to make or take delivery. The Fund does not intend to make or take delivery of the underlying obligation. All transactions in futures contracts and options thereon are made, offset or fulfilled through a clearing house associated with the exchange on which the contracts are traded. Although the Fund intends to buy and sell futures contracts only on exchanges where there appears to be an active secondary market, there is no assurance that a liquid secondary market will exist for any particular future at any particular time. In such event, it may not be possible to close a futures contract position.

The Fund will deposit in a segregated account with its custodian bank high-quality debt obligations maturing in one year or less, or cash, in an amount equal to the fluctuating market value of long futures contracts it has purchased less any margin deposited on its long position. It may hold cash or acquire such debt obligations for the purpose of making these deposits.

The use of futures contracts and options thereon to attempt to protect against the market risk of a decline in the value of portfolio securities is referred to as having a "short futures position." The use of futures contracts and options thereon to attempt to protect against the market risk that the Fund might not be fully invested at a time when the value of securities in which it invests is increasing is referred to as having a "long futures position." The Fund must operate within certain restrictions as to long and short positions in futures contracts and options thereon under a rule (the "CFTC Rule") adopted by the Commodity Futures Trading Commission ("CFTC") under the Commodity Exchange Act (the "CEA") to be eligible for the exclusion provided by the CFTC Rule from registration by the Fund with the CFTC as a "commodity pool operator" (as defined under the CEA), and must represent to the CFTC that it will operate within such restrictions. Under these restrictions the Fund will not, as to any positions, whether long, short or a combination thereof, enter into futures and options thereon for which the aggregate initial margins and premiums exceed 5% of the fair market value of the Fund's assets after taking into account unrealized profits and losses on options the Fund has entered into; in the case of an option that is "in-the-money" (as defined under the CEA) the "in-the-money" amount may be excluded in computing such 5%. (In general a call option on a futures contract is "in-the-money" if the value of the future exceeds the strike, i.e. exercise, price of the call; a put option on a futures contract is "in-the-money" if the value of the futures contract which is the subject of the put is exceeded by the strike price of the put.) Under the restrictions, the Fund also must, as to short positions, use futures contracts and options thereon solely for bona fide hedging purposes within the meaning and intent of the applicable provisions under the CEA. As to its long positions which are used as part of the Fund's portfolio strategy and are incidental to the Fund's activities in the underlying cash market, the "underlying commodity value" (see below) of the Fund's futures contract and options thereon must not exceed the sum of (i) cash set aside in an identifiable manner, or short-term U.S. debt obligations or other U.S. dollar-denominated high-quality short-term money market instruments so set aside, plus any funds deposited as margin; (ii) cash proceeds from existing investments due in 30 days; and (iii) accrued profits held at the futures commission merchant. (There is described above the segregated accounts which the Fund must maintain with its custodian bank as to its options and futures contracts activities due to Securities and Exchange Commission ("SEC") requirements; the Fund will, as to its long positions, be required to abide by the more restrictive of these SEC and CFTC requirements.) The "underlying commodity value" of a futures contract is computed by multiplying the size (dollar amount) of the futures contract by the daily settlement price of the futures contract. For an option on a futures contract that value is the underlying commodity value of the future underlying the option.

Risk of Futures Contracts and Options Thereon

Since futures contracts and options thereon can replicate movements in the cash markets for the securities in which the Fund invests without the large cash investments required for dealing in such markets, they may subject the Fund to greater and more volatile risks than might otherwise be the case. The principal risks related to the use of such instruments are (i) the offsetting correlation between movements in the market price of the portfolio investments (held or intended) being hedged and in the price of the futures contract or option may be imperfect; (ii) possible lack of a liquid secondary market for closing out futures or options positions; (iii) the need for additional portfolio management skills and techniques; and (iv) losses due to unanticipated market price movements. For a hedge to be completely effective, the price change of the hedging instrument should equal the price change of the security being hedged. Such equal price changes are not always possible because the investment underlying the hedging instrument may not be the same investment that is being hedged. The Manager will attempt to create a closely correlated hedge but hedging activity may not be completely successful in eliminating market value fluctuation. (See below for additional discussion of correlation as it relates to Stock Index Futures.) The ordinary spreads between prices in the cash and futures markets, due to the differences in the natures of those markets, are subject to the following factors which may create distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which could distort the normal relationship between the cash and futures markets. Second, the liquidity of the futures market depends on participants entering into offsetting transactions rather than making or taking delivery. To the extent participants decide to make or take delivery, liquidity in the futures market could be reduced, thus producing distortion. Third, from the point of view of speculators the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market may cause temporary price distortions. Due to the possibility of distortion, a correct forecast of general interest or stock market trends by the Manager may still not result in a successful transaction. The Manager may be incorrect in its expectations as to the extent of various interest rate movements or stock market movements or the time span within which the movements take place.

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

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

Operating Restrictions

The Fund is subject to certain operating restrictions pertaining to investments in options and futures. Such operating restrictions may be revised by the Board depending on its judgments regarding the ability of the Manager to make use of these instruments to the benefit of the Fund and in order to conform to rules and regulations of the CFTC, the SEC, various state securities commissions, Federal tax law and regulations, and the rules of the exchanges on which the investments are traded.

(i) Options on stock indexes, futures contracts and options on futures contracts will be used only for risk management ("hedging") purposes within the meaning of applicable regulations. The Fund will not hedge more than 10% of its total assets.

(ii) Only options on securities which are issued by the Options Clearing Corporation may be purchased or sold except for options on securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities and except for optional delivery standby commitments; only options on stock indexes, options on futures contracts and futures contracts which are listed on a national securities or commodities exchange may be purchased or sold; to the extent option transactions involving unlisted options are illiquid, such options and the underlying collateral will be subject to an operating policy of the Fund which limits investment in illiquid securities to 10% of the net assets of the Fund.

(iii) The aggregate premiums paid for the purchase of permitted options which are held by the Fund at any one time, adjusted for the portion of any premium attributable to a difference between the "strike price" of the option and the market value of the underlying security or futures contract at the time of purchase, may not exceed 20% of the total assets of the Fund;

(iv) The aggregate margin deposits and premiums required on all futures contracts and options thereon held or outstanding at any one time by the Fund may not exceed 5% of the total assets of the Fund adjusted for unrealized gains or losses of the Fund on such options and futures contracts;

(v) The aggregate amount of the obligations underlying the puts written by the Fund which are outstanding at any one time may not exceed 25% of the net assets of the Fund computed at the time of sale.

Risk Factors of High-Yield Investing

As an operating (i.e., nonfundamental) policy, the Fund does not intend to invest in non-investment grade debt securities if as a result of such investment more than 5% of its assets would consist of such investments. The market for high-yield, high-risk debt securities is relatively new and much of its growth paralleled a long economic expansion, during which this market involved a significant increase in the use of high-yield debt securities to fund highly leveraged corporate acquisitions and restructurings. Thereafter, this market was affected by a relatively high percentage of defaults with respect to high-yield securities as compared with higher rated securities. An economic downturn or increase in interest rates is likely to have a greater negative effect on this market and the value of high-yield debt securities, if any, in the Fund's portfolio.

Prices of high-yield debt securities may be more sensitive to adverse economic changes or corporate developments than higher rated investments. Debt securities with longer maturities, which may have higher yields, may increase or decrease in value more than debt securities with shorter maturities. Market prices of high-yield debt securities structured as zero coupon or pay-in-kind securities are affected to a greater extent by interest rate changes and may be more volatile than securities which pay interest periodically and in cash. Where it deems it appropriate and in the best interests of Fund shareholders, the Fund may incur additional expenses to seek recovery on a debt security on which the issuer has defaulted and to pursue litigation to protect the interests of security holders of its portfolio companies.

Because the market for lower rated securities may be thinner and less active than for higher rated securities, there may be market price volatility for these securities and limited liquidity in the resale market. If market quotations are not readily available for the Fund's lower rated or unrated securities, these securities will be valued by a method that the Fund's Board of Directors believes accurately reflects fair value. Valuation becomes more difficult and judgment plays a greater role in valuing high-yield debt securities than with respect to securities for which more external sources of quotations and last sale information are available.

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

Investment Restrictions

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

(i) Buy or sell commodities or commodity contracts, except that it may, for non-speculative purposes, buy or sell futures contracts on futures contracts on Stock Index Futures, Debt Futures and options on Stock Index Futures and Debt Futures;

(ii) Buy real estate nor any nonliquid interests in real estate investment trusts;

(iii) Buy shares of other investment companies which redeem their shares. The Fund can buy shares of investment companies which do not redeem their shares if it does it in a regular transaction in the open market and then does not have more than one tenth (i.e., 10%) of its total assets in these shares; however, the Fund does not have any current intent to invest more than 5% of its assets in such securities in the foreseeable future nor has it done so within the past year;

(iv) Lend money or other assets, other than through certain limited types of loans; the Fund can buy debt securities which have been sold to the public; it can buy other obligations customarily acquired by institutional investors; it can also lend its portfolio securities (see "Lending Securities" above) and enter into repurchase agreements (see "Repurchase Agreements" above);

(v) Invest for the purpose of exercising control or management of other companies;

(vi) Buy or continue to hold securities if the Fund's Directors or officers or certain others own too much of the same securities; if any one of these people owns more than one two-hundredths (i.e., .5 of 1%) of the shares of a company and if the people who own that much or more own one twentieth (i.e., 5%) of that company's shares, the Fund cannot buy that company's shares or continue to own them;

(vii) Participate on a joint, or a joint and several, basis in any trading account in any securities;

(viii) Sell securities short, buy securities on margin or engage in arbitrage transactions; however, the Fund may make margin deposits in connection with its use of any financial instruments permitted by its fundamental policies;

(ix) Engage in the underwriting of securities, that is, the selling of securities for others; also, the Fund does not invest in restricted securities; restricted securities are securities which cannot freely be sold for legal reasons;

(x) Deviate from the percentage restriction set forth above under "Investment in Warrants,";

(xi) Purchase or write puts, calls or combinations thereof; however call options ("calls") may be written on securities if: (i) such calls are listed on a domestic securities exchange; (ii) when any such call is written and at all times prior to a closing purchase transaction as to such call, or its lapse or exercise, the Fund owns the securities which are subject to the call or has the right to acquire such securities without the payment of further consideration; and (iii) when any such call is written not more than 10% of the Fund's total assets would be subject to calls; calls may be purchased to effect a closing purchase transaction as to any call written in accordance with the foregoing. In addition, the Fund may purchase calls and write and purchase put options ("puts") on securities in which the Fund may invest and may, for non-speculative purposes, write and purchase options on broadly-based stock indexes;

(xii) Borrow money or mortgage or pledge any of its assets; but may enter into escrow and collateral arrangements in connection with the use of options and futures;

(xiii) Buy a security if, as a result, it would own more than ten percent of the issuer's voting securities, or if more than five percent of its total assets would be invested in securities of that issuer, or if more than twenty-five percent of its assets would then be in securities of companies in any one industry.

Portfolio Turnover

A portfolio turnover rate is, in general, the percentage computed by taking the lesser of purchases or sales of portfolio securities for a year and dividing it by the monthly average of the market value of such securities during the year, excluding U.S. Government Securities with maturities of less than 12 months and certain short-term securities. The Fund's turnover rate may vary greatly from year to year as well as within a particular year and may be affected by cash requirements for the redemption of its shares. The Fund's turnover rate for the fiscal year ended September 30, 1993 was 62.12% and 84.82% for the fiscal year ended September 30, 1992.

INVESTMENT MANAGEMENT AND OTHER SERVICES

The Management Agreement

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

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

Torchmark Corporation and United Investors Management Company

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

Waddell & Reed, Inc. and its predecessors served as investment manager to each of the registered investment companies in the United Group of Mutual Funds since 1940 or the company's inception date, whichever was later, and to TMK/United Funds, Inc. since that fund's inception, until January 8, 1992 when it assigned its duties as investment manager for these funds (and the related professional staff) to the Manager. The Manager has also served as investment manager for Waddell & Reed Funds, Inc. since its inception in September 1992 and Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. since they each commenced operations in February 1993. Waddell & Reed, Inc. serves as principal underwriter for the investment companies in the United Group of Mutual Funds, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc.

Shareholder Services

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

Accounting Services

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

Payments by the Fund for Management, Accounting and Shareholder Services

Under the Management Agreement, for the Manager's management services, the Fund pays the Manager a fee as described in the Prospectus.

Prior to the above-described assignment from Waddell & Reed, Inc. to Waddell & Reed Investment Management Company, all fees were paid to Waddell & Reed, Inc. The management fees paid to Waddell & Reed, Inc. or the Manager, as the case may be, during the three fiscal years ended September 30, 1993, 1992 and 1991 were $6,340,220, $6,301,535 and $5,803,734, respectively.

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

Under the Shareholder Servicing Agreement, the Fund pays the Agent a monthly fee of $1.0208 for each shareholder account which was in existence at any time during the prior month, plus $0.30 for each account on which a dividend or distribution, of cash or shares, had a record date in that month. It also pays certain out-of-pocket expenses of the Agent, including long distance telephone communications costs; microfilm and storage costs for certain documents; forms, printing and mailing costs; and costs of legal and special services not provided by Waddell & Reed, Inc., the Manager or the Agent.

Under the Accounting Services Agreement, the Fund pays the Agent a fee for accounting services as described in the Prospectus. Fees paid to the Agent for the fiscal years ended September 30, 1993, 1992 and 1991 were $85,000, $85,000 and $80,000, respectively.

The State of California imposes limits on the amount of certain expenses the Fund can pay and requires the Manager to reduce its fee if these expense amounts are exceeded. The Manager must reduce the amount of such expenses to the extent they exceed these expense limits. Not all of the Fund's expenses are included in the limit. The excluded expenses include interest, taxes, brokerage commissions and extraordinary expenses such as litigation that usually do not arise in the normal operations of a mutual fund. The Fund's other expenses, including its management fee, are included.

The Manager must, under California law, reduce the cost of any included expenses which are over 2.5% of the Fund's first $30 million of average net assets, 2% of the next $70 million of average net assets, and 1.5% of any remaining average net assets during a fiscal year. The Fund will notify shareholders of any change in the limitation.

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

Waddell & Reed, Inc., under an agreement separate from the Management Agreement, Shareholder Servicing Agreement and Accounting Services Agreement, acts as the Fund's underwriter, i.e., sells its shares on a continuous basis. Waddell & Reed, Inc. is not required to sell any particular number of shares, and thus sells shares only for purchase orders received. Under this agreement, the Manager pays the costs of sales literature, including the costs of shareholder reports used as sales literature, and the costs of printing the prospectus furnished to it by the Fund. The aggregate dollar amounts of underwriting commissions for the fiscal years ended September 30, 1993, 1992 and 1991 were $3,548,594, $4,885,481 and $4,681,491, respectively, and the amounts retained by the Manager for each fiscal year were $1,720,694, $2,348,016 and $2,254,112, respectively.

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

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

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

The Plan and a related Service Agreement between the Fund and Waddell & Reed, Inc. contemplate that Waddell & Reed, Inc. may be reimbursed for amounts it expends in compensating, training and supporting registered sales representatives, sales managers and/or other appropriate personnel in providing personal services to Fund shareholders and/or maintaining shareholder accounts; increasing services provided to Fund shareholders by office personnel located at field sales offices; engaging in other activities useful in providing personal service to Fund shareholders and/or maintenance of shareholder accounts; and in compensating broker-dealers who may regularly sell Fund shares for providing shareholder services and/or maintaining shareholder accounts.

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

Among other things, the Plan provides that (i) Waddell & Reed, Inc. will provide to the Directors of the Fund at least quarterly, and the Directors will review, a report of amounts expended under the Plan and the purposes for which such expenditures were made, (ii) the Plan will continue in effect only so long as it is approved at least annually, and any material amendments thereto will be effective only if approved, by the Directors including the Plan Directors acting in person at a meeting called for that purpose, (iii) amounts to be paid by the Fund under the Plan may not be materially increased without the vote of the holders of a majority of the outstanding shares of the Fund, and (iv) while the Plan remains in effect, the selection and nomination of the Directors who are Plan Directors will be committed to the discretion of the Plan Directors.

Custodial and Auditing Services

The Fund's Custodian is United Missouri Bank, n.a., Kansas City, Missouri. In general, the Custodian is responsible for holding the Fund's cash and securities. The Fund may place and maintain foreign securities and cash with a foreign custodian in accordance with Rule 17f-5 of the Investment Company Act of 1940. Price Waterhouse, Kansas City, Missouri, the Fund's independent accountants, audits the Fund's financial statements.

PURCHASE, REDEMPTION AND PRICING OF SHARES

Determination of Offering Price

The net asset value of one of the shares of the Fund is the value of its assets, less what it owes, divided by the total number of shares. For example, if on a particular day the Fund owned securities worth $100 and had cash of $15, the total value of the assets would be $115. If it owed $5, the net asset value would be $110 ($115 minus $5). If it had 11 shares outstanding, the net asset value of one share would be $10 ($110 divided by 11).

Shares of the Fund are sold at their next determined net asset value plus the sales charge described in the Prospectus. The price makeup as of September 30, 1993 was as follows:

Net asset value per share (net assets divided by capital shares outstanding)	$7.10
Add: selling commission (5.75% of offering price)	.43

Maximum offering price per share (net asset value divided by 94.25%)	$7.53
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The offering price of a share is its net asset value next determined following acceptance of a purchase order plus the sales charge. The number of shares you receive for your purchase depends on the next offering price after Waddell & Reed, Inc. receives and accepts your order at its principal business office at the address shown on the cover of this SAI. You will be sent a confirmation after your purchase which will indicate how many shares you have purchased. Shares are normally issued for cash only.

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

The net asset value and offering price per share are ordinarily computed once on each day that the New York Stock Exchange is open for trading at the time discussed below. That Exchange annually announces the days on which it will not be open for trading. The most recent announcement indicates that it will not be open on the following days: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. However, it is possible that the Exchange may close on other days. The net asset value will change every business day, since the value of the assets and the number of shares change every business day.

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

Options and futures purchased and held by the Fund are valued at the last sales price thereof on the securities or commodities exchanges on which they are traded, or, if there are no transactions, at the mean between the bid and asked prices. Ordinarily, the close of option trading on national securities exchanges is 4:10 P.M. Eastern time and the close of commodities exchanges is 4:15 P.M. Eastern time. Futures contracts will be valued by reference to established futures exchanges. The value of a futures contract purchased by the Fund will be either the closing purchase price of the contract or the bid price. Conversely, the value of a futures contract sold by the Fund will be either the closing price or the asked price. Net asset value per share will be computed on each day on which it is computed (see above) as of the later of the close of the regular session of the New York Stock Exchange or the close of the regular session of any such domestic securities or commodities exchange on which an option or future held by the Fund is traded.

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

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

Minimum Initial and Subsequent Investments

Initial investments must be at least $500 with the exceptions described in this paragraph. A $50 minimum initial investment pertains to sales to certain retirement plan accounts and to sales made in California, Maine, Montana, Washington and Wisconsin. A minimum initial investment of $25 is applicable to purchases made through payroll deduction for or by employees of the Manager, Waddell & Reed, Inc., their affiliates, or certain retirement plan accounts. A $100 minimum initial investment pertains to certain exchanges of shares from another fund in the United Group. Except with respect to certain exchanges and automatic withdrawals from a checking account, a shareholder may make subsequent investments of any amount. See "Exchanges for Shares of Other Funds in the United Group."

Waddell & Reed, Inc., in addition to distributing shares of the funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc., may distribute certain limited partnership investment interests from time to time. These investments may provide distributions at various intervals in amounts less than $500. A Fund account may be set up by an investor in these limited partnerships to receive partnership distributions of $25 or more. Accordingly, the $500 minimum initial investment will not apply to such accounts.

Reduced Sales Charges

Account Grouping

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

1. Purchases by an individual for his or her own account (includes purchases under the United Funds Revocable Trust Form);

2. Purchases by that individual's spouse purchasing for his or her own account (includes United Funds Revocable Trust Form of spouse);

3. Purchases by that individual or his or her spouse in their joint account;

4. Purchases by that individual or his or her spouse for the account of their child under age 21;

5. Purchase by any custodian for the child of that individual or spouse in a Uniform Gift to Minors Act ("UGMA") or Uniform Transfers to Minors Act account;

6. Purchases by that individual or his or her spouse for his or her Individual Retirement Account ("IRA"), Section 457 salary reduction plan account, tax sheltered annuity account ("T.S.A."), or Keogh plan account provided that the individual and spouse are the only participants in the Keogh plan; and

7. Purchases by a trustee under a trust where that individual or his or her spouse is the settlor (the person who establishes the trust).

Examples:

A. Grandmother opens an UGMA account for grandson A; Grandmother has an account in her own name; A's father has an account in his own name; the UGMA account may be grouped with A's father's account but may not be grouped with Grandmother's account;

B. H establishes a trust naming his children as beneficiaries and appointing himself and his bank as co-trustees; a purchase made in the trust account is eligible for grouping with an IRA account of W, H's wife;

C. H's will provides for the establishment of a trust for the benefit of his minor children upon H's death; his bank is named as trustee; upon H's death, an account is established in the name of the bank, as trustee; a purchase in the account may be grouped with an account held by H's wife in her own name.

D. X establishes a trust naming herself as trustee and R, her son, as successor trustee and R and S as beneficiaries; upon X's death, the account is transferred to R as trustee; a purchase in the account may not be grouped with R's individual account. If X's spouse, Y, was successor trustee, this purchase could be grouped with Y's individual account.

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

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

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

All purchases made under a "qualified" employee benefit plan of an incorporated business will be grouped. A "qualified" employee benefit plan is established pursuant to Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"). All qualified employee benefit plans of any one employer or affiliated employers will also be grouped. An affiliate is defined as an employer that directly, or indirectly, controls or is controlled by or is under control with another employer.

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

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

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

One-time Purchases

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

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

Rights of Accumulation

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

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

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

If a purchaser holds shares which have been purchased under an investment program ("contractual plan") the shares held under the plan may be combined with the additional purchase only if the contractual plan has been completed.

Statement of Intention

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

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

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

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

If a purchaser holds shares which have been purchased under an investment program ("contractual plan"), the shares held under the plan will be taken into account in determining the amount which must be invested under the Statement only if the contractual plan has been completed.

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

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

A Statement of Intention does not bind the purchaser to buy, or Waddell &

Reed, Inc. to sell, the shares covered by the Statement.

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

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

Other Funds in the United Group

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

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

Net Asset Value Purchases

As stated in the Prospectus, Fund shares may be purchased at net asset value by the Directors and officers of the Fund, employees of Waddell & Reed, Inc., employees of their affiliates, sales representatives of Waddell & Reed, Inc. and the spouse, children, parents, children's spouses and spouse's parents of each such Director, officer, employee and sales representative. "Child" includes stepchild; "parent" includes stepparent Purchases in an IRA sponsored by Waddell & Reed, Inc. established for any of these eligible purchasers may also be at net asset value. Purchases in any tax qualified retirement plan under which the eligible purchaser is the sole participant may also be made at net asset value. Trusts under which the grantor and the trustee or a co-trustee are each an eligible purchaser are also eligible for net asset value purchases. "Employees" includes retired employees. A retired employee is an individual separated from service from Waddell & Reed, Inc. or affiliated companies with a vested interest in any Employee Benefit Plan sponsored by Waddell & Reed, Inc. or its affiliated companies. "Sales representatives" includes retired sales representatives. A "retired sales representative" is any sales representative who was, at the time of separation from service from Waddell & Reed, Inc., a Senior Account Representative. A custodian under the Uniform Gifts (or Transfers) to Minors Act purchasing for the child or grandchild of any employee or sales representative may purchase at net asset value whether or not the custodian himself is an eligible purchaser.

Reasons for Differences in Public Offering Price

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

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

Flexible Withdrawal Service

If you qualify, you may arrange to receive regular monthly, quarterly, semiannual or annual payments; this can be done by redeeming shares on a regular basis. This service is called Flexible Withdrawal Service (the "Service"). It is available not only for Fund shares but also for shares of any of the funds in the United Group. It would be a disadvantage to an investor to make additional purchases of shares while a withdrawal program is in effect as this would result in duplication of sales charges.

To qualify for the Service, you must have invested at least $10,000 in shares which you still own of any of the funds in the United Group; or, you must own shares having a value of at least $10,000. The value for this purpose is not the net asset value but the value at the offering price, i.e., the net asset value plus the sales charge.

To start this service, you must fill out a form (available from Waddell & Reed, Inc.), advising Waddell & Reed, Inc. how you want your shares redeemed to make the payments. You have three choices:

First. To get a monthly, quarterly, semiannual or annual payment of $50 or more;

Second. To get a monthly payment, which will change each month, equal to one-twelfth of a percentage of the value of the shares in the Account; you fix the percentage; or

Third. To get a monthly or quarterly payment, which will change each month or quarter, by redeeming a fixed number of shares (at least five shares).

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

The Fund, not Waddell & Reed, Inc., pays the costs of this Service. Having the Service costs you nothing extra individually. There is a $2.00 fee for each withdrawal from retirement plan accounts.

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

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

You may, at any time change the manner in which you have chosen to have shares redeemed to any of the other choices originally available to you. For example, if you started out with a $50 monthly payment, you could change to a $200 quarterly payment. You can at any time redeem part or all of the shares in your account; if you redeem all of the shares, the Service is terminated. The Fund can also terminate the Service by notifying you in writing.

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

Exchanges for Shares of Other Funds in the United Group

Once a sales charge has been paid on shares of a fund in the United Group, these shares and any shares added to them from reinvestment of dividends or distributions may be freely exchanged for shares of another fund in the United

Group. The shares you exchange must be worth at least $100 or you must already own shares of the fund in the United Group into which you want to exchange.

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

United Municipal Bond Fund, Inc., United Government Securities Fund, Inc. and United Municipal High Income Fund, Inc. shares are the exception and special rules apply. Shares of either of these funds may be exchanged for Fund shares only if (i) you have received those shares as a result of one or more exchanges of shares on which a sales charge was originally paid, or (ii) the shares have been held from the date of original purchase for at least 6 months.

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

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

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

Retirement Plans

For individual taxpayers meeting certain requirements, Waddell & Reed, Inc. offers four retirement plan arrangements which provide tax deferral and contribute to retirement assets. All four of them involve investments in Fund shares (or the shares of certain other funds in the United Group).

First. A self-employed person may set up a plan that is commonly called a Keogh plan. As a general rule, an investor under a defined contribution Keogh plan can contribute each year up to 25% of his or her annual earned income, with a maximum of $30,000.

Second. Investors having earned income may set up a plan that is commonly called an Individual Retirement Account (IRA). Under an IRA, an investor can contribute each year up to 100% of his or her earned income up to a maximum of $2,000. The maximum is $2,250 if an investor's spouse has no earned income in a taxable year. If an investor's spouse has at least $2,000 of earned income in a taxable year, the maximum is $4,000 ($2,000 for each spouse).

These contributions are deductible unless the investor (or, if married, either spouse) is an active participant in a qualified retirement plan or if, notwithstanding that the investor or one or both spouses so participates, the adjusted gross income does not exceed certain levels.

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

Third. If an investor is an employee of a public school system or of certain types of charitable organizations, he or she may be able to enter into a deferred compensation arrangement through a custodial account under Section 403(b) of the Code.

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

Waddell & Reed, Inc. also offers to businesses prototype employee benefit plans qualified under Section 401 of the Code. Investments may be made in the Fund in accordance with the terms of the plans.

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

Redemptions

The Prospectus gives information as to redemption procedures; the emergency or other extraordinary conditions there indicated under which payment may be delayed beyond seven days are certain emergency conditions determined by the Securities and Exchange Commission, when the New York Stock Exchange is closed other than for weekends or holidays, or when trading on the Exchange is restricted. The extraordinary conditions mentioned in the Prospectus under which redemptions may be made in portfolio securities are that the Fund's Board of Directors can decide that conditions exist making cash payments undesirable. If they should, redemption payments could be made in securities. They would be valued at the value used in figuring net asset value. There would be brokerage costs to the redeeming shareholder in selling such securities. The Fund, however, has elected to be governed by Rule 18f-1 under the Investment Company Act, pursuant to which it is obligated to redeem shares solely in cash up to the lesser of $250,000 or 1% of its net asset value during any 90-day period for any one shareholder.

Reinvestment Privilege

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

DIRECTORS AND OFFICERS

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

Each of the Fund's Directors is also a Director of each of the other funds in the United Group, TMK/United Funds, Inc., Waddell and Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. and each of its officers is also an officer of one or more of these funds. The principal occupation of each Director and officer during at least the past five years is given below. Each of the persons listed through and including Mr. Wright is a member of the Fund's Board of Directors. The other persons are officers but not Board members.

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

Chairman of the Board of Directors of the Fund; Chairman of the Board of Directors of Waddell & Reed Financial Services, Inc., United Investors Management Company and United Investors Life Insurance Company; Chairman of the Board of Directors and Chief Executive Officer of Torchmark Corporation; formerly, Chairman of the Board of Directors of Waddell & Reed, Inc.

KEITH A. TUCKER*

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

HENRY L. BELLMON
Route 1
Red Rock, Oklahoma 74651

Rancher; Professor, Oklahoma State University; formerly, Governor of Oklahoma; prior to his current service as Director of the funds in the United Group, TMK/United Funds, Inc., Waddell & Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc., he served in such capacity for the funds in the United Group and TMK/United Funds, Inc.

DODDS I. BUCHANAN
University of Colorado
Campus Box 419
Boulder, Colorado 80309

Professor of Marketing, College of Business, University of Colorado; Advisory Director, The Hand Companies; President, Buchanan Ranch Corp.; formerly, Senior Vice President and Director of Marketing Services, The Meyer Group of Management Consultants; formerly, Chairman, Department of Marketing, Transportation and Tourism, University of Colorado.

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

Partner in Dillingham Farms, a farming operation; formerly, President and Director of Kansas City Stock Yards Company.

JOHN F. HAYES*
335 N. Washington
P.O. Box 2977
Hutchinson, Kansas 67504-2977

President of Gilliland & Hayes, P.A., a law firm; Director of Central Bank and Trust.

GLENDON E. JOHNSON
7300 Corporate Center Drive
Miami, Florida 33126-1208

Director and Chief Executive Officer of John Alden Life Insurance Company.

WILLIAM T. MORGAN*
1799 Westridge Road
Los Angeles, California 90049

Retired; formerly, Chairman of the Board of Directors and President of the Fund, each Fund in the United Group, TMK/United Funds, Inc., Waddell & Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. (Mr. Morgan retired as Chairman of the Board of Directors and President of these Funds on April 30, 1993); formerly, President, Director and Chief Executive Officer of the Manager and Waddell & Reed, Inc.; formerly, Chairman of the Board of Directors of Waddell & Reed Services Company; formerly, Director of Waddell & Reed Asset Management Company, United Investors Management Company and United Investors Life Insurance Company, affiliates of Waddell & Reed, Inc.

DOYLE PATTERSON
1030 West 56th Street
Kansas City, Missouri 64113

Associated with Republic Real Estate, engaged in real estate management and investment; formerly, Director of The Vendo Company, a manufacturer and distributor of vending machines.

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

Formerly, President and Director of Univest Corporation, a real estate investment company; formerly, Director of Classified Financial Corp., an insurance company.

PAUL S. WISE
P.O. Box 5248
8648 Silver Saddle Drive
Carefree, Arizona 85377

Director of Potash Corporation of Saskatchewan.

LESLIE S. WRIGHT
Samford University
800 Lakeshore Drive
Birmingham, Alabama 35209

Chancellor of Samford University; formerly, Director of City Federal Savings and Loan Association; formerly, President of Samford University.

Robert L. Hechler

Vice President of the Fund; Vice President, Chief Operations Officer, Director and Treasurer of Waddell & Reed Financial Services, Inc.; Executive

Vice President, Principal Financial Officer, Director and Treasurer of the Manager; President, Chief Executive Officer, Principal Financial Officer, Director and Treasurer of Waddell & Reed, Inc.; Director and Treasurer of Waddell & Reed Asset Management Company; President, Director and Treasurer of Waddell & Reed Services Company; Vice President, Treasurer and Director of Torchmark Distributors, Inc.

Henry J. Herrmann
Vice President of the Fund; Vice President, Chief Investment Officer and Director of Waddell & Reed Financial Services, Inc.; Director of Waddell & Reed, Inc.; President, Chief Executive Officer, Chief Investment Officer and Director of the Manager and Waddell & Reed Asset Management Company; Senior Vice President and Chief Investment Officer of United Investors Management Company.

Theodore W. Howard
Vice President and Treasurer of the Fund; Vice President of Waddell & Reed Services Company.

Rodney O. McWhinney
Vice President, Assistant Secretary and General Counsel of the Fund; Vice President, Secretary and General Counsel of Waddell & Reed Financial Services, Inc.; Senior Vice President, Secretary and General Counsel of the Manager and Waddell & Reed, Inc.; Director, Senior Vice President, Secretary and General Counsel of Waddell & Reed Services Company; Director, Secretary and General Counsel of Waddell & Reed Asset Management Company; Vice President, Secretary and General Counsel of Torchmark Distributors, Inc.; Director of ICI Mutual Insurance Company.

Sharon K. Pappas
Vice President, Secretary and Assistant General Counsel of the Fund; Assistant Secretary and Assistant General Counsel of the Manager; Assistant General Counsel of Waddell & Reed Financial Services, Inc., Waddell & Reed, Inc., Waddell & Reed Asset Management Company and Waddell & Reed Services Company; formerly, an associate with Stinson, Mag & Fizzell, a law firm.

Carl E. Sturgeon
Vice President of the Fund; Vice President of the Manager; formerly, Vice President of Waddell & Reed, Inc.

James D. Wineland
Vice President of the Fund; Vice President of the Manager; formerly, Vice President of Waddell & Reed, Inc.

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

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

The Board has created an honorary position of Director Emeritus, which position a director may elect after resignation from the Board provided the director has attained the age of 75 and has served as a director of the funds in the United Group for a total of at least five years. A Director Emeritus receives fees in recognition of his past services whether or not services are rendered in his capacity as Director Emeritus, but has no authority or responsibility with respect to management of the Fund.

The funds in the United Group, TMK/United Funds, Inc. and Waddell & Reed Funds, Inc. pay to each Director a total of $40,000 per year ($38,000 per year prior to January 1, 1993), plus $500 for each meeting of the Board of Directors attended and $500 for each committee meeting attended which is not held in conjunction with a Board of Directors' meeting other than Directors who are affiliates of Waddell & Reed, Inc. The fees to the Directors who receive them are divided among the funds based on their relative size. During the Fund's fiscal year ended September 30, 1993, its share was $34,623. The officers are paid by the Manager or its affiliates.

Shareholdings

As of November 30, 1993, all of the Fund's Directors and officers as a group owned less than 1% of the outstanding shares of the Fund. As of such date no person owned of record or was known by the Fund to own beneficially 5% or more of the Fund's outstanding shares.

PAYMENTS TO SHAREHOLDERS

General

There are two sources for the payments the Fund makes to you as a shareholder, other than payments when you redeem your shares. The first source is net investment income, which is derived from the dividends and interest the Fund receives on the securities it holds, less its expenses. The payments made to you from this source are called dividends.

The second source is realized capital gains, which are derived from the Fund's proceeds received from the sale of its securities at a price higher than the Fund's basis (usually cost) in such securities. These gains can be either long-term or short-term, depending on how long the Fund has owned the securities before it sells them. Payments, if any, from this source are called distributions.

The Fund pays distributions only if it happens to have realized capital gains. It may or may not have them, depending on whether or not securities are sold and at what price. If it has them, it will pay distributions once each year, in the latter part of the fourth calendar quarter. Even if it has capital gains during a year, it does not pay them out if it has applicable prior year losses to offset the capital gains in the current year. Ordinarily, the Fund pays dividends semiannually, usually on the last business day of June and December. It would not pay dividends if its expenses were greater than its income; this has never happened.

Choices you have on your Dividends and Distributions

In your application form, you can give instructions that (i) you want cash for your dividends and distributions; or (ii) you want cash for your dividends and want your distributions reinvested in Fund shares. You can change your instructions at any time. If you give neither instruction, your dividends and distributions will be reinvested in Fund shares. All reinvestments are at net asset value without any sales charge. The net asset value used for this purpose is that computed as of the record date for the dividend or distribution, although this could be changed by the Directors. The record date is the date used to determine which shareholders are entitled to receive a dividend or distribution; investors who own shares on that date are so entitled.

Even if you get dividends and distributions in cash, you can thereafter reinvest them (or distributions only) in Fund shares at net asset value (i.e., no sales charge) next determined after receipt by Waddell & Reed, Inc. of the amount clearly identified as a reinvestment. The reinvestment must be within 45 days after the payment.

TAXES

General

In order to continue to qualify for treatment as a regulated investment company ("RIC") under the Code, the Fund must distribute to its shareholders for each taxable year at least 90% of its investment company taxable income (consisting generally of net investment income, net short-term capital gains and net gains from certain foreign currency transactions) ("Distribution Requirement") and must meet several additional requirements. These requirements include the following: (1) the Fund must derive at least 90% of its gross income each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of securities or foreign currencies, or other income (including gains from options or futures) derived with respect to its business of investing in securities or those securities ("Income Requirement"); (2) the Fund must derive less than 30% of its gross income each taxable year from the sale or other disposition of securities, options or futures -- or foreign currencies that are not directly related to the Fund's principal business of investing in securities (or options and futures with respect to securities) -- that were held for less than three months ("Short-Short Limitation"); and (3) at the close of each quarter of the Fund's taxable year, (a) at least 50% of the value of its total assets must be represented by cash and cash items, U.S. Government Securities, securities of other RICs and other securities that are limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of the Fund's total assets and that does not represent more than 10% of the outstanding voting securities of the issuer, and (b) not more than 25% of the value of its total assets may be invested in securities (other than U.S. Government Securities or the securities of other RICs) of any one issuer.

Dividends and distributions declared by the Fund in December and payable to shareholders of record on a date in that month are deemed to have been paid by the Fund and received by you in that month even if the Fund pays them during the following January.

If Fund shares are sold at a loss after being held for six months or less, the loss will be treated as long-term, instead of short-term, capital loss to the extent of any distributions received on those shares. Investors also should be aware that if shares are purchased shortly before the record date for a dividend or distribution, the purchaser will receive some portion of the purchase price back as a taxable dividend or distribution.

The Fund will be subject to a nondeductible 4% excise tax ("Excise Tax") to the extent it fails to distribute by the end of any calendar year substantially all of its ordinary income for that year and capital gain net income for the one-year period ending on October 31 of that year, plus certain other amounts.

Income from Foreign Securities

Dividends and interest received by the Fund may be subject to income, withholding or other taxes imposed by foreign countries and U.S. possessions that would reduce the yield on its securities. Tax conventions between certain countries and the United States may reduce or eliminate these foreign taxes, however, and many foreign countries do not impose taxes on capital gains in respect of investments by foreign investors.

Foreign Currency Gains and Losses

Gains or losses (1) from the disposition of foreign currencies, (2) on the disposition of a debt security denominated in a foreign currency that are attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security and the date of disposition, and (3) that are attributable to fluctuations in exchange rates that occur between the time the Fund accrues interest, dividends or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects the receivables or pays the liabilities, generally are treated as ordinary income or loss. These gains or losses, referred to under the Code as "section 988" gains or losses, may increase or decrease the amount of the Fund's investment company taxable income to be distributed to its shareholders.

Income from Options, Futures and Currencies

The use of hedging strategies, such as writing (selling) and purchasing options and futures, involves complex rules that will determine for income tax purposes the character and timing of recognition of the gains and losses the Fund realizes in connection therewith. Income from foreign currencies (except certain gains therefrom that may be excluded by future regulations), and income from transactions in options and futures derived by the Fund with respect to its business of investing in securities, will qualify as permissible income under the Income Requirement. However, income from the disposition of options and futures will be subject to the Short-Short Limitation if they are held for less than three months. Income from the disposition of foreign currencies that are not directly related to the Fund's principal business of investing in securities (or options and futures with respect to securities) also will be subject to the Short-Short Limitation if they are held for less than three months.

If the Fund satisfies certain requirements, any increase in value of a position that is part of a "designated hedge" will be offset by any decrease in value (whether realized or not) of the offsetting hedging position during the period of the hedge for purposes of determining whether the Fund satisfies the Short-Short Limitation. Thus, only the net gain (if any) from the designated hedge will be included in gross income for purposes of that limitation. The Fund intends that, when it engages in hedging transactions, they will qualify for this treatment, but at the present time it is not clear whether this treatment will be available for all the Funds' hedging transactions. To the extent this treatment is not available, the Fund may be forced to defer the closing out of certain options and futures beyond the time when it otherwise would be advantageous to do so, in order for the Fund to continue to qualify as a RIC.

PORTFOLIO TRANSACTIONS AND BROKERAGE

One of the duties undertaken by the Manager pursuant to the Management Agreement is to arrange the purchase and sale of securities for the portfolio of the Fund. Transactions in securities other than those for which an exchange is the primary market are generally done with dealers acting as principals or market makers. Brokerage commissions are paid primarily for effecting transactions in securities traded on an exchange and otherwise only if it appears likely that a better price or execution can be obtained. When possible, concurrent orders to purchase or sell the same security by more than one of the funds or advisory accounts managed by the Manager or its affiliates are combined. Transactions effected pursuant to such combined orders are averaged as to price and allocated in accordance with the purchase or sale orders actually placed for each fund or advisory account.

To effect the portfolio transactions of the Fund, the Manager is authorized to engage broker-dealers ("brokers") which, in its best judgment based on all relevant factors, will implement the policy of the Fund to achieve "best execution" (prompt and reliable execution at the best price obtainable) for reasonable and competitive commissions. The Manager need not seek competitive commission bidding but is expected to minimize the commissions paid to the extent consistent with the interests and policies of the Fund. Subject to review by the Board of Directors, such policies include the selection of brokers which provide execution and/or research services and other services, including pricing or quotation services directly or through others ("brokerage services") considered by the Manager to be useful or desirable for its investment management of the Fund and/or the other funds and accounts over which the Manager or its affiliates have investment discretion.

Brokerage services are, in general, defined by reference to Section 28(e) of the Securities Exchange Act of 1934 as including (i) advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities and purchasers or sellers; (ii) furnishing analyses and reports; or (iii) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody). "Investment discretion" is, in general, defined as having authorization to determine what securities shall be purchased or sold for an account, or making those decisions even though someone else has responsibility.

The commissions paid to brokers that provide such brokerage services may be higher than another qualified broker would charge for effecting comparable transactions if a good faith determination is made by the Manager that the commission is reasonable in relation to the brokerage services provided. Subject to the foregoing considerations, the Manager may also consider the willingness of particular brokers and dealers to sell shares of the Fund and other funds managed by the Manager and its affiliates as a factor in its selection. No allocation of brokerage or principal business is made to provide any other benefits to the Manager or its affiliates.

The investment research provided by a particular broker may be useful only to one or more of the other advisory accounts of the Manager and its affiliates and investment research received for the commissions of those other accounts may be useful both to the Fund and one or more of such other accounts. To the extent that electronic or other products provided by such brokers to assist the Manager in making investment management decisions are used for administration or other non-research purposes, a reasonable allocation of the cost of the product attributable to its non-research use is made by the Manager.

Such investment research (which may be supplied by a third party at the instance of a broker) includes information on particular companies and industries as well as market, economic or institutional activity areas. It serves to broaden the scope and supplement the research activities of the Manager; serves to make available additional views for consideration and comparisons; and enables the Manager to obtain market information on the price of securities held in the Fund's portfolio or being considered for purchase.

In placing transactions for the Fund's portfolio, the Manager may consider sales of shares of the Fund and other funds managed by the Manager and its affiliates as a factor in the selection of brokers to execute portfolio transactions. The Manager intends to allocate brokerage on the basis of this factor only if the sale is $2 million or more and there is no sales charge. This results in the consideration only of sales which by their nature would not ordinarily be made by Waddell & Reed, Inc.'s direct sales force and is done in order to prevent the direct sales force from being disadvantaged by the fact that it cannot participate in Fund brokerage.

During the Fund's fiscal years ended September 30, 1993, 1992 and 1991, it paid brokerage commissions of $1,234,475, $1,551,891 and $2,716,396, respectively. These figures do not include principal transactions or spreads or concessions on principal transactions, i.e., those in which the Fund sells securities to a broker-dealer firm or buys from a broker-dealer firm securities owned by it.

During the Fund's last fiscal year, the transactions, other than principal transactions, which were directed to broker-dealers who provided research as well as execution totaled $466,071,834 on which $767,424 in brokerage commissions were paid. These transactions were allocated to these broker-dealers by the internal allocation procedures described above.

Buying and Selling With Other Funds

Sometimes the Fund and one or more of the other funds in the United Group, TMK/United Funds, Inc., Waddell & Reed Funds, Inc., Torchmark Government Securities Fund, Inc. and Torchmark Insured Tax-Free Fund, Inc. or accounts over which Waddell & Reed Asset Management Company exercises investment discretion frequently will buy or sell the same securities at the same time. If this happens, the amount of each purchase or sale is divided. This is done on the basis of the amount each fund or account wanted to buy or sell. Sharing in large transactions could affect the price the Fund pays or receives or the amount it buys or sells. However, sometimes a better negotiated commission is available.

OTHER INFORMATION

The Shares of the Fund

The Fund presently has only one kind (class) of shares. Each share has the same rights to dividends, to vote and to receive assets if the Fund liquidates (winds up). Each fractional share has the same rights, in proportion, as a full share. Shares are fully paid and nonassessable when bought.