

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1994-10-24** | Period of Report: **1994-08-31**
SEC Accession No. [0000812219-94-000010](#)

([HTML Version](#) on [secdatabase.com](#))

FILER

LIBERTY UTILITY FUND INC

CIK: [812219](#) | State of Incorporation: **MD** | Fiscal Year End: **0228**
Type: **N-30D** | Act: **40** | File No.: [811-05114](#) | Film No.: **94554756**

Business Address
*FEDERATED INVESTORS
TWR
PITTSBURGH PA 15222
4122886520*

[LOGO] FEDERATED

LIBERTY
UTILITY
FUND, INC.

7th Semi-Annual Report
August 31, 1994

Established 1988

President's Message

Dear Fellow Shareholder:

I am pleased to present the Semi-Annual Report for Liberty Utility Fund, Inc. (the "Fund") for the six-month period ended August 31, 1994.

The report contains an interview with the Fund's portfolio manager, Christopher Wiles, Vice President of Federated Advisers. Following the interview are a complete listing of the Fund's Portfolio of Investments and Financial Statements.

During the six-month reporting period, the Fund paid more than \$63 million in dividends to shareholders. However, due to the increase in interest rates that affected all financial markets, the net asset value per share for the Fund's Class A Shares declined from \$12.24 to \$11.33, a decline of 7.4%. The net asset value of Class C Shares of the Fund declined from \$12.23 to \$11.31 per share, a decline of 7.5%. On the last day of the six-month reporting period, the Fund's net assets stood at \$867 million.

During the calendar year 1993, the Fund's Class A Shares value rose from \$11.57 to \$12.64, a gain of 9.2%; Class C Shares value rose from \$12.28 to \$12.64, a gain of 2.9%, during the period from April 30, 1993 (date of initial public offering) to December 31, 1993.

The Fund's portfolio remained well-diversified: 59% of the Fund's assets were invested in utility and other common stocks; 34% in convertible and adjustable rate preferred stocks; 2% in convertible corporate bonds; and 4% in a repurchase agreement. This diversification helped the Fund outperform the overall utility market which declined 7.08% during the reporting period.

Liberty Utility Fund, Inc. offers a sensible way to invest for income and growth over the long term. Utilities provide a vital service: no matter what state the economy is in, people need utilities.

Thank you for choosing Liberty Utility Fund, Inc. as a convenient way to own strong utility companies in the U.S. Your questions and comments are always welcome.

Very sincerely yours,

Richard B. Fisher
President
October 15, 1994

Investment Review

Christopher H. Wiles, CFA
Vice President,
Federated Advisers

Q Investors have just experienced the worst period in almost two decades for domestic utility stocks. Chris, can you briefly describe the status of the U.S. utility industry and the factors driving its evolution?

A Electric utility stocks are down approximately 30% from their highs, and the news surrounding them continues to be relatively negative. The reasons for this decline are twofold. First, rising interest rates negatively impact utilities, and second, the industry is undergoing a change in regulation that will foster more competition. Transitional changes of this magnitude are never painless, but what should evolve is a more efficient industry with clear winners and losers.

A How was the Fund's performance affected?

A Obviously, when an industry undergoes such a large decline, it's nearly impossible for an investor in that industry to escape unscathed. However, the total return of Liberty Utility Fund, Inc. was down only 4.85%* from 9/13/93 to 8/31/94 while the total return of Dow Jones Utility Index** was down 21.88%

over the same period.

Q How did the Fund manage to outperform the index?

A The reason for our significant outperformance is our continued focus on diversification. We currently have only 25% of our assets in electric utility common stocks (the worst performing utilities), 25% in telecommunications, 14% in natural gas, international utilities comprise 18% and 27% are invested in convertibles and non-utility holdings. Please take time to review the Fund's holdings in 45 utility companies and 18 other income producing issues.

* Performance quoted represents past performance and does not guarantee future results. Fund total return is based on net asset value, which does not reflect a sales load or contingent deferred sales charge, if applicable.

** This index is unmanaged.

Q In preparation for ongoing changes in the market, have you revised your strategy during the reporting period?

A Over the last year, we have lowered our overall electric exposure to 30%, non-utilities to 27%. Our security selection process is focusing on companies with both financial and management flexibility.

Q Given the current status of the market, why should people still invest in utilities?

A The number one reason is the vital nature of utilities. This industry is not disappearing. In order for us to have dependable service, utility companies must be allowed to earn enough in profits to attract investment capital. Some other reasons include:

- . Consistent current income and value;
- . Increased efficiency and healthier earnings;
- . Sales growth through international investment; and
- . Regulations that allow more mergers.

Out of more than 100 utilities, we will work to identify those companies that will carry us into the new era. We are confident in our selections of individual companies and pleased with our broad diversification.

Two Ways You May Seek to Invest for Success in Liberty Utility Fund, Inc.

Initial Investment

A \$7,000 investment reinvesting all dividends and capital gains grew to \$14,237.

If you had invested \$7,000 in the Class A Shares of Liberty Utility Fund, Inc. on 5/27/88, reinvested your dividends and capital gains, and didn't redeem any shares, your account would be worth \$14,237 on 8/31/94. You would have earned a 12.01%* average annual total return for the 7-year investment lifespan quite attractive for a utility stock fund, especially during a time when the economic markets went through several cycles.

One key to investing wisely is to reinvest all distributions in Fund shares. This increases the number of shares on which you can earn future dividends, and you gain the benefit of compounding.

As of 9/30/94, the Class A Shares' average annual one-year, five-year, and since inception (5/27/88) total returns were -10.37%, 8.96%, and 11.45%, respectively. Class C Shares' average annual one-year and since inception (4/27/93) total returns were -7.67% and 0.15%, respectively.

[SEE APPENDIX A]

* Total return represents the change in the value of an investment in Class A Shares after reinvesting all income and capital gains, and takes into account the 4.5% sales load applicable to an initial investment in Class A Shares. As of October 1, 1994, the maximum sales load for Liberty Utility Fund, Inc. -- Class A Shares is 5.50%.

Data quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate so an investor's shares, when redeemed, may be worth more or less than their original cost.

Liberty Utility Fund, Inc.

One Step at a Time

\$1,000 invested each year for 7 years (reinvesting all dividends and capital gains) grew to \$9,720.

With this approach, the key is consistency.

If you had started investing \$1,000 annually in the Class A Shares of Liberty Utility Fund, Inc. on 5/27/88, reinvested your dividends and capital gains, and didn't redeem any shares, you would have invested only \$7,000, but your account would have reached a total value of \$9,720* by 8/31/94. You would have earned an average annual total return of 9.98%.

A practical investment plan helps you pursue long-term performance from utility securities. Through systematic investing, you buy shares on a regular basis and reinvest all earnings. This investment plan works for you even if you invest only \$1,000 annually. You can take it one step at a time. Put time and compounding to work!

[SEE APPENDIX B]

* No method of investing can guarantee a profit or protect against loss in down markets. However, by investing regularly over time and buying shares at various prices, investors can purchase more shares at lower prices. All accumulated shares have the ability to pay income to the investor.

Because such a plan involves continuous investment, regardless of changing price levels, the investor should consider whether or not to continue purchases through periods of low price levels.

Liberty Utility Fund, Inc. -- Hypothetical Investor Profile:
Investing for Quarterly Income

Ed and Jill Sanders are a fictional retired couple who invested in Liberty Utility Fund, Inc. to provide them with quarterly income. On May 27, 1988, they invested \$50,000 -- part of Ed's lump sum retirement -- in Class A Shares of the Fund. Since that time, their investment has generated quarterly income averaging \$1,125. This represents a 9.89% average annual total return.

This couple has paid a lifetime of utility bills. Now, through Liberty Utility Fund, Inc., utilities are paying them!

[SEE APPENDIX C]

Liberty Utility Fund, Inc.
Portfolio of Investments

August 31, 1994
(unaudited)

<TABLE>

<CAPTION>

SHARES		VALUE
<C>	<S>	<C>

COMMON STOCKS--59.4%		

UTILITIES--53.1%		

250,000	American Telephone & Telegraph	\$ 13,687,500

525,000	Baltimore Gas & Electric Co.	12,075,000

700,000	BCE, Inc.	24,500,000

625,000	British Telecommunication PLC, ADR	26,162,500

500,000	Cincinnati Gas and Electric Co.	11,250,000

450,000	CMS Energy Corp.	10,125,000

139,100	Consolidated Natural Gas Co.	5,546,613

650,000	DPL, Inc.	13,162,500

500,000	DQE, Inc.	15,312,500

300,000	Duke Power Co.	11,625,000

300,000	Enron Corp.	9,150,000

390,600	Entergy Corp.	9,716,175
400,000	Florida Progress Corp.	11,600,000
300,000	FPL Group, Inc.	9,412,500
500,000	General Public Utilities	13,062,500
475,000	GTE Corp.	15,081,250
900,000	Hong Kong Telecommunications, ADR	19,575,000
310,000	MCN Corp.	12,051,250
448,200	NIPSCO Industries, Inc.	12,941,775
500,000	NYNEX Corp.	19,312,500
800,000	Pacific Enterprises	17,100,000
1,000,000	Pacificorp	17,125,000
396,100	Peco Energy Co.	10,793,725
600,000	Pinnacle West Capital Corp.	11,100,000
265,100	PSI Resources, Inc.	5,931,613
750,000	Sonata, Inc.	22,875,000
750,000	Southern Co.	\$ 14,156,250

</TABLE>

Liberty Utility Fund, Inc.

<TABLE>

<CAPTION>

SHARES		VALUE
<C>	<S>	<C>
COMMON STOCKS--CONTINUED		
UTILITIES--CONTINUED		
401,400	Southern New England Telecommunications	13,196,025
396,500	Southwestern Bell Corp.	16,405,188
350,000	Sprint Corp.	13,868,750
420,000	UGI Corp.	8,137,500
639,420	Utilicorp United, Inc.	18,383,325
550,000	Western Resources, Inc.	15,812,500
	Total	460,234,439
CONSUMER DURABLES--0.5%		
335,000	South West Property Trust, Inc., REIT	4,103,750
CONSUMER SERVICES--2.1%		
275,000	CBL & Associates Properties, Inc., REIT	5,362,500
500,000	Simon Property Group, Inc., REIT	13,187,500
	Total	18,550,000
ENERGY--1.8%		
255,000	Texaco, Inc.	15,746,250
HEALTHCARE--1.9%		
499,400	Meditrust, REIT	16,480,200
	TOTAL COMMON STOCKS (IDENTIFIED COST, \$495,002,249)	515,114,639

PREFERRED STOCKS--34.0%

ADJUSTABLE RATE PREFERRED STOCKS--6.5%		
170,000	Enserch Corp., ARPS, Series E	16,500,625
180,000	Illinois Power Co., ARPS, Series B	8,527,500
335,000	Niagara Mohawk Power Corp., ARPS, Series C	8,312,187
100,000	Texas Utilities Electric Co., ARPS, Series A	8,925,000
52,000	Texas Utilities Electric Co., ARPS, Series B	4,966,000
255,050	Toledo Edison Co., ARPS, Series B	6,121,200
66,508	USX Marathon Group, ARPS	\$ 3,292,146
Total		56,644,658

</TABLE>

Liberty Utility Fund, Inc.

<TABLE>

<CAPTION>

PRINCIPAL AMOUNT OR SHARES		VALUE
<C>	<S>	<C>

PREFERRED STOCKS--CONTINUED

CONVERTIBLE PREFERRED STOCKS--27.5%		
845,000	Citicorp, PERCS, Series 15, \$1.22	16,477,500
185,000	*Cointel/Telefonica de Argentina SA, PRIDES, \$5.04	12,895,425
200,000	*Freeport McMoRan, Inc., Conv. Pfd., \$4.38	9,425,000
527,000	James River Corp. of Virginia, DECS, Series P, \$1.55	12,121,000
230,000	Kaufman and Broad Homes, Inc., Conv. Pfd., Series B, \$1.52	3,938,750
350,000	Nacional Financiera, SNC/Telmex PRIDES, \$6.79	23,318,750
446,500	*Occidental Petroleum Corp., Conv. Pfd., \$3.88	24,111,000
425,000	*Philippine Long Distance, Conv. Pfd., Series II, \$1.44	16,549,925
213,500	Reynolds Metals Co., PRIDES, \$3.31	11,368,875
2,367,400	RJR Nabisco Holdings Corp., Conv. Pfd., Series C, \$.60	16,571,800
425,000	Sears, Roebuck & Co., Conv. Pfd., Series A, \$3.75	23,534,375
300,000	Sunamerica, Inc., Conv. Pfd., Series D, \$2.78	12,450,000
420,000	Tenneco, Inc., Conv. Pfd., Series A, \$2.80	17,377,500
250,000	Unisys Corp., Conv. Pfd., Series A, \$3.75	9,375,000
1,902,000	*Westinghouse Electric Corp., PEPS, Series C, \$1.30	28,765,848
Total		238,280,748
TOTAL PREFERRED STOCKS (IDENTIFIED COST, \$267,330,053)		294,925,406

CONVERTIBLE CORPORATE BONDS--2.2%

UTILITIES--2.2%		
\$ 10,000,000	National Power PLC, Sub., 6.25%, 9/23/2008 (identified cost, \$16,524,987)	19,109,746

</TABLE>

Liberty Utility Fund, Inc.

<TABLE> <CAPTION> PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
**REPURCHASE AGREEMENT--4.0%		
\$ 34,310,000	J.P. Morgan Securities, Inc., 4.85%, dated 8/31/94, due 9/1/94 (at amortized cost)	\$ 34,310,000
TOTAL INVESTMENTS (IDENTIFIED COST, \$813,167,289)		\$ 863,459,791+

</TABLE>

*Restricted securities--Investment in Securities Act of 1933. At the end of the period, these securities amounted to 10.6% of net assets.

**The repurchase agreement is fully collateralized by U.S. Treasury obligations based on market prices at the date of the portfolio. The investment in the repurchase agreement is through participation in a joint account with other Federated Funds.

+The cost of investments for federal tax purposes amounts to \$813,172,020 at August 31, 1994. The net unrealized appreciation on a federal tax basis amounts to \$50,287,771, which is comprised of \$75,057,490 appreciation and \$24,769,719 depreciation at August 31, 1994.

Note: The categories of investments are shown as a percentage of net assets (\$867,086,723) at August 31, 1994.

The following abbreviations are used in this portfolio:

ADR--American Depository Receipts
 ARPS--Adjustable Rate Preferred Stock
 DECS--Dividend Enhanced Convertible Stock
 PEPS--Participating Equity Preferred Stock
 PRIDES--Preferred Redeemable Increased Dividend Equity Securities
 REIT--Real Estate Investment Trust

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

Liberty Utility Fund, Inc.
 Statement of Assets and Liabilities

August 31, 1994
 (unaudited)

<TABLE> <S>	<C>	<C>
ASSETS:		
Investments in securities, at value (identified cost, \$813,167,289 and tax cost, \$813,172,020)		\$ 863,459,791
Cash		35,375
Dividends and interest receivable		6,782,667
Receivable for investments sold		2,161,125
Receivable for capital stock sold		1,007,755
Total assets		873,446,713
LIABILITIES:		
Payable for investments purchased	\$ 3,501,930	
Payable for capital stock redeemed	2,403,855	
Tax withholding liability	176,653	
Accrued expenses	277,552	
Total liabilities		6,359,990
NET ASSETS for 76,566,640 shares of capital stock outstanding		\$ 867,086,723
NET ASSETS CONSIST OF:		
Paid-in capital		\$ 842,377,454

Net unrealized appreciation (depreciation) of investments	50,292,502
Distributions in excess of net realized gain on investments	(39,855,662)
Undistributed net investment income	14,272,429
Total Net Assets	\$ 867,086,723
NET ASSET VALUE PER SHARE:	
Class A Shares (net assets of \$803,332,223 / 70,931,831 shares of capital stock outstanding)	\$11.33
Class C Shares (net assets of \$63,754,500 / 5,634,809 shares of capital stock outstanding)	\$11.31
OFFERING PRICE PER SHARE:	
Class A Shares (100/95.5 of \$11.33)	\$11.86*
Class C Shares	\$11.31
REDEMPTION PROCEEDS PER SHARE:	
Class A Shares	\$11.33
Class C Shares (99/100 of \$11.31)	\$11.20*

</TABLE>

*See "What Shares Cost" in the prospectus.

**See "Redeeming Shares" in the prospectus.

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

Liberty Utility Fund, Inc.
Statement of Operations

Six Months Ended August 31, 1994
(unaudited)

	<C>	<C>
INVESTMENT INCOME:		
Dividend income (net of foreign taxes of \$287,308)		\$ 26,791,578
Interest income		1,462,834
Total investment income		28,254,412
EXPENSES:		
Investment advisory fee	\$ 3,324,204	
Directors' fees	6,500	
Administrative personnel and services	325,931	
Custodian and portfolio accounting fees	49,081	
Transfer and dividend disbursing agent fees and expenses	413,000	
Shareholder services fee--Class A Shares	1,008,713	
Shareholder services fee--Class C Shares	79,317	
Distribution services fee	237,953	
Capital stock registration fees	84,300	
Auditing fees	18,500	
Legal fees	8,500	
Printing and postage	93,750	
Taxes	180,500	
Insurance premiums	250	
Miscellaneous	5,500	

Total expenses	5,835,999
Deduct--Waiver of investment advisory fee	736,975
Net expenses	5,099,024
Net investment income	\$ 23,155,388
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:	
Net realized gain (loss) on investments (identified cost basis)	(8,631,046)
Net change in unrealized appreciation (depreciation) on investments	(21,230,255)
Net realized and unrealized loss on investments	(29,861,301)
Change in net assets resulting from operations	(\$ 6,705,913)

</TABLE>

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

Liberty Utility Fund, Inc.
Statement of Changes in Net Assets

<TABLE>
<CAPTION>

	YEAR ENDED FEBRUARY 28,	
	1995*	1994
	<C>	<C>
<S>		
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	\$ 23,155,388	\$ 43,175,133
Net realized gain (loss) on investments (\$8,631,046 net loss and \$11,416,757 net gain, respectively, as computed for federal tax purposes)	(8,631,046)	12,441,016
Net change in unrealized appreciation (depreciation) on investments	(21,230,255)	(18,342,651)
Change in net assets resulting from operations	(6,705,913)	37,273,498
NET EQUALIZATION (DEBITS)/CREDITS	(570,711)	1,150,284
DISTRIBUTIONS TO SHAREHOLDERS		
Dividends to shareholders from net investment income:		
Class A Shares	(21,238,230)	(41,477,441)
Class C Shares	(1,372,124)	(965,765)
Distributions to shareholders from net realized gain on investment transactions:		
Class A Shares	(15,754,603)	(2,715,075)
Class C Shares	(1,215,280)	(101,609)
Tax return of capital distribution:**		
Class A Shares	(21,983,626)	--
Class C Shares	(1,746,374)	--
Change in net assets from distributions to shareholders	(63,310,237)	(45,259,890)
CAPITAL STOCK TRANSACTIONS--		
Proceeds from sale of shares	49,373,782	327,197,815
Net asset value of shares issued to shareholders in payment of dividends declared	47,896,388	31,818,829
Cost of shares redeemed	(101,518,909)	(149,769,576)
Change in net assets from capital stock transactions	(4,248,739)	209,247,068
Change in net assets	(74,835,600)	202,410,960
NET ASSETS:		

Beginning of period	941,922,323	739,511,363
End of period (including undistributed net investment income of \$14,272,429 and \$14,298,106, respectively)	\$ 867,086,723	\$ 941,922,323

</TABLE>

* Six months ended August 31, 1994 (unaudited).

** Estimated for the six months ended August 31, 1994. The actual amount will be determined at the fiscal year end, February 28, 1995.

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

Liberty Utility Fund, Inc.
Financial Highlights--Class A Shares

(For a share outstanding throughout each period)

<TABLE>

<CAPTION>

<S>	YEAR ENDED FEBRUARY 28, OR 29						
	1995* <C>	1994 <C>	1993 <C>	1992 <C>	1991 <C>	1990 <C>	1989 <C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 12.24	\$ 12.29	\$ 11.03	\$ 10.13	\$ 9.82	\$ 9.15	\$ 9.15
INCOME FROM INVESTMENT OPERATIONS							
Net investment income	0.30	0.60	0.58	0.68	0.71	0.71	0.72
Net realized and unrealized gain (loss) on investments	(0.37)	--	1.44	0.92	0.43	0.79	(0.02)
Total from investment operations	(0.07)	0.60	2.02	1.60	1.14	1.50	0.70
LESS DISTRIBUTIONS							
Dividends to shareholders from net investment income	(0.30)	(0.61)	(0.66)	(0.64)	(0.70)	(0.76)	(0.70)
Dividends to shareholders from net realized gain on investment transactions	(0.23)	(0.04)	(0.10)	(0.06)	(0.13)	(0.07)	--
Tax return of capital distribution (c)	(0.31)	--	--	--	--	--	--
Total distributions	(0.84)	(0.65)	(0.76)	(0.70)	(0.83)	(0.83)	(0.70)
NET ASSET VALUE, END OF PERIOD	\$ 11.33	\$ 12.24	\$ 12.29	\$ 11.03	\$ 10.13	\$ 9.82	\$ 9.15
TOTAL RETURN***	(.42%)	4.93%	19.26%	16.48%	12.41%	16.72%	8.00%
RATIOS TO AVERAGE NET ASSETS							
Expenses	1.10%(b)	1.12%	1.04%	1.05%	1.02%	1.02%	1.00%
Net investment income	5.28%(b)	4.81%	5.98%	6.31%	7.41%	7.17%	8.04%
Expense waiver/reimbursement (a)	0.17%(b)	0.17%	0.01%	0.19%	0.51%	0.74%	0.40%
SUPPLEMENTAL DATA							
Net assets, end of period (000 omitted)	\$803,332	\$877,513	\$739,511	\$375,656	\$125,599	\$48,050	\$410,575
Portfolio turnover rate	17%	24%	18%	35%	45%	37%	34%

<CAPTION>

<S>	<C> 1988**
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 9.30
INCOME FROM INVESTMENT OPERATIONS	
Net investment income	0.55
Net realized and unrealized gain (loss) on investments	(0.31)
Total from investment operations	0.24
LESS DISTRIBUTIONS	
Dividends to shareholders from net investment income	(0.39)

Dividends to shareholders from net realized gain on investment transactions	--
Tax return of capital distribution (c)	--
Total distributions	(0.39)
NET ASSET VALUE, END OF PERIOD	\$ 9.15
TOTAL RETURN***	3.25%
RATIOS TO AVERAGE NET ASSETS	
Expenses	1.56% (b)
Net investment income	8.24% (b)
Expense waiver/reimbursement (a)	0.38% (b)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	\$ 52,947
Portfolio turnover rate	17%

</TABLE>

* Six months ended August 31, 1994 (unaudited).

** Reflects operations for the period from June 5, 1987 through February 29, 1988. For the period from the start of business, May 28, 1987 to June 4, 1987, net investment income aggregating \$0.012 per share (\$124) was distributed to the Fund's Investment Adviser.

*** Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.

(a) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

(b) Computed on an annualized basis.

(c) Estimated for the six months ended August 31, 1994. The actual amount will be determined at the fiscal year end, February 28, 1995.

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

Liberty Utility Fund, Inc.
Financial Highlights--Class C Shares

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

<TABLE>
<CAPTION>

	YEAR ENDED FEBRUARY 28,	
	1995*	1994**
<S>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 12.23	\$ 12.27
INCOME FROM INVESTMENT OPERATIONS		
Net investment income	0.26	0.48
Net realized and unrealized gain (loss) on investments	(0.38)	(0.07)
Total from investment operations	(0.12)	0.41
LESS DISTRIBUTIONS		
Dividends to shareholders from net investment income	(0.26)	(0.41)
Distributions to shareholders from net realized gain on investment transactions	(0.23)	(0.04)
Tax return of capital distribution (c)	(0.31)	--
Total distributions	(0.80)	(0.45)
NET ASSET VALUE, END OF PERIOD	\$ 11.31	\$ 12.23
TOTAL RETURN***	(0.89)%	3.28%

RATIOS TO AVERAGE NET ASSETS

Expenses	1.85 (b)	1.87% (b)
Net investment income	4.54 (b)	4.02% (b)
Expense waiver/reimbursement (a)	0.17 (b)	0.17% (b)
SUPPLEMENTAL DATA		
Net assets, end of period (000 omitted)	\$ 63,755	\$ 64,409
Portfolio turnover rate	17%	24 %

</TABLE>

* Six months ended August 31, 1994 (unaudited).

** Reflects operations for the period from April 30, 1993 (date of initial public offering) to February 28, 1994.

*** Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.

(a) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

(b) Computed on an annualized basis.

(c) Estimated for the six months ended August 31, 1994. The actual amount will be determined at the fiscal year end, February 28, 1995.

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

Liberty Utility Fund, Inc.
Notes to Financial Statements

August 31, 1994
(unaudited)

(1) ORGANIZATION

Liberty Utility Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end, diversified, management investment company.

The Fund provides two classes of shares: Class A Shares and Class C Shares.

(2) SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with generally accepted accounting principles.

A. INVESTMENT VALUATIONS--Listed equity securities, corporate bonds and other fixed income securities are valued at the last sale price reported on national securities exchanges. Unlisted securities and bonds are generally valued at the price provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less may be stated at amortized cost, which approximates value.

B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession, to have legally segregated in the Federal Reserve Book Entry System, or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying collateral to ensure that the value of collateral at least equals the principal amount of the repurchase agreement, including accrued interest.

The Fund will only enter into repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Board of Directors (the "Directors"). Risks may arise from the potential inability of counterparties to honor the terms of the repurchase agreement. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

C. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS--Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and expenses are accrued daily. Bond premium and discount,

if applicable, are amortized as required by the Internal Revenue Code, as amended (the "Code"). Based on current projections, of income and outstanding shares as of August 31, 1994, an estimated \$0.31 per share is expected to be reported as a return of capital for federal income tax purposes.

- D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are necessary. However,

Liberty Utility Fund, Inc.

federal taxes may be imposed on the Fund upon the disposition of certain investments in Passive Foreign Investment Companies. Withholding taxes on foreign dividends has been provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates.

- E. EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.
- F. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities on the trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.
- G. RESTRICTED SECURITIES--Restricted securities are securities that may only be resold upon registration under Federal securities laws or in transactions exempt from such registration. In some cases, the issuer of restricted securities has agreed to register such securities for resale, at the issuer's expense either upon demand by the Fund or in connection with another registered offering of the securities. Many restricted securities may be resold in the secondary market in transactions exempt from registration. Such restricted securities may be determined to be liquid under criteria established by the Directors. The Fund will not incur any registration costs upon such resales. The Fund's restricted securities are valued at the price provided by dealers in the secondary market or, if no market prices are available, at the fair value as determined by the Fund's pricing committee. Additional information on each restricted security held at August 31, 1994 is as follows:

<TABLE>
<CAPTION>

SECURITY	ACQUISITION DATE	ACQUISITION COST
Cointel/Telefonica de Argentina PRIDES	2/24/94	13,320,000
Freeport McMoRan, Inc.	6/28/93-8/16/93	9,851,250
Occidental Petroleum Corp.	2/11/93	22,325,000
Philippine Long Distance	10/9/92	10,625,000
Westinghouse Electric Corp. PEPS	3/22/94	27,464,880

</TABLE>

- H. OTHER--Investment transactions are accounted for on the trade date.

(3) CAPITAL STOCK

At August 31, 1994, there were 1,000,000,000 shares of \$.001 par value capital stock authorized. Transactions in capital stock were as follows:

Liberty Utility Fund, Inc.

<TABLE>
<CAPTION>

	YEAR ENDED AUGUST 31,			
	1995*		1994	
CLASS A SHARES	SHARES	DOLLARS	SHARES	DOLLARS
Shares sold	3,243,090	\$ 36,821,356	20,606,339	\$ 255,156,993
Shares issued to shareholders in payment of dividends declared	4,100,294	45,819,524	2,539,366	31,371,725

Shares redeemed	(8,084,022)	(91,167,826)	(11,621,645)	(143,855,060)
Net change resulting from Class A Share transactions	(740,638)	(\$ 8,526,946)	11,524,060	\$ 142,673,658

</TABLE>
<TABLE>
<CAPTION>

CLASS C SHARES <S>	YEAR ENDED AUGUST 31,			
	1995*		1994	
	SHARES <C>	DOLLARS <C>	SHARES <C>	DOLLARS <C>
Shares sold	1,093,884	\$ 12,552,426	5,706,191	\$ 72,040,822
Shares issued to shareholders in payment of dividends declared	186,074	2,076,864	35,769	447,104
Shares redeemed	(913,017)	(10,351,083)	(474,092)	(5,914,516)
Net change resulting from Class C Share transactions	366,941	\$ 4,278,207	5,267,868	\$ 66,573,410
Net change resulting from Fund Share transactions	(373,697)	(\$ 4,248,739)	16,791,928	\$ 209,247,068

</TABLE>

* Six months ended August 31, 1994.

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISORY FEE--Passport Research, Ltd., the Fund's investment Adviser (the "Adviser"), receives for its services an annual investment advisory fee equal to 0.75 of 1% of the Fund's average daily net assets. The Adviser may voluntarily choose to waive a portion of its fee. The Adviser can modify or terminate this voluntary waiver at any time at its sole discretion.

ADMINISTRATIVE FEE--Federated Administrative Services ("FAS") provides the Fund administrative personnel and services. Prior to March 1, 1994, these services were provided at approximate cost. Effective March 1, 1994, the FAS fee is based on the level of average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors for the period. The administrative fee received during the period of the Administrative Services Agreement shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares.

Liberty Utility Fund, Inc.

DISTRIBUTION AND SHAREHOLDER SERVICES FEE--The Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Act. Under the terms of the Plan, the Fund will compensate Federated Securities Corp. ("FSC"), the principal distributor, from the net assets of the Fund to finance activities intended to result in the sale of the Fund's Class C Shares. The Plan provides that the Fund may incur distribution expenses up to 0.75 of 1% of the average daily net assets of the Class C Shares, annually, to compensate FSC.

Under the terms of a Shareholder Services Agreement with Federated Shareholder Services ("FSS"), the Fund will pay FSS up to 0.25 of 1% of average daily net assets of the Fund for the period. This fee is to obtain certain personal services for shareholders and to maintain the shareholder accounts.

TRANSFER AND DIVIDEND DISBURSING AGENT--Federated Services Company ("FServ") serves as transfer and dividend disbursing agent for the Fund. The FServ fee is based on the size, type, and number of accounts and transactions made by shareholders.

Certain of the Officers and Directors of the Fund are Officers and Directors or Trustees of the above companies.

(5) INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding short-term securities, for the six months ended August 31, 1994, were as follows:

	<C>
PURCHASES	\$ 147,047,020
SALES	\$ 217,684,406

</TABLE>

(6) SUBSEQUENT EVENT

Effective September 27, 1994, the Fund added Class B Shares.

As of October 1, 1994, the maximum sales load as a percentage of the public offering price is 5.5%.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Directors

Officers

John F. Donahue
John T. Conroy, Jr.
William J. Copeland
James E. Dowd
Lawrence D. Ellis, M.D.
Richard B. Fisher
Edward L. Flaherty, Jr.
Peter E. Madden
Gregor F. Meyer
Wesley W. Posvar
Marjorie P. Smuts

John F. Donahue
Chairman
Richard B. Fisher
President
Daniel A. Burkhardt
Vice President
J. Christopher Donahue
Vice President
Edward C. Gonzales
Vice President and Treasurer
John W. McGonigle
Vice President and Secretary
David M. Taylor
Assistant Treasurer
Charles H. Field
Assistant Secretary

Mutual funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the FDIC, the Federal Reserve Board, or any other government agency. Investment in mutual funds involves risk, including possible loss of principal.

This report is authorized for distribution to prospective investors only when preceded or accompanied by the Fund's prospectus, which contains facts concerning its objective and policies, management fees, expenses and other information.

[LOGO] FEDERATED SECURITIES CORP.

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER
PITTSBURGH, PA 15222-3779

531545101
531545200
531545309
8092606 (10/94)

APPENDIX

A. The graphic representation here displayed consists of a boxed legend in the upper left quadrant of the graphic presentation indicating the components of the corresponding mountain chart. The color-coded mountain chart is a visual representation of the narrative text beneath it, which shows hypothetical growth over time in Liberty Utility Fund, Inc. beginning with an initial investment of \$7,000 in the Fund on May 27, 1988, which would have grown to \$14,237 in 1994. The "x" axis reflects computation periods from May 27, 1988 to 1994. The "y" axis reflects a total investment range from \$0 to \$15,000. The chart further indicates the ending market value attributable to principal, as well as the ending market value attributable to capital gains and reinvested dividends.

B. The graphic representation here displayed consists of a boxed legend in the upper left quadrant of the graphic presentation indicating the components of the corresponding mountain chart. The color-coded mountain chart is a visual representation of the narrative text beneath it, which shows hypothetical growth over time in Liberty Utility Fund, Inc. of yearly investments of \$1,000. The "x" axis reflects computation

periods from May 27, 1988 to 1994. The "y" axis reflects a total investment range from \$0 to \$10,000. The color-coded bar chart assumes an initial investment of \$1,000 on 5/27/88 and six subsequent investments of \$1,000 on each anniversary date for a total of \$7,000. The chart concludes that the investment would have grown to \$9,720. The chart further indicates the ending market value attributable to principal, as well as the ending market value attributable to capital gains and reinvested dividends.

C. The graphic representation here displayed consists of a boxed legend in the upper left quadrant of the graphic presentation indicating the components of the corresponding mountain chart. The color-coded mountain chart is a visual representation of the narrative text beneath it, which shows hypothetical quarterly income growth over time in Liberty Utility Fund, Inc. beginning with an initial investment of \$50,000 in the Fund on May 27, 1988. The "x" axis reflects computation periods from May 27, 1988 to 1994. The "y" axis reflects an annual dividend and capital gains payment range from \$0 to \$5,000.