FORT DEARBORN INCOME SECURITIES INC
Form N-CSR
December 01, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02319

Fort Dearborn Income Securities, Inc.

(Exact name of registrant as specified in charter)

51 West 52nd Street, New York, New York 10019-6114

(Address of principal executive offices) (Zip code)

Mark F. Kemper, Esq.
UBS Global Asset Management (Americas) Inc.
51 West 52nd Street
New York, NY 10019-6114
(Name and address of agent for service)

Copy to:
Bruce Leto, Esq.
Stradley Ronon Stevens & Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103-7098

Registrant s telephone number, including area code: 212-882 5000

Date of fiscal year end: September 30

Date of reporting period: September 30, 2008

Item 1. Reports to Stockholders.

Fort Dearborn Income Securities, Inc.

Annual Report
September 30, 2008

Fort Dearborn Income Securities, Inc.

November 14, 2008

Dear shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the Fund) for the 12 months ended September 30, 2008.

Performance

For the 12 months ended September 30, 2008, the Fund declined 6.60% on a net asset value basis, and posted a decline of 0.62% on a market price basis. Over the same period, the Funds Lipper Corporate Debt Funds BBB-Rated peer group median lost 7.59% on a net asset value basis, and 15.63% on a market price basis, while the Funds benchmark, the Investment Grade Bond Index (the Index), lost 4.07%. (For more performance information, please refer to Performance at a glance on page 7.)

While the Fund outperformed its peer group on a net asset value basis, it underperformed its benchmark primarily due to exposure to non-agency mortgage-backed securities (MBS) that are not held in the benchmark. While the allocation to these non-index positions was modest, these securities performed poorly in the wake of the downturn in the US residential mortgage market.

Fort Dearborn Income Securities, Inc.

Investment goal:
Current income consistent with external interest rate conditions and total return

Portfolio Manager:
Michael Dow*
UBS Global Asset Management (Americas) Inc.

Commencement:
December 19, 1972

NYSE symbol:
FDI

Dividend payments:
Quarterly

During the period, neither the Fund nor the Index used leverage. (Leverage magnifies returns on both the upside and on the downside, creating a wider range of returns.)

The Fund traded at a discount to its net asset value (NAV) per share during the entire 12-month period. The Funds average discount over the 12 months ended September 30, 2008, was 9.28%, somewhat more than its Lipper peer groups average median discount of 8.49%. However, toward the end of the period, the Funds discount narrowed. This brought the Fund in line with its peer group in August 2008. By the end of the

* A portfolio management change occurred during the reporting period. As of February 6, 2008, Michael Dow, Head of US Long Duration Fixed Income, assumed primary responsibility for the day-to-day management of Fort Dearborn Income Securities, Inc., replacing Thomas D. Clarkson.

Fort Dearborn Income Securities, Inc.

reporting period, however, the Fund's discount was 6.4%, less than its peer group's median discount of 14.7%.

A fund trades at a discount when the market price at which its shares trade is less than its NAV. Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV per share. The market price is the price the market is willing to pay for shares of a fund at a given time, and may be influenced by a range of factors, including supply and demand and market conditions. NAV per share is determined by dividing the value of the Fund's securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

An interview with Portfolio Manager Michael Dow

Q. How would you describe the economic environment during the reporting period?

A. The US economy was mixed during the 12-month reporting period. Looking back, the US Department of Commerce reported that third quarter 2007 gross domestic product ("GDP") growth was a strong 4.8%. However, the economy then contracted, with GDP growth just 0.2% during the fourth quarter of 2007. A variety of factors contributed to the economy's weakness, including the faltering housing market and tepid consumer and business spending.

Amidst fears that the US economy was headed for a recession—defined as two consecutive quarters of negative growth—GDP grew 0.9% and 2.8% during the first and second quarters of 2008, respectively. The accelerating economy was due in part to rising exports and buoyancy from the declining dollar, which made US goods more attractive overseas.

However, GDP growth reversed in the third quarter of 2008. After a sharp decline in personal spending, an intensification of the credit crunch and ongoing housing market weakness, estimates for third quarter GDP growth sank to -0.3%.

Q. How did the Federal Reserve Board (the "Fed") and US Treasury Department react to the challenging economic and market environment?

A. The reporting period was characterized by increased market volatility and, ultimately, a series of events that have been compared to the turmoil experienced during the Great Depression. For more than a year, the fallout from the subprime mortgage market has taken its toll on the credit markets and has essentially led to a seizing up of credit at the end of September 2008. During the 12-month period, the Fed was aggressive in attempting to stabilize the markets and keep the

Fort Dearborn Income Securities, Inc.

US economy from falling into a recession. For example, the Fed and central banks in other countries have pumped billions of dollars of liquidity into the financial system in an attempt to facilitate normal market operations.

The Fed and the Treasury Department have also taken a number of actions to support the financial system and restore confidence in the financial markets. In March 2008, the Fed established a new lending program allowing certain brokerage firms to take loans from its discount window. During the month, it also helped to orchestrate the purchase of Bear Stearns by JPMorgan Chase. Hopes that this would restore order to the markets and ease the credit crunch proved to be overly optimistic, however. By the end of the third quarter of 2008, it was apparent that the troubles in the US credit markets were spreading to other sectors of the market and the world. This led to a series of dramatic actions by the US government, including the Treasury Department's takeover of mortgage finance companies Fannie Mae and Freddie Mac, and the government taking control of insurance giant AIG. During the month of September, Lehman Brothers filed for bankruptcy, Bank of America announced its intention to acquire Merrill Lynch, and Goldman Sachs and Morgan Stanley changed their status to become bank holding companies. The Treasury Department also proposed a $700 billion plan to purchase distressed mortgages from the books of financial companies. After the US House of Representatives rejected the Treasury Department's initial proposal, a revised plan was approved on October 3, after the reporting period ended. In addition, the Fed joined several other central banks from around the world in a coordinated interest rate cut on October 8, after the reporting period had ended, followed by another cut on October 29. Together, these reductions brought the federal funds rate from 2.0% to 1.0%. **Q. How did the overall bond market perform in this environment?** A. While the stock market garnered most of the press given its periods of unprecedented volatility, the fixed income markets were also active during the 12-month period. Treasury yields moved in response to rising inflationary pressures and expectations regarding future Fed monetary policy.

Fort Dearborn Income Securities, Inc.

Treasury yields ultimately moved lowerand their prices moved highergiven the Feds interest rate cuts and increased investor risk aversion. Overall, during the 12-month reporting period, two-year Treasury yields fell from 3.97% to 2.00%, while 10-year Treasury yields moved from 4.59% to 3.85%. During the 12 months ended September 30, 2008, the overall US bond market, as measured by the Lehman Brothers US Aggregate Index, returned 3.85%. Even though the bond market as a whole rose during the 12-month period, this was largely driven by rising Treasury prices, following several flights to quality, which were triggered by periodic market turmoil. In contrast, other sectors in the fixed income market performed poorly. For example, during the 12 months ended September 30, 2008, corporate bonds, as measured by the Lehman Brothers U.S. Credit Index, declined 4.79% and municipal bonds, as measured by the Lehman Brothers Municipal Bond Index, fell 1.87%. In both cases, their prices fell sharply in September as investors largely shunned securities with potential underlying risk. **Q. How did you manage the Funds duration during the reporting period?** A. Early in the reporting period, we lengthened the Funds duration to a neutral position as we felt prices had moved to what we considered to be fair value. (Duration measures a portfolios sensitivity to changes in interest rates.) At the end of November 2007, we adjusted the Funds duration to be slightly less than the benchmarks as disarray in the credit markets caused longer-term interest rates to approach historically low levels. In our view, these events priced in an unduly dire economic outlook. As interest rates moved sharply higher in May and early June 2008, they moved closer to our estimate of fair value, and we increased the Funds duration, bringing it in line with that of the benchmark.

Q. How did you position the Fund during the reporting period? A. We viewed the periods of market volatility and their subsequent pricing dislocations as opportunities to adjust the Funds portfolio. In the securitized sectors, we focused on securities whose valuations had, in our view, become attractive following the various flights to quality in the bond market. For example, we increased our exposure to Agency mortgage-backed securities at what we believed were historically attractive levels, benefiting performance.

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Fort Dearborn Income Securities, Inc.

 As previously mentioned, the Funds holdings of nonagency MBS detracted from performance as delinquencies and defaults in the US housing market exceeded historic norms and market expectations. Unlike agency MBS, which are issued and guaranteed by the government-sponsored enterprises, nonagency MBS have neither an implicit, nor explicit, government guarantee. We gradually reduced the Funds exposure to high yield securities throughout the reporting period. Overall, this benefited performance. We maintained an underweight to corporate bonds during the reporting period. During the first half of the reporting period, we believed the sector was overvalued compared to Treasuries. Corporate bond spreadsthe difference between the yield paid on US Treasury bonds and corporate securities with the same maturitieswere at historically low levels, and we did not believe that they offered appropriate compensation for the risk they entailed. An underweight positioning contributed to the Funds performance as corporate bonds underperformed Treasuries following a February 2008 flight to quality. As the period progressed, corporate spreads widened sharply, given increased investor risk aversion. We then increased the Funds exposure and moved closer to a neutral position relative to the Index. In particular, we favored defensive industries that we believed would perform despite the weakening economysuch as energy and healthcare. During the reporting period, we increased the Funds exposure to high-quality municipal bonds as their yields became increasingly attractive, in our view, versus those offered by Treasury securities of similar duration. This helped the Funds performance modestly. We increased the Funds exposure to certain Treasury Inflation-Protected Securities (TIPS), special types of Treasury notes or bonds that are designed to offer protection from inflation. In particular, we purchased TIPS that offered what we believed to be relatively attractive yields. As expectations for inflation came down significantly in the third quarter, the TIPS position detracted from performance. **Q. What factors do you believe will affect the Fund over the coming months?** A. While the extraordinary actions by the Fed and other government initiatives to add liquidity and restore confidence have provided some relief to the credit-related issues plaguing the markets, we expect

Fort Dearborn Income Securities, Inc.

volatility to remain high. As the credit crunch largely continues, and the effects of the slowing housing market are felt, the outlook for the US economy remains uncertain. Looking ahead, we plan to monitor closely the factors likely to influence the Fed's future decisions on interest rates, including the state of the financial markets, inflation and the overall strength of the economy. We thank you for your continued support and welcome any comments or questions you may have. For additional information regarding the Fund, please contact your Financial Advisor, or visit us at www.ubs.com/globalam-us.

Sincerely,

Kai R. Sotorp
President
Fort Dearborn Income Securities, Inc.
Head—Americas
UBS Global Asset Management (Americas) Inc.

Michael Dow
Portfolio Manager
Fort Dearborn Income Securities, Inc.
Head of US Long Duration Fixed Income
UBS Global Asset Management (Americas) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the twelve months ended September 30, 2008. The views and opinions in the letter were current as of November 14, 2008. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.

Fort Dearborn Income Securities, Inc.

Performance at a glance (unaudited)

Average annual total returns for periods ended 09/30/08

Net asset value returns	**1 year**	**5 years**	**10 years**
Fort Dearborn Income Securities, Inc.	–6.60 %	2.01 %	4.43 %
Lipper Corporate Debt Funds BBB-Rated median	–7.59 %	2.29 %	4.28 %
Market price returns			
Fort Dearborn Income Securities, Inc.	–0.62 %	3.55 %	4.97 %
Lipper Corporate Debt Funds BBB-Rated median	–15.63 %	–0.35 %	3.10 %
Index returns			
Investment Grade Bond Index(1)	–4.07 %	2.56 %	4.84 %

Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. The Fund's net asset value ("NAV") returns assume, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on the payable dates. The Fund's market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group.

(1) Investment Grade Bond Index is an unmanaged index compiled by the Advisor, constructed as follows: From 12/31/81 to present — 5% Lehman Brothers US Agency Index (7+ years), 75% Lehman Brothers US Credit Index (7+ years), 10% Lehman Brothers US Mortgage Fixed Rate MBS Index (all maturities) and 10% Lehman Brothers US Treasury Index (7+ years). Investors should note that indices do not reflect fees and expenses.

Fort Dearborn Income Securities, Inc.

Portfolio statistics (unaudited)

Characteristics*	**09/30/08**	**03/31/08**	**09/30/07**
Net assets (mm)	$121.2	$136.9	$137.6
Weighted average maturity (yrs.)	15.86	15.15	15.48
Modified duration	8.3 %	8.6 %	8.6 %

Credit quality**	**09/30/08**	**03/31/08**	**09/30/07**
AAA	40.0 %	34.7 %	38.0 %
AA	8.0	7.1	8.2
A	24.5	22.9	20.1
BBB	23.6	20.0	21.1
BB	0.7	1.6	1.1
B	0.8	5.5	5.9
CCC	0.4	2.0	3.0
Non-rated	0.6	3.1	0.8
Cash equivalents	4.7	3.7	0.9
Other assets, less liabilities	(3.3)	(0.6)	0.9
Total	100.0 %	100.0 %	100.0 %

* Characteristics will vary over time. ** Weightings represent percentages of net assets as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are based on those assigned by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("S&P"), to individual portfolio holdings. S&P is an independent ratings agency. Modified duration is the change in price, expressed as a percentage, expected in response to each 1% change in yield of the portfolio's holdings.

Fort Dearborn Income Securities, Inc.

Industry diversification *As a percentage of net assets* *As of September 30, 2008 (unaudited)*

Bonds	
Corporate bonds	
Aerospace & defense	0.37 %
Agriculture	0.76
Automobiles	0.70
Beverages	0.79
Building materials	0.22
Capital markets	1.22
Chemicals	1.64
Commercial banks	3.83
Commercial services	1.16
Consumer finance	0.71
Diversified financial services	8.34
Diversified telecommunication services	5.28
Electric utilities	5.70
Energy equipment & services	0.92
Environmental control	0.54
Food	0.87
Food & staples retailing	0.50
Health care providers & services	1.23
Household durables	0.57
Insurance	2.36
Media	3.22
Multi-utilities	0.88
Office electronics	0.41
Oil, gas & consumable fuels	4.47
Paper & forest products	0.48
Pharmaceuticals	5.23
Pipelines	0.20
Real estate investment trusts (REITs)	0.84
Retail	2.17
Road & rail	1.70
Software	0.41
Wireless telecommunication services	1.57
Total corporate bonds	59.29
Asset-backed securities	3.03
Mortgage & agency debt securities	13.84
Municipal bonds	4.24
US government obligations	18.17
Total bonds	98.57
Short-term investment	4.71
Total investments	103.28
Liabilities, in excess of cash and other assets	(3.28)
Net assets	100.00 %

Fort Dearborn Income Securities, Inc.

Portfolio of investments⎯September 30, 2008

Security description	Face amount	Value
Bonds⎯98.57%		
Corporate bonds⎯59.29%		
Canada⎯1.71%		
Anadarko Finance Co., Series B, 7.500%, due 05/01/31	$380,000	$348,455
Canadian National Railway Co., 6.375%, due 11/15/37	625,000	598,458
6.900%, due 07/15/28	285,000	287,169
Canadian Natural Resources Ltd., 6.750%, due 02/01/39	1,020,000	840,939
Total Canada corporate bonds		2,075,021
Cayman Islands⎯0.92%		
Transocean, Inc., 6.800%, due 03/15/38	535,000	490,865

7.500%, due 04/15/31

620,000 619,974

Total Cayman Islands corporate bonds 1,110,839

Luxembourg0.64% Telecom Italia Capital SA,

6.375%, due 11/15/33

1,060,000 772,528

Netherlands0.98% Deutsche Telekom International Finance BV,

6.750%, due 08/20/18

520,000 481,962

E. ON International Finance BV,

6.650%, due 04/30/38(1)

725,000 704,167

Total Netherlands corporate bonds 1,186,129

Spain0.33% Telefonica Emisiones SAU,

6.221%, due 07/03/17

440,000 404,963

Switzerland1.07% Credit Suisse,

6.000%, due 02/15/18

1,485,000 1,293,733

United Kingdom2.79% Abbey National PLC,

7.950%, due 10/26/29

750,000 724,153

AstraZeneca PLC,

6.450%, due 09/15/37

745,000 712,332

British Telecommunications PLC,

9.125%, due 12/15/30

365,000	364,119

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Fort Dearborn Income Securities, Inc.

Portfolio of investments—September 30, 2008

Security description	Face amount	Value
Bonds—(continued)		
Corporate bonds—(continued)		
United Kingdom—(concluded)		
Royal Bank of Scotland Group PLC, 7.640%, due 09/29/17(2),(3)	$700,000	$521,513
SABMiller PLC, 6.500%, due 07/01/16(1)	650,000	629,962
Vodafone Group PLC, 5.625%, due 02/27/17	480,000	426,672
Total United Kingdom corporate bonds		3,378,751
United States—50.85%		
Abbott Laboratories, 6.150%, due 11/30/37	635,000	594,274
Allergan, Inc., 5.750%, due 04/01/16	1,820,000	1,750,336
Allstate Corp., 5.950%, due 04/01/36	550,000	448,360

American Honda Finance Corp.,

7.625%, due 10/01/18(1)

225,000 223,714

American International Group, Inc.,

5.850%, due 01/16/18

875,000 439,204

Anheuser-Busch Cos., Inc.,

6.450%, due 09/1/37

400,000 324,068

Apache Corp.,

6.000%, due 01/15/37

575,000 486,004

Archer-Daniels-Midland Co.,

6.450%, due 01/15/38

350,000 315,739

AT&T, Inc.,

6.450%, due 06/15/34

995,000 853,750

6.500%, due 09/01/37

975,000 829,413

Bank of America Corp.,

5.420%, due 03/15/17

2,200,000 1,751,204

Bear Stearns Cos.,

7.250%, due 02/01/18

	1,310,000	1,260,711
BellSouth Corp., 6.550%, due 06/15/34	1,015,000	870,190
Bristol-Myers Squibb Co., 5.875%, due 11/15/36	850,000	749,060
Burlington Northern Santa Fe Corp., 7.082%, due 05/13/29	840,000	842,809

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Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2008

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Caterpillar Financial Services Corp., 5.450%, due 04/15/18	$340,000	$304,177
CIT Group, Inc., 3.354%, due 12/22/08(2)	175,000	172,492
Citigroup, Inc., 6.125%, due 11/21/17	1,535,000	1,270,986
6.875%, due 03/05/38	1,465,000	1,198,320
Comcast Corp., 6.950%, due 08/15/37	2,250,000	1,919,144
Consolidated Edison Co. of New York, Inc., Series 2008-A, 5.850%, due 04/01/18		

340,000 322,793

Series 2008-B,

6.750%, due 04/01/38

340,000 321,467

CRH America, Inc.,

6.000%, due 09/30/16

310,000 267,152

CVS Caremark Corp.,

6.250%, due 06/01/27

1,050,000 945,364

Daimler Finance N.A. LLC,

8.500%, due 01/18/31

845,000 849,030

Dominion Resources, Inc.,

Series B,

5.950%, due 06/15/35

495,000 409,509

Dow Chemical Co.,

5.700%, due 05/15/18

155,000 142,784

DTE Energy Co.,

6.350%, due 06/01/16

705,000 657,336

Duke Energy Carolinas LLC, 6.050%, due 04/15/38	350,000	316,823
ERAC USA Finance Co., 7.000%, due 10/15/37(1)	440,000	309,898
8.000%, due 01/15/11(1)	1,065,000	1,089,542
Exelon Generation Co. LLC, 5.350%, due 01/15/14	1,015,000	920,077
Florida Power & Light Co., 5.650%, due 02/01/35	355,000	317,239

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2008

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Florida Power Corp., 6.350%, due 09/15/37	$215,000	$202,094
Fortune Brands, Inc., 5.375%, due 01/15/16	765,000	694,459
General Electric Capital Corp., 5.875%, due 01/14/38	1,820,000	1,341,795
GlaxoSmithKline Capital, Inc., 6.375%, due 05/15/38	900,000	844,913
GMAC LLC, 6.875%, due 09/15/11	1,915,000	854,448
Goldman Sachs Group, Inc., 6.150%, due 04/01/18	675,000	561,272

6.750%, due 10/01/37

1,085,000 724,335

Hartford Financial Services Group, Inc.,

6.000%, due 01/15/19

510,000 446,154

HSBC Bank USA N.A.,

5.625%, due 08/15/35

855,000 650,197

ICI Wilmington, Inc.,

5.625%, due 12/01/13

850,000 865,712

Johnson & Johnson,

5.850%, due 07/15/38

175,000 170,166

JP Morgan Chase Capital XXV,

Series Y,

6.800%, due 10/01/37

1,100,000 843,209

JPMorgan Chase & Co.,

6.400%, due 05/15/38

555,000 479,825

Kinder Morgan Energy Partners LP,

5.125%, due 11/15/14

580,000 529,455

5.800%, due 03/15/35	1,130,000	841,570
7.400%, due 03/15/31	265,000	245,164
Kraft Foods, Inc., 6.875%, due 01/26/39	440,000	400,769
Kroger Co., 6.900%, due 04/15/38	650,000	603,156
Lehman Brothers Holdings, Inc., 6.750%, due 12/28/17(4)	585,000	731
6.875%, due 05/02/18(4)	785,000	98,125

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Fort Dearborn Income Securities, Inc.

Portfolio of investments—September 30, 2008

Face Security description amount Value

Bonds—(continued)

Corporate bonds—(continued)

United States—(continued) McDonald's Corp.,

6.300%, due 03/01/38

$275,000 $265,020

Merck & Co. Inc.,

6.400%, due 03/01/28

520,000 539,276

Merrill Lynch & Co., Inc.,

5.700%, due 05/02/17

400,000 327,406

6.875%, due 04/25/18

365,000 322,934

MetLife, Inc.,

Series A,

6.817%, due 08/15/18

665,000 629,226

MidAmerican Energy Holding Co.,

5.950%, due 05/15/37

900,000 736,713

Morgan Stanley,

6.625%, due 04/01/18

750,000 496,343

7.250%, due 04/01/32

355,000 193,826

Mosaic Co.,

7.375%, due 12/01/14(1)

950,000 983,506

New Cingular Wireless Services, Inc.,

8.750%, due 03/01/31

945,000 1,044,849

News America, Inc.,

6.200%, due 12/15/34

695,000 554,116

Norfolk Southern Corp.,

5.750%, due 04/01/18

340,000 327,727

Northrop Grumman Systems Corp.,

7.125%, due 02/15/11

425,000 451,153

Nustar Logistics,

7.650%, due 04/15/18

575,000 578,056

Oncor Electric Delivery Co.,

6.800%, due 09/01/18(1)	425,000	377,855
Oracle Corp.,		
6.500%, due 04/15/38	550,000	500,027
Pacific Gas & Electric Co.,		
6.050%, due 03/01/34	540,000	476,647
Pemex Project Funding Master Trust,		
5.750%, due 03/01/18(1)	685,000	648,215
Philip Morris International, Inc.,		
6.375%, due 05/16/38	695,000	611,345

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Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2008

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
PPL Energy Supply LLC, 6.000%, due 12/15/36	$370,000	$277,827
Progressive Corp., 6.250%, due 12/01/32	275,000	248,388
Prologis, 5.625%, due 11/15/15	825,000	721,293
Prudential Financial, Inc., 6.625%, due 12/01/37	425,000	356,826
PSEG Power LLC, 8.625%, due 04/15/31	695,000	751,629
Safeway, Inc., 7.250%, due 02/01/31	645,000	655,665
San Diego Gas & Electric Co., Series FFF, 6.125%, due 09/15/37	450,000	416,123
Schering-Plough Corp., 6.550%, due 09/15/37	525,000	480,853
Simon Property Group LP,		

5.375%, due 06/01/11	300,000	295,591
South Carolina Electric & Gas Co.,		
6.500%, due 11/01/18	105,000	105,165
Southern California Edison Co.,		
Series 2006-E,		
5.550%, due 01/15/37	375,000	324,892
Sprint Capital Corp.,		
6.875%, due 11/15/28	1,280,000	857,600
Target Corp.,		
6.500%, due 10/15/37	290,000	266,396
7.000%, due 07/15/31	305,000	306,140
Teva Pharmaceutical Finance LLC,		
5.550%, due 02/01/16	715,000	664,595
Time Warner Cable, Inc.,		
7.300%, due 07/01/38	600,000	533,736
Time Warner, Inc.,		
7.625%, due 04/15/31	1,030,000	894,411
Travelers Property Casualty Corp.,		
6.375%, due 03/15/33	350,000	307,216

Fort Dearborn Income Securities, Inc.

Portfolio of investments—September 30, 2008

Security description	Face amount	Value
Bonds—(continued)		
Corporate bonds—(concluded)		
United States—(concluded)		
Union Electric Co., 6.700%, due 02/01/19	$340,000	$328,314
UnitedHealth Group, Inc., 6.875%, due 02/15/38	865,000	761,535
Valero Energy Corp., 6.625%, due 06/15/37	360,000	310,655
7.500%, due 04/15/32	885,000	831,280
Verizon Communications, Inc., 6.900%, due 04/15/38	520,000	460,938
Verizon New York, Inc., Series B, 7.375%, due 04/01/32	1,085,000	947,129
Wachovia Bank N.A., 5.850%, due 02/01/37	1,175,000	522,752
Wal-Mart Stores, Inc., 6.500%, due 08/15/37	900,000	844,438
Washington Mutual Bank,		

5.500%, due 01/15/13* 750,000 937

Washington Mutual Preferred Funding LLC,

9.750%, due 12/15/17*(1),(2),(3) 1,300,000 1,625

Waste Management, Inc.,

6.100%, due 03/15/18 700,000 653,736

WellPoint, Inc.,

5.850%, due 01/15/36 705,000 557,080

Wells Fargo Bank N.A.,

5.950%, due 08/26/36 1,180,000 923,460

Weyerhaeuser Co.,

7.375%, due 03/15/32 665,000 583,107

Xerox Corp.,

6.350%, due 05/15/18 540,000 493,614

Total United States corporate bonds 61,619,704

Total corporate bonds (cost$86,680,629) 71,841,668

Asset-backed securities3.03%

United States3.03% Citibank Credit Card Issuance Trust,

Series 2007-A3, Class A3,

6.150%, due 06/15/39 390,000 316,173

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Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2008

Security description	Face amount	Value
Bonds (continued)		
Asset-backed securities (concluded)		
United States (concluded) CPL Transition Funding LLC, Series 2002-1, Class A5, 6.250%, due 01/15/17	$3,000,000	$2,976,989
Small Business Administration, Series 2004-P10B, Class 1, 4.754%, due 08/10/14	389,124	377,564
Total asset-backed securities (cost $4,021,450)		3,670,726
Mortgage & agency debt securities 13.84%		
United States 13.84% Federal Home Loan Mortgage Corp., 3.500%, due 05/29/13	890,000	874,784
4.875%, due 06/13/18	1,610,000	1,631,761
5.000%, due 01/30/14	30,000	31,076
Federal Home Loan Mortgage Corp. Gold Pool, #E01127, 6.500%, due 02/01/17	127,752	132,369
Federal National Mortgage Association, 3.500%, due 04/28/11	190,000	190,185

3.875%, due 07/12/13	1,340,000	1,336,672
5.250%, due 08/01/12	245,000	247,832
5.625%, due 07/15/37	1,500,000	1,589,847
Federal National Mortgage Association Grantor Trust, Series 2002-T19, Class A1, 6.500%, due 07/25/42	304,090	316,831
Federal National Mortgage Association Pools, #688066, 5.500%, due 03/01/33	341,965	342,237
#793666, 5.500%, due 09/01/34	1,675,744	1,674,459
#802481, 5.500%, due 11/01/34	297,224	296,996
#596124, 6.000%, due 11/01/28	213,496	218,059
#253824, 7.000%, due 03/01/31	98,377	103,920

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2008

Security description	Face amount	Value
Bonds (continued)		
Mortgage & agency debt securities (concluded)		
United States (concluded)		
Federal National Mortgage Association, REMIC, Series 1993-106, Class Z, 7.000%, due 06/25/13	$43,031	$44,618
Federal National Mortgage Association, 6.000%, TBA	5,160,000	5,226,110
Government National Mortgage Association Pool, #781029, 6.500%, due 05/15/29	66,673	68,670
GSR Mortgage Loan Trust, Series 2006-2F, Class 3A4, 6.000%, due 02/25/36	1,300,000	979,218
Residential Funding Mortgage Securitization I, Inc., Series 2006-S6, Class M2, 6.000%, due 07/25/36	1,277,309	319,327
Wells Fargo Mortgage Backed Securities Trust, Series 2003-18, Class A2, 5.250%, due 12/25/33	1,212,685	1,145,683
Total mortgage & agency debt securities (cost $18,040,232)		16,770,654

Municipal bonds4.24%

Illinois1.82% Illinois State Taxable Pension,

5.100%, due 06/01/33 2,350,000 2,207,355

New Jersey2.42% New Jersey Economic Development Authority Revenue Bonds,

Series B,

10.792%, due 02/15/18(5) 5,000,000 2,937,150

Total municipal bonds (cost$4,667,586) 5,144,505

US government obligations18.17%

US Treasury Bonds,

4.750%, due 02/15/37 4,235,000 4,530,129

8.125%, due 08/15/19 165,000 221,448

US Treasury Inflation Indexed Bonds (TIPS),

2.000%, due 01/15/16 8,620,707 8,516,318

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Fort Dearborn Income Securities, Inc.

Portfolio of investments—September 30, 2008

Security description	Face amount	Value
Bonds—(concluded)		
US government obligations—(concluded)		
US Treasury Notes,		
2.375%, due 08/31/10	$3,335,000	$3,360,533
3.125%, due 08/31/13	3,680,000	3,708,174
3.875%, due 05/15/18	1,675,000	1,685,991
Total US government obligations (cost—$22,123,431)		22,022,593
Total bonds (cost—$135,533,328)		119,450,146
	Shares	
Short-term investment—4.71%		
Other—4.71% UBS Supplementary Trust—U.S. Cash Management Prime Fund, 2.851%(6),(7) (cost—$5,707,328)	5,707,328	5,707,328
Total investments—103.28% (cost—$141,240,656)		125,157,474
Liabilities, in excess of cash and other assets—(3.28%)		(3,979,912)
Net assets—100.00%		$121,177,562

Notes to portfolio of investments * As of September 29, 2008, the Fund is no longer accruing income on this security. — On September 7, 2008, the Federal Housing Finance Agency placed the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation into conservatorship, and the US Treasury guaranteed the debt issued by those organizations. (1) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities are considered liquid, unless otherwise noted, and may be resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2008, the value of these securities amounted to $4,968,484 or 4.10% of net assets. (2) Floating rate security The interest rate shown is the current rate as of September 30, 2008. (3) Perpetual bond security. The maturity date reflects the next call date. (4) Security is in default. (5) Rate shown reflects annualized yield at September 30, 2008 on zero coupon bond. (6) The table below details the Fund s investment in a security issued by a fund that is advised by the same advisor as the Fund. The advisor does not earn a management fee from UBS Supplementary Trust.

Security description	Value at 09/30/07	Purchases during the year ended 09/30/08	Sales during the year ended 09/30/08	Value at 09/30/08	Income earned from affiliate for the year ended 09/30/08
UBS Supplementary Trust U.S. Cash Management Prime Fund	$1,247,839	$60,527,508	$56,068,019	$5,707,328	$118,769

(7) The rate shown reflects the yield at September 30, 2008.

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Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2008

GMAC General Motors Acceptance Corp. GSR Goldman Sachs Residential REMIC Real Estate Mortgage Investment Conduit TBA (To be announced) Security is purchased on a forward commitment basis with an approximate principal amount (generally +/-1.0%) and no definite maturity date. The actual principal amount and maturity date will be determined upon settlement, when the specific mortgage pools are assigned. TIPS Treasury inflation protected securities (TIPS) are debt securities issued by the US Treasury whose principal and/or interest payments are adjusted for inflation, unlike debt securities that make fixed principal and interest payments. The interest rate paid by the TIPS is fixed, while the principal value rises or falls based on changes in a published Consumer Price Index (CPI). Thus, if inflation occurs, the principal and interest payments on the TIPS are adjusted accordingly to protect investors from inflationary loss. During a deflationary period, the principal and interest payments decrease, although the TIPS principal amounts will not drop below their face amounts at maturity. In exchange for the inflation protection, the TIPS generally pay lower interest rates than typical US Treasury securities. Only if inflation occurs will TIPS offer a higher real yield than a conventional Treasury bond of the same maturity.

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.

Statement of assets and liabilitiesSeptember 30, 2008

Assets:	Investments in securities of unaffiliated issuers, at value (cost$135,533,328)	$119,450,146
	Investments in affiliated issuers, at value (cost$5,707,328)	5,707,328
	Total investments (cost$141,240,656)	125,157,474
	Interest receivable	1,802,942
	Receivable for investments sold	175,336
	Other assets	830
	Total assets	127,136,582
Liabilities:	Payable for investments purchased	5,625,848
	Payable for investment advisory fees	155,668
	Payable for directors fees	40
	Accrued expenses and other liabilities	177,464
	Total liabilities	5,959,020
Net assets:	Capital stock$0.01 par value; 12,000,000 shares authorized; 8,775,665 shares issued and outstanding	135,120,133
	Undistributed net investment income	957,576
	Accumulated net realized gain from investment transactions	1,183,035
	Net unrealized depreciation on investments	(16,083,182)
	Net assets	$121,177,562
	Net asset value per share	$13.81

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.

Statement of operations

	For the year ended September 30, 2008
Investment income: Interest	$8,293,074
Affiliated interest	118,769
Total investment income	8,411,843
Expenses: Investment advisory fees	616,020
Professional fees	113,300
Reports and notices to shareholders	75,800
Custody and accounting fees	49,600
Transfer agency fees	46,200
Directors fees	33,900
Listing fees	23,816
Franchise taxes	6,800
Insurance expense	4,424
Other expenses	9,900
Total expenses	979,760
Net investment income	7,432,083
Realized and unrealized gains (losses) from investment activities: Net realized gain from investment transactions	1,498,471
Net change in unrealized depreciation of investments	(17,499,626)
Net realized and unrealized loss from investment activities	(16,001,155)
Net decrease in net assets resulting from operations	$(8,569,072)

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.

Statements of changes in net assets

For the years ended September 30,	2008	2007
From operations:		
Net investment income	$7,432,083	$7,204,905
Net realized gain from investment transactions	1,498,471	1,473,837
Net change in unrealized depreciation of investments	(17,499,626)	(2,721,889)
Net increase (decrease) in net assets resulting from operations	(8,569,072)	5,956,853
Dividends and distributions to shareholders from:		
Net investment income	(7,020,532)	(7,020,532)
Net realized gains	(831,056)	—
Total dividends and distributions to shareholders	(7,851,588)	(7,020,532)
Net decrease in net assets	(16,420,660)	(1,063,679)
Net assets:		
Beginning of period	137,598,222	138,661,901
End of period (including undistributed net investment income of $957,576 and $534,665, respectively)	$121,177,562	$137,598,222

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.

Financial highlights

Selected data for a share of capital stock outstanding through each year is presented below:

For the years ended September 30,	2008	2007	2006	2005	2004
Net asset value, beginning of year	$15.68	$15.80	$16.23	$16.48	$16.46
Net investment income(1)	0.85	0.82	0.81	0.80	0.83
Net realized and unrealized losses from investment transactions	(1.83)	(0.14)	(0.28)	(0.12)	(0.01)
Net increase (decrease) from investment operations	(0.98)	0.68	0.53	0.68	0.82
Dividends from net investment income	(0.80)	(0.80)	(0.82)	(0.82)	(0.80)
Distributions from net realized gains	(0.09)	—	(0.14)	(0.11)	—
Total dividends and distributions	(0.89)	(0.80)	(0.96)	(0.93)	(0.80)
Net asset value, end of year	$13.81	$15.68	$15.80	$16.23	$16.48
Market price per share, end of year	$12.92	$13.86	$14.04	$14.74	$14.84
Total net asset value return(2)	(6.60)%	4.40 %	3.46 %	4.17 %	5.13 %
Total market price return(3)	(0.62)%	4.31 %	2.01 %	5.68 %	6.54 %
Ratios/Supplemental data:					
Net assets, end of year (in millions)	$121.2	$137.6	$138.7	$142.5	$144.6
Ratio of expenses to average net assets	0.72 %	0.77 %	0.74 %	0.74 %	0.70 %
Ratio of net investment income to average net assets	5.45 %	5.20 %	5.19 %	4.81 %	5.05 %
Portfolio turnover	185 %	130 %	93 %	78 %	101 %
Number of shares outstanding at end of year (in thousands)	8,776	8,776	8,776	8,776	8,776

(1) Calculated using the average shares method. (2) Total net asset value return is calculated assuming a $10,000 purchase of common stock at the current net asset value on the first day of each year reported and a sale at the current net asset value on the last day of each year reported, and assuming reinvestment of dividends and

other distributions at the net asset value on the payable dates. Total net asset value return does not reflect brokerage commissions or the deduction of taxes that a shareholder would pay on Fund dividends/distributions or a sale of Fund shares. Total return based on net asset value is hypothetical as investors cannot purchase or sell Fund shares at the net asset value but only at market prices. (3) Total market price return is calculated assuming a $10,000 purchase of common stock at the current market price on the first day of each year reported and a sale at the current market price on the last day of each year reported, and assuming reinvestment of dividends and other distributions at prices obtained under the Fund's Dividend Reinvestment Plan. Total market price return does not reflect brokerage commissions or the deduction of taxes that a shareholder would pay on Fund dividends/distributions or a sale of Fund shares.

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.

Notes to financial statementsSeptember 30, 2008

Organization and significant accounting policies
Fort Dearborn Income Securities, Inc. (the Fund) is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end management investment company whose shares trade on the New York Stock Exchange (NYSE) and the Chicago Stock Exchange (CHX). The Fund invests principally in investment grade long-term fixed income debt securities. The Funds primary objective is to provide shareholders with a stable stream of current income consistent with external interest rate conditions and provide a total return over time that is above what they could receive by investing individually in the investment grade and long-term maturity sectors of the bond market. There can be no assurance that the Funds investment objective will be achieved.

In the normal course of business, the Fund may enter into contracts that contain a variety of representations or that provide indemnification for certain liabilities. The Funds maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had any prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

The preparation of financial statements in accordance with US generally accepted accounting principles requires the Funds management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

Valuation of investments The Fund calculates its net asset value based on the current market value for its portfolio securities. The Fund normally obtains market values for its securities and other instruments from independent pricing sources. Independent pricing sources may use last reported sale prices, current market quotations or valuations from computerized matrix systems that derive values based on comparable securities or instruments. Securities traded in the over-the-counter (OTC) market and listed on The NASDAQ Stock Market, Inc. (NASDAQ) normally are valued at the NASDAQ Official Closing Price. Other OTC securities are valued at the last bid price available prior to valuation. Securities which are listed on US and foreign stock exchanges normally are valued at the last sale price on the day the securities are valued or, lacking any sales on such day, at the last available bid price. Securities listed on foreign stock exchanges may be fair valued based on significant events that have occurred subsequent to

Fort Dearborn Income Securities, Inc.

Notes to financial statements□September 30, 2008

the close of the foreign markets. The Fund may use a systematic fair valuation model provided by an independent third party to value securities principally traded in foreign markets in order to adjust for possible stale pricing that may occur between the close of the foreign exchanges and the time for valuation. If a security is valued at a □fair value,□ that value is likely to be different from the last quoted market price for the security. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated as the primary market by UBS Global Asset Management (Americas) Inc. (□UBS Global AM□), the investment advisor of the Fund. UBS Global AM is an indirect wholly owned asset management subsidiary of UBS AG, an internationally diversified organization with headquarters in Zurich and Basel, Switzerland and operations in many areas of the financial services industry. If a market value is not readily available from an independent pricing source for a particular security, that security is valued at fair value as determined in good faith by or under the direction of the Fund□s Board of Directors (the □Board□). Various factors may be reviewed in order to make a good faith determination of a security□s fair value. These factors include, but are not limited to, fundamental analytical data relating to the investment; the nature and duration of restrictions on disposition of the securities; and the evaluation of forces which influence the market in which the securities are purchased and sold. Investments in open-end investment companies are valued at the daily closing net asset value of the respective investment company.

Certain securities in which the Fund invests are traded in markets that close before 4:00 p.m. Eastern Time. Normally, developments that occur between the close of the foreign markets and 4:00 p.m. Eastern Time will not be reflected in the Fund□s NAV. However, if the Fund determines that such developments are so significant that they will materially affect the value of the Fund□s securities, the Fund may adjust the previous closing prices to reflect what the Board believes to be the fair value of these securities as of 4:00 p.m. Eastern Time.

In September 2006, the Financial Accounting Standards Board (□FASB□) issued *Statement of Financial Accounting Standards No. 157, □Fair Value Measurements*□ (□FAS 157□). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal

Fort Dearborn Income Securities, Inc.

Notes to financial statements—September 30, 2008

years beginning after November 15, 2007 and interim periods within those fiscal years. As of September 30, 2008, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosure will be required about the inputs used to develop the measurements of fair value and the effect of certain measurements reported in the Statement of operations for a fiscal period.

In March 2008, the FASB issued *Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities"* ("FAS 161"). This standard requires enhanced disclosures about the Fund's derivative and hedging activities. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the impact the adoption of FAS 161 will have on the Fund's financial statement disclosures.

Mortgage-backed securities and other investments—The Fund invests in Mortgage-Backed Securities (MBS), representing interests in pools of mortgage loans. These securities provide shareholders with payments consisting of both principal and interest as the mortgages in the underlying mortgage pools are paid. MBS issued by private entities are not government securities and are not directly guaranteed by any government agency. They are secured by the underlying collateral of the private issuer. Yields on privately issued MBS tend to be higher than those of government backed issues. However, risk of loss due to default and sensitivity to interest rate fluctuations is also higher. Freddie Mac and Fannie Mae historically were agencies sponsored by the US government that were supported only by the credit of the issuing agencies and not backed by the full faith and credit of the United States. However, on September 7, 2008, due to the value of Freddie Mac's and Fannie Mae's securities falling sharply and concerns that the firms did not have sufficient capital to offset losses resulting from the mortgage crisis, the Federal Housing Finance Agency ("FHFA") placed Freddie Mac and Fannie Mae into conservatorship. As a result, Fannie Mae and Freddie Mac obligations became guaranteed obligations of the United States. Although the US government or its agencies provide financial support to such entities, no assurance can be given that they will always do so. The US government and its agencies and instrumentalities do not guarantee the market value of their securities; consequently, the value of such securities will fluctuate.

Fort Dearborn Income Securities, Inc.

Notes to financial statements—September 30, 2008

The Fund invests in Collateralized Mortgage Obligations (CMOs). A CMO is a bond, which is collateralized by a pool of MBS. The Fund may also invest in REMICs (Real Estate Mortgage Investment Conduit) which are simply another form of CMO. These MBS pools are divided into classes or tranches with each class having its own characteristics. The different classes are retired in sequence as the underlying mortgages are repaid. For instance, a Planned Amortization Class (PAC) is a specific class of mortgages, which ov