

FORT DEARBORN INCOME SECURITIES INC
Form N-Q
March 02, 2009

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

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

(Name and address of agent for service)

Copy to:

Bruce G. Leto, Esq.
Stradley Ronon Stevens & Young LLP
2600 One Commerce Square
Philadelphia, PA 19103

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

Date of fiscal year end: September 30

Date of reporting period: December 31, 2008

Item 1. Schedule of Investments**Fort Dearborn Income Securities, Inc. Portfolio of investments**

December 31, 2008 (unaudited)

| Security description | Face amount | Value |
|--|-------------|------------|
| Bonds 98.43% | | |
| Corporate bonds 61.49% | | |
| Canada 1.69% | | |
| Anadarko Finance Co., Series B, 7.500%, due 05/01/31 | \$ 380,000 | \$ 336,025 |
| Canadian National Railway Co., 6.375%, due 11/15/37 | 625,000 | 685,565 |
| 6.900%, due 07/15/28 | 285,000 | 320,018 |
| Canadian Natural Resources Ltd., 6.750%, due 02/01/39 | 1,020,000 | 847,198 |
| | | 2,188,806 |
| Total Canada corporate bonds | | 2,188,806 |
| Cayman Islands 0.82% | | |
| Transocean Ltd., 6.800%, due 03/15/38 | 535,000 | 477,192 |
| 7.500%, due 04/15/31 | 620,000 | 583,004 |
| | | 1,060,196 |
| Total Cayman Islands corporate bonds | | 1,060,196 |
| Luxembourg 0.57% | | |
| Telecom Italia Capital SA, 6.375%, due 11/15/33 | 1,060,000 | 742,000 |
| | | 742,000 |
| Netherlands 1.73% | | |
| Deutsche Telekom International Finance BV, 6.750%, due 08/20/18 | 520,000 | 527,285 |
| E. ON International Finance BV, 6.650%, due 04/30/38 ⁽¹⁾ | 725,000 | 673,411 |
| Shell International Finance BV, 6.375%, due 12/15/38 | 925,000 | 1,040,615 |
| | | 2,241,311 |
| Total Netherlands corporate bonds | | 2,241,311 |
| Spain 0.34% | | |
| Telefonica Emisiones SAU, 6.221%, due 07/03/17 | 440,000 | 433,487 |
| | | 433,487 |
| Switzerland 0.83% | | |
| Credit Suisse, 6.000%, due 02/15/18 | 1,165,000 | 1,069,849 |
| | | 1,069,849 |
| United Kingdom 2.02% | | |
| Abbey National PLC, 7.950%, due 10/26/29 | 750,000 | 653,273 |
| AstraZeneca PLC, 6.450%, due 09/15/37 | 745,000 | 846,827 |

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| | | |
|--|---------|---------|
| British Telecommunications PLC, 9.125%, due 12/15/30 | 365,000 | 387,974 |
| Royal Bank of Scotland Group PLC, 7.640%, due 09/29/17 ^{(2),(3)} | 700,000 | 278,799 |
| Vodafone Group PLC, 5.625%, due 02/27/17 | 480,000 | 452,279 |

| | | |
|--------------------------------------|--|-----------|
| Total United Kingdom corporate bonds | | 2,619,152 |
|--------------------------------------|--|-----------|

United States 53.49%

| | | |
|--|-----------|-----------|
| Abbott Laboratories, 6.150%, due 11/30/37 | 635,000 | 749,240 |
| Allergan, Inc., 5.750%, due 04/01/16 | 1,300,000 | 1,243,739 |
| Allstate Corp., 5.950%, due 04/01/36 | 550,000 | 465,627 |
| Altria Group, Inc., 9.700%, due 11/10/18 | 460,000 | 497,182 |
| 9.950%, due 11/10/38 | 175,000 | 190,542 |
| American Honda Finance Corp., 7.625%, due 10/01/18 ⁽¹⁾ | 225,000 | 221,105 |
| American International Group, Inc., 5.850%, due 01/16/18 | 1,180,000 | 790,936 |
| Anheuser-Busch Cos., Inc., 6.450%, due 09/01/37 | 400,000 | 360,224 |
| Apache Corp., 6.000%, due 01/15/37 | 575,000 | 557,563 |
| Archer-Daniels-Midland Co., 6.450%, due 01/15/38 | 350,000 | 354,605 |

Fort Dearborn Income Securities, Inc. Portfolio of investments

December 31, 2008 (unaudited)

| Security description | Face amount | Value |
|--|----------------|--------------|
| Bonds (continued) | | |
| Corporate bonds (continued) | | |
| United States (continued) | | |
| AT&T, Inc., 6.450%, due 06/15/34 | \$ 995,000 | \$ 1,041,382 |
| 6.500%, due 09/01/37 | 975,000 | 1,050,065 |
| Bank of America Corp., 5.420%, due 03/15/17 | 2,200,000 | 1,955,521 |
| Bear Stearns Cos., 7.250%, due 02/01/18 | 1,310,000 | 1,435,571 |
| BellSouth Corp., 6.550%, due 06/15/34 | 1,015,000 | 1,029,209 |
| Bristol-Myers Squibb Co., 5.875%, due 11/15/36 | 850,000 | 903,932 |
| Burlington Northern Santa Fe Corp., 7.082%, due 05/13/29 | 745,000 | 751,481 |
| Caterpillar Financial Services Corp., 5.450%, due 04/15/18 | 340,000 | 318,337 |
| Citigroup, Inc., 6.125%, due 05/15/18 | 1,535,000 | 1,552,072 |
| 6.875%, due 03/05/38 | 1,195,000 | 1,359,775 |
| Comcast Corp., 6.950%, due 08/15/37 | 2,250,000 | 2,369,367 |
| ConocoPhillips, 5.900%, due 05/15/38 | 395,000 | 387,938 |
| Consolidated Edison Co. of New York, Inc., Series 2008-B, 6.750%, due 04/01/38 | 340,000 | 363,278 |
| 7.125%, due 12/01/18 | 400,000 | 430,109 |
| CRH America, Inc., 6.000%, due 09/30/16 | 310,000 | 193,066 |
| CVS Caremark Corp., 6.250%, due 06/01/27 | 1,050,000 | 976,292 |
| Daimler Finance North America LLC, 8.500%, due 01/18/31 | 845,000 | 617,883 |
| Dominion Resources, Inc., Series B, 5.950%, due 06/15/35 | 495,000 | 422,946 |
| Dow Chemical Co., 5.700%, due 05/15/18 | 155,000 | 137,703 |
| DTE Energy Co., 6.350%, due 06/01/16 | 500,000 | 448,092 |
| Duke Energy Carolinas LLC, 6.050%, due 04/15/38 | 350,000 | 383,954 |
| ERAC USA Finance Co., 7.000%, due 10/15/37 ⁽¹⁾ | 440,000 | 242,341 |
| 8.000%, due 01/15/11 ⁽¹⁾ | 1,065,000 | 999,065 |
| Exelon Generation Co. LLC, 5.350%, due 01/15/14 | 1,015,000 | 927,091 |
| Florida Power & Light Co., 5.650%, due 02/01/35 | 355,000 | 378,333 |
| Florida Power Corp., 6.350%, due 09/15/37 | 215,000 | 238,298 |

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| | | |
|--|-----------|-----------|
| Fortune Brands, Inc., 5.375%, due 01/15/16 | 765,000 | 638,969 |
| General Electric Capital Corp., 5.625%, due 05/01/18 | 330,000 | 332,392 |
| 5.875%, due 01/14/38 | 1,820,000 | 1,781,525 |
| GlaxoSmithKline Capital, Inc., 6.375%, due 05/15/38 | 800,000 | 903,868 |
| GMAC LLC, 6.875%, due 09/15/11 ⁽¹⁾ | 202,000 | 165,491 |
| Goldman Sachs Group, Inc., 6.150%, due 04/01/18 | 815,000 | 783,183 |
| 6.750%, due 10/01/37 | 1,085,000 | 880,877 |
| Hartford Financial Services Group, Inc., 6.000%, due 01/15/19 | 510,000 | 370,669 |
| HSBC Bank USA N.A., 5.625%, due 08/15/35 | 855,000 | 804,361 |
| ICI Wilmington, Inc., 5.625%, due 12/01/13 | 850,000 | 819,482 |
| Johnson & Johnson, 5.850%, due 07/15/38 | 175,000 | 211,426 |
| JP Morgan Chase Capital XXV, Series Y, 6.800%, due 10/01/37 | 1,100,000 | 1,013,523 |
| JPMorgan Chase & Co., 6.400%, due 05/15/38 | 555,000 | 656,543 |

Fort Dearborn Income Securities, Inc. Portfolio of investments

December 31, 2008 (unaudited)

| Security description | Face amount | Value |
|---|-------------|------------|
| Bonds (continued) | | |
| Corporate bonds (continued) | | |
| United States (continued) | | |
| Kimberly-Clark Corp., 7.500%, due 11/01/18 | \$ 350,000 | \$ 412,146 |
| Kinder Morgan Energy Partners LP, 5.125%, due 11/15/14 | 580,000 | 505,294 |
| 5.800%, due 03/15/35 | 1,130,000 | 786,703 |
| Kraft Foods Inc., 6.875%, due 01/26/39 | 440,000 | 440,790 |
| Kroger Co., 6.900%, due 04/15/38 | 650,000 | 681,127 |
| Lehman Brothers Holdings, Inc., 6.750%, due 12/28/17 ⁽⁴⁾ | 585,000 | 58 |
| 6.875%, due 05/02/18 ⁽⁴⁾ | 785,000 | 74,575 |
| McDonald's Corp., 6.300%, due 03/01/38 | 275,000 | 303,326 |
| Merck & Co., Inc., 6.400%, due 03/01/28 | 520,000 | 573,864 |
| Merrill Lynch & Co., Inc., 5.700%, due 05/02/17 | 400,000 | 354,382 |
| 6.875%, due 04/25/18 | 365,000 | 381,799 |
| MetLife Inc., Series A, 6.817%, due 08/15/18 | 665,000 | 633,347 |
| MidAmerican Energy Holding Co., 5.950%, due 05/15/37 | 900,000 | 816,078 |
| Morgan Stanley, 6.625%, due 04/01/18 | 845,000 | 741,310 |
| 7.250%, due 04/01/32 | 355,000 | 304,568 |
| Mosaic Co., 7.375%, due 12/01/14 ⁽¹⁾ | 950,000 | 779,000 |
| National Rural Utilities Cooperative Finance Corp., 10.375%, due 11/01/18 | 315,000 | 368,679 |
| New Cingular Wireless Services, Inc., 8.750%, due 03/01/31 | 945,000 | 1,181,331 |
| News America, Inc., 6.200%, due 12/15/34 | 695,000 | 634,220 |
| Norfolk Southern Corp., 5.750%, due 04/01/18 | 340,000 | 330,836 |
| Northrop Grumman Systems Corp., 7.125%, due 02/15/11 | 425,000 | 441,900 |
| Nustar Logistics, 7.650%, due 04/15/18 | 575,000 | 527,088 |
| Oncor Electric Delivery Co., 6.800%, due 09/01/18 ⁽¹⁾ | 425,000 | 407,573 |
| Oracle Corp., 6.500%, due 04/15/38 | 550,000 | 605,527 |
| Pacific Gas & Electric Co., 6.050%, due 03/01/34 | 540,000 | 573,512 |
| 8.250%, due 10/15/18 | 275,000 | 330,402 |
| Pemex Project Funding Master Trust, | | |

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|--|---------|---------|
| 5.750%, due 03/01/18 ⁽¹⁾ PepsiCo Inc., | 685,000 | 604,512 |
| 7.900%, due 11/01/18 Philip Morris International, Inc., | 260,000 | 318,668 |
| 6.375%, due 05/16/38 PPL Energy Supply LLC, | 695,000 | 722,845 |
| 6.000%, due 12/15/36 Progressive Corp., | 370,000 | 239,164 |
| 6.250%, due 12/01/32 Prologis, | 275,000 | 236,305 |
| 5.625%, due 11/15/15 Prudential Financial, Inc., | 825,000 | 410,574 |
| 6.625%, due 12/01/37 PSEG Power LLC, | 425,000 | 289,768 |
| 8.625%, due 04/15/31 Safeway Inc., | 695,000 | 707,878 |
| 7.450%, due 09/15/27 San Diego Gas & Electric Co., Series FFF, | 725,000 | 726,336 |
| 6.125%, due 09/15/37 | 450,000 | 494,680 |

Fort Dearborn Income Securities, Inc. Portfolio of investments

December 31, 2008 (unaudited)

| Security description | Face amount | Value |
|---|-------------|------------|
| Bonds (continued) | | |
| Corporate bonds (concluded) | | |
| United States (concluded) | | |
| Schering-Plough Corp., 6.550%, due 09/15/37 | \$ 525,000 | \$ 529,217 |
| Simon Property Group LP, 5.375%, due 06/01/11 | 300,000 | 253,539 |
| South Carolina Electric & Gas Co., 6.500%, due 11/01/18 | 105,000 | 117,527 |
| Southern California Edison Co., Series 2006-E, 5.550%, due 01/15/37 | 375,000 | 394,989 |
| Sprint Capital Corp., 6.875%, due 11/15/28 | 1,280,000 | 761,600 |
| Target Corp., 6.500%, due 10/15/37 | 290,000 | 249,015 |
| 7.000%, due 07/15/31 | 305,000 | 280,172 |
| Teva Pharmaceutical Finance LLC, 5.550%, due 02/01/16 | 715,000 | 704,719 |
| Time Warner Cable, Inc., 7.300%, due 07/01/38 | 600,000 | 623,321 |
| 8.750%, due 02/14/19 | 410,000 | 445,807 |
| Time Warner, Inc., 7.625%, due 04/15/31 | 1,030,000 | 1,012,294 |
| Travelers Property Casualty Corp., 6.375%, due 03/15/33 | 350,000 | 331,232 |
| Union Electric Co., 6.700%, due 02/01/19 | 340,000 | 309,802 |
| Union Pacific Corp., 7.875%, due 01/15/19 | 180,000 | 205,637 |
| UnitedHealth Group, Inc., 6.875%, due 02/15/38 | 865,000 | 757,403 |
| Valero Energy Corp., 6.625%, due 06/15/37 | 360,000 | 264,781 |
| 7.500%, due 04/15/32 | 885,000 | 707,578 |
| Verizon Communications, Inc., 6.900%, due 04/15/38 | 520,000 | 585,132 |
| Verizon New York, Inc., Series B, 7.375%, due 04/01/32 | 1,085,000 | 906,290 |
| Virginia Electric & Power Co., 8.875%, due 11/15/38 | 400,000 | 506,225 |
| Wachovia Bank N.A., 5.850%, due 02/01/37 | 1,175,000 | 1,147,083 |
| Wal-Mart Stores, Inc., 6.500%, due 08/15/37 | 900,000 | 1,068,583 |
| Washington Mutual Bank, 5.500%, due 01/15/13 ⁽⁴⁾ | 750,000 | 75 |
| Washington Mutual Preferred Funding LLC, 9.750%, due 12/15/17 ^{(1),(2),(3),(4)} | 1,300,000 | 130 |
| Waste Management, Inc., 6.100%, due 03/15/18 | 700,000 | 605,461 |
| WellPoint, Inc., | | |

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|--------------------------------------|-----------|------------|
| 5.850%, due 01/15/36 | 705,000 | 575,938 |
| Wells Fargo Bank N.A., | | |
| 5.950%, due 08/26/36 | 1,180,000 | 1,223,551 |
| Weyerhaeuser Co., | | |
| 7.375%, due 03/15/32 | 665,000 | 431,751 |
| Wisconsin Power & Light Co., | | |
| 7.600%, due 10/01/38 | 175,000 | 205,722 |
| Xerox Corp., | | |
| 6.350%, due 05/15/18 | 540,000 | 422,331 |
| | | <hr/> |
| Total United States corporate bonds | | 69,273,243 |
| | | <hr/> |
| Total corporate bonds | | |
| (cost \$87,388,433) | | 79,628,044 |
| | | <hr/> |
| Asset-backed securities 4.14% | | |
| United States 4.14% | | |
| Citibank Credit Card Issuance Trust, | | |
| Series 2002-A8, Class A8, | | |
| 2.066%, due 11/07/11 ⁽²⁾ | 750,000 | 717,419 |
| Series 2007-A3, Class A3, | | |
| 6.150%, due 06/15/39 | 390,000 | 268,633 |
| CPL Transition Funding LLC, | | |
| Series 2002-1, Class A5, | | |
| 6.250%, due 01/15/17 | 3,000,000 | 2,972,948 |

Fort Dearborn Income Securities, Inc. Portfolio of investments

December 31, 2008 (unaudited)

| Security description | Face amount | Value |
|---|----------------|------------|
| Bonds (continued) | | |
| Asset-backed securities (concluded) | | |
| United States (concluded) | | |
| Ford Credit Auto Owner Trust, Series 2007-B, Class A3A, 5.150%, due 11/15/11 | \$ 320,000 | \$ 307,337 |
| MBNA Credit Card Master Note Trust, Series 2004-A7, Class A7, 1.295%, due 12/15/11 ⁽²⁾ | 750,000 | 728,591 |
| Small Business Administration, Series 2004-P10B, Class 1, 4.754%, due 08/10/14 | 368,415 | 369,904 |
| Total asset-backed securities (cost \$5,743,772) | | 5,364,832 |
| Commercial mortgage-backed securities 3.70% | | |
| United States 3.70% | | |
| Bear Stearns Commercial Mortgage Securities Trust, Series 2005-PWR7, Class A2, 4.945%, due 02/11/41 | 696,856 | 591,835 |
| Series 2006-T24, Class A4, 5.537%, due 10/12/41 | 600,000 | 502,271 |
| Series 2006-PW12, Class A4, 5.718%, due 09/11/38 ⁽²⁾ | 600,000 | 488,095 |
| GS Alternative Mortgage Product II, Series 2006-GG8, Class A2, 5.479%, due 11/10/39 | 320,000 | 266,124 |
| Series 2007-GG10, Class A4, 5.799%, due 08/10/45 ⁽²⁾ | 3,515,000 | 2,550,683 |
| Morgan Stanley Capital I, Series 2006-HQ10, Class A4, 5.328%, due 11/12/41 | 500,000 | 389,993 |
| Total commercial mortgage-backed securities (cost \$4,260,897) | | 4,789,001 |
| Mortgage & agency debt securities 15.40% | | |
| United States 15.40% | | |
| Federal Home Loan Mortgage Corp., 3.500%, due 05/29/13 | 890,000 | 928,591 |
| 4.875%, due 06/13/18 | 1,610,000 | 1,850,357 |
| 5.000%, due 01/30/14 | 30,000 | 33,537 |
| Federal Home Loan Mortgage Corp. Gold Pools, #E01127, 6.500%, due 02/01/17 | 119,995 | 124,671 |
| Federal National Mortgage Association, 2.875%, due 12/11/13 | 1,340,000 | 1,372,526 |
| 3.500%, due 04/28/11 | 190,000 | 191,338 |
| 5.250%, due 08/01/12 | 245,000 | 258,235 |
| 5.625%, due 07/15/37 | 1,500,000 | 1,935,261 |
| Federal National Mortgage Association Grantor Trust, Series 2002-T19, Class A1, | | |

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| | | |
|--|-----------|-----------|
| 6.500%, due 07/25/42 | 295,029 | 307,106 |
| Federal National Mortgage Association Pools, | | |
| #688066, 5.500%, due 03/01/33 | 329,977 | 339,427 |
| #793666, 5.500%, due 09/01/34 | 1,639,995 | 1,684,140 |
| #802481, 5.500%, due 11/01/34 | 293,059 | 300,948 |
| #888016, 5.500%, due 05/01/36 | 2,498,434 | 2,564,124 |
| #596124, 6.000%, due 11/01/28 | 210,273 | 218,266 |
| #988988, 6.000%, due 09/01/38 | 5,160,002 | 5,317,441 |
| #253824, 7.000%, due 03/01/31 | 97,596 | 103,354 |
| Federal National Mortgage Association REMIC, | | |
| Series 1993-106, Class Z, | | |
| 7.000%, due 06/25/13 | 41,637 | 43,746 |
| Government National Mortgage Association Pools, | | |
| #781029, 6.500%, due 05/15/29 | 64,492 | 67,786 |
| GSR Mortgage Loan Trust, | | |
| Series 2006-2F, Class 3A4, | | |
| 6.000%, due 02/25/36 | 1,300,000 | 958,758 |
| Residential Funding Mortgage Securitization I, Inc., | | |
| Series 2006-S6, Class M2, | | |
| 6.000%, due 07/25/36 | 1,274,398 | 104,740 |

Fort Dearborn Income Securities, Inc. Portfolio of investments

December 31, 2008 (unaudited)

| Security description | Face amount | Value |
|---|----------------|--------------|
| Bonds (concluded) | | |
| Mortgage & agency debt securities (concluded) | | |
| United States (concluded) | | |
| Wells Fargo Mortgage Backed Securities Trust, Series 2003-18, Class A2, 5.250%, due 12/25/33 | \$ 1,196,643 | \$ 1,238,297 |
| Total mortgage & agency debt securities (cost \$20,419,075) | | 19,942,649 |
| Municipal bonds 3.50% | | |
| Illinois 1.59% | | |
| Illinois State Taxable Pension, 5.100%, due 06/01/33 | 2,350,000 | 2,058,553 |
| New Jersey 1.91% | | |
| New Jersey Economic Development Authority Revenue Bonds, Series B, 10.683%, due 02/15/18 ⁽⁵⁾ | 5,000,000 | 2,481,100 |
| Total municipal bonds (cost \$4,715,171) | | 4,539,653 |
| US government obligations 9.48% | | |
| US Treasury Bonds, 4.375%, due 02/15/38 | 50,000 | 66,969 |
| 4.500%, due 05/15/38 | 2,200,000 | 3,002,657 |
| 4.750%, due 02/15/37 | 2,240,000 | 3,121,301 |
| 8.125%, due 08/15/19 | 165,000 | 243,865 |
| US Treasury Inflation Indexed Notes (TIPS), 1.375%, due 07/15/18 | 2,360,000 | 2,216,709 |
| 2.000%, due 01/15/16 | 3,110,000 | 3,249,842 |
| US Treasury Notes, 3.750%, due 11/15/18 | 330,000 | 373,570 |
| Total US government obligations (cost \$10,981,693) | | 12,274,913 |
| Non US-government obligation 0.72% | | |
| Mexico 0.72% | | |
| United Mexican States, 6.750%, due 09/27/34 (cost \$649,124) | 890,000 | 938,950 |
| Total bonds (cost \$134,158,165) | | 127,478,042 |

Shares

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| | | | |
|---|--------------|--------------|----------------|
| Preferred stock | 0.01% | | |
| United States | 0.01% | | |
| Preferred Blocker, Inc., | | | |
| 9.000%, due 12/31/11 ⁽¹⁾ | | | |
| (cost \$34,713) | | 42 | 10,500 |
| | | | <hr/> |
| | | Units | |
| | | <hr/> | |
| Short-term investment | 0.39% | | |
| Other | 0.39% | | |
| UBS Supplementary Trust U.S. Cash | | | |
| Management Prime Fund, 1.54% ^{(6),(7)} | | | |
| (cost \$501,345) | | 501,345 | 501,345 |
| | | | <hr/> |
| Total investments ⁽⁸⁾ | 98.83% | | |
| (cost \$134,694,223) | | | 127,989,887 |
| Cash and other assets, less liabilities | 1.17% | | 1,512,109 |
| | | | <hr/> |
| Net assets | 100.00% | | \$ 129,501,996 |
| | | | <hr/> |

Notes to portfolio of investments

Aggregate cost for federal income tax purposes, which was the same for book purposes, was \$134,694,223; and net unrealized depreciation consisted of:

| | |
|------------------------------------|-----------------------|
| Gross unrealized appreciation | \$ 6,203,755 |
| Gross unrealized depreciation | (12,908,091) |
| Net unrealized depreciation | \$ (6,704,336) |

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 noted otherwise, and may be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2008, the value of these securities amounted to \$4,103,128 or 3.17% of net assets.
- (2) Floating rate security. The interest rate shown is the current rate as of December 31, 2008.
- (3) Perpetual bond security. The maturity date reflects the next call date.
- (4) Security is in default.
- (5) Zero coupon bond. The rate shown is the effective yield at December 31, 2008.
- (6) The rate shown reflects the yield at December 31, 2008.
- (7) 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 09/30/08 | Purchases during the three months ended 12/31/08 | Sales during the three months ended 12/31/08 | Value at 12/31/08 | Income earned from affiliate for the three months ended 12/31/08 |
|---|----------------------|--|--|----------------------|--|
| UBS Supplementary Trust U.S. Cash Management Prime Fund | \$5,707,328 | \$17,759,866 | \$22,965,849 | \$501,345 | \$26,913 |

- (8) The Fund calculates its net asset value based on the current market value, where available, for its portfolio securities. The Fund normally obtains market values for its securities from independent pricing sources and broker-dealers. Independent pricing sources may use reported last sale prices, current market quotations or valuations from computerized matrix systems that derive values based on comparable securities. A matrix system incorporates parameters such as security quality, maturity and coupon, and/or research and evaluations by its staff, including review of broker-dealer market price quotations, if available, in determining the valuation of portfolio securities. 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 on the valuation date 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 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 manager 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 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

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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.

In September 2006, the Financial Accounting Standards Board (FASB) released *Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157)*. FAS 157 requires disclosure regarding the various inputs that are used in determining the value of the Fund s investments. These inputs are summarized into the three broad levels listed below.

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Level 1 Quoted prices in active markets for identical securities.

Level 2 Other significant observable inputs, including but not limited to, quoted prices for similar securities, interest rates, prepayment speeds and credit risks.

Level 3 Unobservable inputs inclusive of the Fund's own assumptions in determining the fair value of investments.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Fund's assets:

Measurements at 12/31/08

| Description | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Unobservable inputs (Level 3) | Total |
|-----------------------|--|---|-------------------------------|----------------------|
| Assets | | | | |
| Securities | \$0 | \$127,989,887 | \$0 | \$127,989,887 |
| Derivatives | 0 | 0 | 0 | 0 |
| Total | \$0 | \$127,989,887 | \$0 | \$127,989,887 |
| Liabilities | | | | |
| Securities sold short | \$0 | \$0 | \$0 | \$0 |
| Derivatives | 0 | 0 | 0 | 0 |
| Total | \$0 | \$0 | \$0 | \$0 |

GMAC General Motors Acceptance Corp.

GS Goldman Sachs

GSR Goldman Sachs Residential

REMIC Real Estate Mortgage Investment Conduit

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 security of the same maturity.

For more information regarding the Fund's other significant accounting policies, please refer to the Fund's annual report to shareholders dated September 30, 2008.

Industry diversification (unaudited)

As a percentage of net assets as of December 31, 2008

| | |
|---|---------|
| Bonds | |
| Corporate bonds | |
| Aerospace & defense | 0.34% |
| Auto manufacturers | 0.48 |
| Beverages | 0.53 |
| Building materials | 0.15 |
| Capital markets | 2.71 |
| Chemicals | 1.34 |
| Commercial banks | 4.00 |
| Commercial services & supplies | 1.43 |
| Diversified financial services | 9.15 |
| Diversified telecommunication services | 5.76 |
| Electric utilities | 6.03 |
| Energy equipment & services | 0.82 |
| Food & staples retailing | 2.67 |
| Food products | 0.61 |
| Health care providers & services | 1.02 |
| Hotels, restaurants & leisure | 0.23 |
| Household durables | 0.49 |
| Household products | 0.32 |
| Insurance | 2.41 |
| Media | 3.92 |
| Multiline retail | 0.41 |
| Multi-utilities | 0.68 |
| Office electronics | 0.33 |
| Oil, gas & consumable fuels | 5.07 |
| Paper & forest products | 0.33 |
| Pharmaceuticals | 5.14 |
| Real estate investment trusts (REITs) | 0.52 |
| Road & rail | 1.78 |
| Software | 0.47 |
| Tobacco | 1.09 |
| Wireless telecommunication services | 1.26 |
| | <hr/> |
| Total corporate bonds | 61.49 |
| Asset-backed securities | 4.14 |
| Commercial mortgage-backed securities | 3.70 |
| Mortgage & agency debt securities | 15.40 |
| Municipal bonds | 3.50 |
| US government obligations | 9.48 |
| Non US-government obligation | 0.72 |
| | <hr/> |
| Total bonds | 98.43 |
| Preferred stock | |
| Diversified financial services | 0.01 |
| Short-term investment | 0.39 |
| | <hr/> |
| Total investments | 98.83 |
| Cash and other assets, less liabilities | 1.17 |
| | <hr/> |
| Net assets | 100.00% |
| | <hr/> |

Item 2. Controls and Procedures.

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended ("Investment Company Act")) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.
- (b) The registrant's principal executive officer and principal financial officer are aware of no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

- (a) Certifications of principal executive officer and principal financial officer of registrant pursuant to Rule 30a-2(a) under the Investment Company Act is attached hereto as Exhibit EX-99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fort Dearborn Income Securities, Inc.

By: /s/ Kai R. Sotorp
Kai R. Sotorp
President

Date: March 2, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kai R. Sotorp
Kai R. Sotorp
President

Date: March 2, 2009

By: /s/ Thomas Disbrow
Thomas Disbrow
Treasurer & Principal Accounting Officer

Date: March 2, 2009