

FORT DEARBORN INCOME SECURITIES INC
Form N-CSR
June 05, 2003

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)

One North Wacker Drive, Chicago, Illinois 60606

(Address of principal executive offices) (Zip code)

Amy R. Doberman
UBS Global Asset Management (Americas) Inc.
One North Wacker Drive
Chicago, Illinois 60606
(Name and address of agent for service)

Registrant's telephone number, including area

code: 312-525-7100

Date of fiscal year end: September 30, 2003

Date of reporting period: March 31, 2003

ITEM 1. REPORTS TO STOCKHOLDERS.

FORT DEARBORN INCOME SECURITIES, INC.

[LOGO] FTD
LISTED
NYSE

[LOGO] THE
CHICAGO
STOCK EXCHANGE

FORT
DEARBORN
INCOME
SECURITIES,

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INC.

SEMI-ANNUAL REPORT
MARCH 31, 2003

APRIL 14, 2003

DEAR SHAREHOLDER:

This financial report covers the six-month period ended March 31, 2003, which is our thirty-first fiscal year of operations.

Daily headlines brought an ever-changing picture of what the situation in Iraq would mean for the United States and the rest of the developed world. This cloud of uncertainty weighed heavily on consumer and business confidence. Forward-looking economic indicators amplified negative sentiment and provided further worrisome headlines for markets to digest. In this environment, U.S. fixed income continued to enjoy increased demand as a flight to quality made it more attractive than riskier assets.

By the tone of headlines and market sentiment, one would think that bond yields would have fallen to historically low levels. However, price history since September of last year shows a market that is very much range bound. We have seen 30-year Treasury yields at 4.9% in every one of the past six months, and yields are currently trading above that level. High quality spreads have also been remarkably stable, which indicates that the flight to quality has not only benefited Treasuries, but also the mortgage, agency and high-quality corporate markets. We continue to be defensive on duration as rates across the entire yield curve are trading below our estimates of fair value. However, there have been several market developments that have provided us with the opportunity to add value as we wait for bond yields to normalize.

In October 2002, the difference between the nominal yield of the 10-year Treasury notes and the real yield of Treasury inflation-protected securities (TIPS) was roughly 1.5%. This yield difference, which is referred to as the break-even inflation (BEI), represents the level of inflation over the life of the securities that would make investors indifferent to owning one versus the other. At this level, our valuation indicated that there was significant value in the sector and we maintained positive exposure relative to our benchmark. Over the remainder of 2002, talk of deflation faded and fear of higher oil prices increased. By February 2003, this resulted in BEI increasing to nearly 2.0%. At this level, we reduced our exposure to the sector and positioned the portfolio back into nominal Treasury notes.

Another interesting development in bond markets involves the lower end of the credit quality spectrum. As 2002 produced more corporate downgrades than any other period in recent history, market participants sought to quantify the risk of corporate debt and to build models that might predict future credit deterioration. The best of these models use a Merton methodology to relate a company's credit spreads to its equity price volatility. This framework has intuitive appeal and was generally accepted as a good way to monitor investment grade credit.

Looking back to 2002, the theory appears sound as one could observe a relationship between aggregated credit spreads and the general level and volatility of the equity market. However, 2003 has yielded very different results. Corporate bond spreads have improved and stabilized while equity prices have declined and remain volatile. This breakdown does not come as a surprise to us, as we believe investment grade corporate bonds are much more sensitive to expected changes in liquidity and leverage than to equity volatility. All else equal, an increase in leverage, particularly in the short-term, tends to cause bond yields to increase while equity price direction is more uncertain.

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At the end of 2002, we did extensive back testing on what, in our opinion, was the best of the Merton models. Our results indicated that this representative model had very little predictive power. Based on what we considered poor results for these models, we have chosen to continue with our long-standing process of utilizing bottom-up credit analysis to look at investment grade corporate debt.

Following a stellar fourth quarter of 2002, corporate debt was again the best performing investment grade sector in the first quarter of 2003. We attribute the resiliency in corporate bond spreads to balance sheet repair (de-leveraging) and strong investor demand. The more volatile BBB sector led performance, tightening by 38 basis points relative to Treasuries. Adding exposure to the corporate bond market over the last six months was timely. We will continue to increase our credit exposure as good lending opportunities arise.

Net investment income for the six months was \$0.42 per share and net realized and unrealized gains on investments totaled \$0.41 per share. On March 31, 2003, the net asset value per share was \$16.05 and the stock closed that day at \$15.00 per share.

During the period the Board of Directors declared regular quarterly dividends of \$0.23 per share and \$0.22 per share payable on December 13, 2002 and March 22, 2003, respectively. In addition to regular dividends, the Board declared a capital gains distribution of \$0.04 per share payable on December 13, 2003.

At the end of the period, the 160 issues in the portfolio had an average market yield of 5.02%, an average Moody's quality rating of A1, an average duration of 7.2, and an average maturity of 15.0 years. The distribution of the portfolio expected maturities and quality was as follows:

Maturities

0-1 year	1.9%
1-3 years	11.3
3-5 years	1.7
5-10 years	52.4
10-20 years	10.3
20 plus years	22.4

	100.0%

Quality

Treasury, Agency and Aaa	37.7%
Aa	11.9
A	22.9
Baa	25.6
Below Baa	1.9

	100.0%

STOCK REPURCHASE PLAN:

On July 28, 1988, the Board of Directors of the Company approved a

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resolution to repurchase up to 700,000 of its common shares. The Company may repurchase shares, at a price not in excess of market and at a discount from net asset value, if and when such repurchases are deemed appropriate and in the shareholder's best interest. Any repurchases will be made in compliance with applicable requirements of the federal securities law.

Under such law, the Company is required to give written notice to all shareholders of its intention to purchase stock within six months of the actual repurchase of shares. This report is to serve as notice to all

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shareholders with respect to any shares repurchased within the next six months pursuant to the Company's stock repurchase plan.

Unaudited financial statements for the six-month period ended March 31, 2003, and a list of the securities owned on that date are included in this report.

Sincerely,

/s/ Jeffrey J. Diermeier

Jeffrey J. Diermeier, CFA
PRESIDENT

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FORT DEARBORN INCOME SECURITIES, INC. is a closed-end bond fund investing principally in investment grade long-term fixed income debt securities. The primary objective of Fort Dearborn is to provide its shareholders with:

- a stable stream of current income consistent with external interest rate conditions, and
- 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.

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

Fort Dearborn Income Securities, Inc.

MARKET VALUE OF INDEX AND SHARE PRICE(1) WITH ALL DIVIDENDS REINVESTED AS OF MARCH 31, 2003

	ANNUALIZED RETURNS	
	12 MONTHS	SINCE INCEPTION
Fort Dearborn	8.88%	8.68%
Investment Grade Bond Index	14.68%	8.13%

\$ WEALTH INDEX

	FORT	INVESTMENT
	DEARBORN	GRADE BOND INDEX
12/31/72	18.17	18.17
3/31/73	18.17	18.16

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6/30/73	17.10	18.06
9/30/73	17.09	18.41
12/31/73	16.74	18.23
3/31/74	13.73	17.55
6/30/74	15.62	16.61
9/30/74	13.40	16.07
12/31/74	16.33	17.05
3/31/75	16.82	17.83
6/30/75	17.61	18.43
9/30/75	16.79	17.79
12/31/75	16.54	19.39
3/31/76	18.45	20.17
6/30/76	18.37	20.19
9/30/76	20.03	21.28
12/31/76	20.26	22.83
3/31/77	20.50	22.26
6/30/77	21.07	23.08
9/30/77	21.49	23.28
12/31/77	20.68	23.04
3/31/78	20.93	23.00
6/30/78	21.00	22.70
9/30/78	20.90	23.36
12/31/78	19.04	22.84
3/31/79	20.31	23.16
6/30/79	21.40	24.15
9/30/79	20.84	23.61
12/31/79	19.25	21.70
3/31/80	17.16	18.79
6/30/80	20.99	23.31
9/30/80	18.99	20.76
12/31/80	19.11	20.93
3/31/81	19.19	20.69
6/30/81	19.51	20.24
9/30/81	19.39	18.40
12/31/81	20.85	20.51
3/31/82	21.83	21.47
6/30/82	22.26	21.63
9/30/82	26.55	26.21
12/31/82	28.83	29.02
3/31/83	29.96	30.14
6/30/83	31.44	30.55
9/30/83	31.01	30.40
12/31/83	31.22	30.59
3/31/84	32.50	30.09
6/30/84	30.21	28.94
9/30/84	32.66	32.51
12/31/84	37.09	35.48
3/31/85	37.34	35.82
6/30/85	43.27	40.17
9/30/85	42.71	40.92
12/31/85	46.79	45.80
3/31/86	53.14	50.64
6/30/86	55.71	50.88
9/30/86	56.95	51.74
12/31/86	57.70	54.47
3/31/87	60.37	55.37
6/30/87	58.78	53.02
9/30/87	55.66	49.70
12/31/87	56.99	53.50
3/31/88	62.51	55.86
6/30/88	63.41	56.58
9/30/88	63.23	57.95

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12/31/88	65.30	58.38
3/31/89	63.95	59.10
6/30/89	69.00	64.57
9/30/89	71.79	64.91
12/31/89	73.38	67.02
3/31/90	75.08	65.82
6/30/90	75.50	68.35
9/30/90	74.62	67.72
12/31/90	80.42	71.21
3/31/91	83.65	74.02
6/30/91	85.57	75.16
9/30/91	91.67	80.14
12/31/91	96.45	84.58
3/31/92	93.81	83.43
6/30/92	97.18	87.02
9/30/92	102.91	91.22
12/31/92	101.67	91.65
3/31/93	108.40	96.61
6/30/93	113.71	100.19
9/30/93	117.42	104.21
12/31/93	112.65	103.37
3/31/94	107.51	98.48
6/30/94	106.80	96.30
9/30/94	105.14	96.42
12/31/94	101.57	97.14
3/31/95	107.51	103.18
6/30/95	116.50	111.98
9/30/95	118.69	114.54
12/31/95	126.33	121.13
3/31/96	124.45	116.32
6/30/96	122.62	116.17
9/30/96	129.34	118.35
12/31/96	137.71	123.00
3/31/97	135.62	120.84
6/30/97	142.43	126.34
9/30/97	148.57	131.91
12/31/97	156.83	136.87
3/31/98	160.03	138.88
6/30/98	159.51	142.78
9/30/98	166.11	147.81
12/31/98	178.86	148.73
3/31/99	174.77	146.24
6/30/99	164.31	142.24
9/30/99	161.53	142.02
12/31/99	145.64	140.99
3/31/2000	157.67	143.82
6/30/2000	164.57	144.71
9/30/2000	168.54	149.23
12/31/2000	176.54	155.49
3/31/2001	190.74	161.70
6/30/2001	201.75	162.17
9/30/2001	200.54	168.73
12/31/2001	207.71	169.83
3/31/2002	206.82	168.71
6/30/2002	217.23	173.81
9/30/2002	219.50	183.85
12/31/2002	219.07	189.15
3/31/2003	225.18	193.48

Returns are net of fees

(1) Share price return is impacted by changes in the premium or discount to the

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net asset value (NAV). At March 31, 2003, the share price was at a 6.54% discount to NAV.

Total Return does not reflect brokerage commissions on purchases and sales of fund shares or the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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STATEMENT OF ASSETS AND LIABILITIES MARCH 31, 2003 (UNAUDITED)

ASSETS:

Portfolio of investments:

Debt securities, at value (cost \$131,656,245).....	\$ 138,321,546
Short-term securities, at cost, which approximates market.....	1,167,983

Total portfolio of investments.....	139,489,529
Cash.....	17,552
Receivable for interest on debt securities.....	1,903,352
Receivable for investments sold.....	1,901,396
Other assets.....	18,082

Total assets.....	143,329,911

LIABILITIES:

Expenses:

Payable for investments purchased.....	2,309,728
Accrued investment advisory and administrative fees.....	157,198
Accrued custodial and transfer agent fees.....	17,367
Accrued professional fees.....	13,134
Accrued other expenses.....	26,659

Total liabilities.....	2,524,086

NET ASSETS (equivalent to \$16.05 per share for 8,775,665 shares of capital stock outstanding).....	\$ 140,805,825
	=====

Analysis of Net Assets:

Shareholder capital.....	\$ 135,120,133
Overdistribution of net investment income.....	(160,395)
Accumulated net realized loss on sales of investments.....	(819,214)
Unrealized appreciation on investments.....	6,665,301

Net assets applicable to outstanding shares.....	\$ 140,805,825
	=====

See Notes to Financial Statements.

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STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2003 (UNAUDITED)

Investment income:	
Interest income earned.....	\$ 4,174,565

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Expenses:	
Investment advisory and administrative fees.....	325,583
Directors fees.....	48,056
Transfer agent and dividend disbursing agent fees.....	37,216
Stockholders reports and annual meeting fees.....	34,217
Professional fees.....	24,930
Custody fees.....	16,860
Franchise taxes.....	4,914
Other expenses.....	28,074

Total expenses.....	519,850

Net investment income.....	3,654,715

Net realized and unrealized gain (loss) on investments:	
Net realized loss from investment transactions.....	(442,657)
Change in unrealized appreciation.....	4,032,176

Total realized and unrealized gain (loss) on investments....	3,589,519

Net increase in net assets from operations.....	\$ 7,244,234
=====	

See Notes to Financial Statements.

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STATEMENT OF CHANGES IN NET ASSETS

	SIX MONTHS ENDED MARCH 31, 2003 (UNAUDITED)	FOR THE YEAR ENDED SEPTEMBER 30, 2002
	-----	-----
From operations:		
Net investment income.....	\$ 3,654,715	\$ 8,314,247
Net realized gain (loss) from investment transactions.....	(442,657)	623,636
Change in unrealized appreciation (depreciation) of investments.....	4,032,176	(1,229,377)

Net increase in net assets from operations.....	7,244,234	7,708,506
Distributions to shareholders from:		
Net investment income.....	(3,949,049)	(8,424,638)
Net realized gain.....	(351,027)	(1,404,106)

Total distributions.....	(4,300,076)	(9,828,744)

Net increase (decrease) in net assets.....	2,944,158	(2,120,238)
Net Assets:		
Beginning of period.....	137,861,667	139,981,905

End of period (including accumulated undistributed net investment income of \$133,939 at 9/30/02).....	\$140,805,825	\$137,861,667
=====		

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See Notes to Financial Statements.

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FINANCIAL HIGHLIGHTS

Financial highlights for each share of capital stock outstanding through each period:

	SIX MONTHS ENDED MARCH 31, 2003 (UNAUDITED)	YEARS ENDED SEPTEMBER 30,				
		2002	2001	2000	1999	
Net asset value, beginning of period.....	\$ 15.71	\$ 15.95	\$ 15.05	\$ 15.11	\$ 16.87	\$
Net investment income.....	0.42	0.95	1.04	1.05	1.05	
Net realized and unrealized gain (loss) on investments....	0.41	(0.07)	0.90	(0.06)	(1.27)	
Total from investment operations.....	0.83	0.88	1.94	0.99	(0.22)	
Less distributions from:						
Net investment income.....	(0.45)	(0.96)	(1.04)	(1.04)	(1.04)	
Net realized gain.....	(0.04)	(0.16)	--	(0.01)	(0.50)	
Total distributions.....	(0.49)	(1.12)	(1.04)	(1.05)	(1.54)	
Net asset value, end of period.....	\$ 16.05	\$ 15.71	\$ 15.95	\$ 15.05	\$ 15.11	\$
Market price per share at end of period.....	\$ 15.00	\$ 15.10	\$ 14.84	\$ 13.38	\$ 13.88	\$
Total investment return (market value) (1).....	2.58%	9.46%	18.98%	4.34%	(2.76)%	
Total return (net asset value) (2).....	5.32%	5.82%	13.22%	6.77%	(1.48)%	
Net assets at end of period (in millions).....	\$140.81	\$ 137.86	\$ 139.98	\$ 132.09	\$ 132.81	\$
Ratios of expenses to average net assets.....	0.75%+	0.73%	0.71%	0.74%	0.73%	
Ratio of net investment income to average net assets.....	5.30%+	6.07%	6.68%	7.01%	6.61%	
Portfolio turnover.....	28.6%	126.8%	142.7%	73.8%	69.9%	
Number of shares outstanding at end of period (in thousands).....	8,776	8,776	8,776	8,776	8,789	

(1) Total investment return (market value) reflects the market value experiences of a continuous shareholder who made commission-free acquisitions through distributions in accordance with the shareholder reinvestment plan.

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(2) Total return (net asset value) reflects the Company's portfolio performance and is the combination of reinvested dividend income, reinvested capital gains distributions at NAV, if any, and changes in net asset value per share.

+ Annualized

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
-----		-----	-----	-----
	DEBT SECURITIES--(99.2%)			
	/ / MUNICIPAL SECURITIES--(3.1%)			
\$10,000,000	New Jersey Economic Development Authority, Zero Coupon Revenue Bond, due 02/15/18....	Aaa	\$ 3,294,908	\$ 4,274,000
			-----	-----
	/ / U.S. GOVERNMENT SECURITIES--(15.0%)			
	AGENCY OBLIGATIONS--(9.5%)			
799,196	Fannie Mae Grantor Trust, 5.500%, due 03/01/33.....	(a)	823,671	817,131
1,894,184	Federal Home Loan Mortgage Corp, Gold Pool, 5.500%, due 12/01/17.....	(a)	1,952,786	1,966,732
1,872,519	Federal National Mortgage Association, 5.500%, due 12/01/17.....	(a)	1,929,864	1,945,406
2,023,264	5.500%, due 01/01/18.....	(a)	2,089,653	2,101,817
1,164,961	6.000%, due 11/01/28.....	(a)	1,147,122	1,209,306
2,188,390	6.500%, due 08/01/32.....	(a)	2,267,036	2,284,474
865,266	7.000%, due 03/01/31.....	(a)	876,217	917,095
685,000	7.125%, due 01/15/30.....	(a)	766,310	853,048
404,027	Federal National Mortgage Association, Guaranteed Mortgage Pass Thru Certificates, REMIC, 7.000%, due 06/25/13.....	(a)	375,700	431,088
650,496	Government National Mortgage Association, 6.500%, due 05/15/29.....	(a)	600,184	683,918
			-----	-----
			12,828,543	13,210,015
			-----	-----
	U.S. TREASURY NOTES--(5.5%)			
80,000	2.000%, due 11/30/04.....	Aaa	80,650	80,803
1,050,000	3.250%, due 08/15/07.....	Aaa	1,064,172	1,078,793
210,000	4.250%, due 05/31/03.....	Aaa	211,109	211,067
3,645,000	4.375%, due 08/15/12.....	Aaa	3,766,880	3,810,450
1,585,000	6.250%, due 05/15/30.....	Aaa	1,879,989	1,891,474
35,000	6.750%, due 05/15/05.....	Aaa	38,469	38,769

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(CONTINUED)
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
-----		-----	-----	-----
\$ 465,000	8.000%, due 11/15/21.....	Aaa	\$ 626,925	\$ 648,003
			7,668,194	7,759,359
	Total U.S. Government Securities.....		20,496,737	20,969,374
	/ / CORPORATE BONDS AND NOTES--(81.1%)			
	FINANCE--(40.2%)			
195,000	Allstate Corp. (The), 6.750%, due 05/15/18.....	A1	208,298	219,878
205,000	American Express Co., 3.750%, due 11/20/07.....	A1	204,075	209,882
745,000	Anadarko Finance Co., 7.500%, due 05/01/31.....	Baa1	785,844	893,462
375,000	Avalonbay Communities, Inc., 7.500%, due 08/01/09.....	Baa1	392,528	432,640
1,915,000	Bank of America Corp., 7.400%, due 01/15/11.....	Aa3	1,982,161	2,281,512
235,000	Bank of New York Co., Inc., 7.300%, due 12/01/09.....	A1	267,551	279,603
815,000	Bank One Corp., 7.875%, due 08/01/10.....	A1	871,776	987,411
1,655,000	Barclays Bank, PLC, 144-A, 8.550%, due 12/31/49.....	Aa3	1,652,733	2,032,214
280,000	Boeing Capital Corp., 7.375%, due 09/27/10.....	A3	299,689	309,268
200,000	ChevronTexaco Capital Co., 3.500%, due 09/17/07.....	Aa2	199,106	204,128
140,000	CIT Group, Inc., 7.750%, due 04/02/12.....	A2	153,396	156,636
2,175,000	Citigroup, Inc., 7.250%, due 10/01/10.....	Aa2	2,305,297	2,576,881
275,000	Conoco Funding Co., 7.250%, due 10/15/31.....	A3	315,096	323,798
335,000	Countrywide Home Loans, Inc., 5.500%, due 02/01/07.....	A3	338,792	358,238
3,000,000	CPL Transition Funding LLC, 6.250%, due 01/15/17.....	Aaa	3,243,281	3,330,542
1,105,000	Credit Suisse First Boston USA, Inc., 6.500%, due 01/15/12.....	Aa3	1,124,737	1,187,601
1,250,000	Credit Suisse First Boston USA, Inc., 6.500%, due 03/25/33.....	Aaa	1,296,875	1,294,875
2,800,000	CS First Boston Mortgage Securities Corp., 00-C1, Class A2, 7.545%, due 04/15/62....	AAA*	3,026,625	3,329,437
635,000	DLJ Commercial Mortgage Corp., 00-CKP1, Class A1B, 7.180%, due 08/10/10.....	Aaa	638,274	738,642

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(CONTINUED)
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
-----		-----	-----	-----
\$ 2,000,000	DLJ Commercial Mortgage Corp., 99-CG3, Class A1B, 7.340%, due 10/10/32.....	Aaa	\$ 2,171,250	\$ 2,354,166
615,000	EOP Operating LP, 7.875%, due 07/15/31....	Baa1	624,293	700,011
590,000	FleetBoston Financial Corp., 7.375%, due 12/01/09.....	A3	626,221	692,728
1,805,000	Ford Motor Co., 7.450%, due 07/16/31.....	Baa1	1,656,201	1,381,524
510,000	Ford Motor Credit Co., 5.800%, due 01/12/09.....	A3	478,775	456,382
1,185,000	Ford Motor Credit Co., 7.375%, due 02/01/11.....	A3	1,167,833	1,104,166
930,000	General Electric Capital Corp., 6.750%, due 03/15/32.....	Aaa	907,269	1,047,498
1,730,000	General Electric Capital Corp., 6.000%, due 06/15/12.....	Aaa	1,839,208	1,886,548
1,130,000	General Motors Acceptance Corp., 6.875%, due 09/15/11.....	A2	1,112,949	1,116,593
1,710,000	General Motors Acceptance Corp., 8.000%, due 11/01/31.....	A2	1,735,364	1,664,967
170,000	Goldman Sachs Group, Inc., 6.125%, due 02/15/33.....	Aa3	170,000	170,564
665,000	Goldman Sachs Group, Inc., 6.875%, due 01/15/11.....	Aa3	664,830	758,208
1,165,000	Household Finance Corp., 6.750%, due 05/15/11.....	A2	1,156,113	1,294,141
260,000	HSBC Holdings PLC, 5.250%, due 12/12/12...	A1	259,321	268,853
475,000	Lehman Brothers Holdings, Inc., 6.625%, due 01/18/12.....	A2	472,554	536,018
390,000	Lincoln National Corp., 6.200%, due 12/15/11.....	A3	388,534	420,622
320,000	Marsh & McLennan Co., Inc., 6.250%, due 03/15/12.....	A2	356,277	359,390
190,000	MBNA America Bank N.A., 7.125%, due 11/15/12.....	Baa2	194,871	205,809
195,000	Mellon Funding Corp., 5.000%, due 12/01/14.....	A2	193,366	200,778
1,410,000	Merrill Lynch Mortgage Investors, Inc., 96-C2, Class A3, 6.960%, due 11/21/28....	AAA*	1,496,748	1,549,000
170,000	Morgan Stanley, 7.250%, due 04/01/32.....	Aa3	170,968	194,646
1,640,000	Morgan Stanley, 6.750%, due 04/15/11.....	Aa3	1,645,291	1,835,514
482,883	Norwest Asset Securities Corp., 96-2, Class A, 7.000%, due 09/25/11.....	AAA*	486,806	483,703

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS--(CONTINUED)
MARCH 31, 2003 (UNAUDITED)

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FACE VALUE		RATING	COST	VALUE
-----		-----	-----	-----
\$ 480,000	Pemex Project Funding Master Trust, 144-A, 8.000%, due 11/15/11.....	Baa1	\$ 518,332	\$ 525,600
1,500,000	PNC Mortgage Acceptance Corp., 99-CM1, Class A1B, 7.330%, due 12/10/32.....	Aaa	1,608,750	1,766,706
870,000	Prudential Mortgage Capital Funding, LLC, 01-ROCK, Class A2, 6.605%, due 05/10/34.....	Aaa	874,350	990,458
1,380,000	PSE&G Transition Funding LLC, 6.450%, due 03/15/13.....	Aaa	1,445,766	1,582,542
3,000,000	PSE&G Transition Funding LLC, 6.610%, due 06/15/15.....	Aaa	3,376,875	3,462,984
830,000	Qwest Capital Funding, Inc., 7.900%, due 08/15/10.....	Caa2	863,845	639,100
115,000	SLM Corp., 5.125%, due 08/27/12.....	A2	114,202	117,971
945,000	Unilever Capital Corp., 7.125%, due 11/01/10.....	A1	1,012,363	1,117,859
500,000	US Bank N.A., Minnesota, 6.375%, due 08/01/11.....	Aa3	510,408	564,964
1,620,000	Wachovia Bank N.A. (Charlotte), 7.800%, due 08/18/10.....	Aa3	1,714,314	1,978,525
350,000	Washington Mutual Bank, 6.875%, due 06/15/11.....	A3	379,412	397,852
1,025,000	Wells Fargo Bank, N.A., 6.450%, due 02/01/11.....	Aa2	1,014,743	1,172,960
			-----	-----
			52,714,536	56,145,998
			-----	-----
	INDUSTRIAL--(16.3%)			
720,000	Alcoa, Inc., 6.000%, due 01/15/12.....	A2	718,305	782,882
430,000	Amerada Hess Corp., 6.650%, due 08/15/11.....	Baa2	431,506	469,697
940,000	Anheuser-Busch Cos., Inc., 9.000%, due 12/01/09.....	A1	1,106,321	1,220,571
1,815,000	AOL Time Warner, Inc., 7.625%, due 04/15/31.....	Baa1	1,784,855	1,926,005
1,270,000	Avon Products, Inc., 7.150%, due 11/15/09.....	A2	1,292,178	1,486,209
185,000	Bristol-Myers Squibb Co., 5.750%, due 10/01/11.....	Aa2	180,649	198,475
720,000	Caterpillar, Inc., 6.550%, due 05/01/11...	A2	720,993	819,529
900,000	Cendant Corp., 6.875%, due 08/15/06.....	Baa1	899,207	964,745
330,000	Centex Corp., 9.750%, due 06/15/05.....	Baa2	329,993	372,753
420,000	Conagra Foods, Inc., 6.750%, due 09/15/11.....	Baa1	469,340	472,603
350,000	Coors Brewing Co., 6.375%, due 05/15/12...	Baa2	348,586	391,941

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS--(CONTINUED)
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
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\$ 1,005,000	DaimlerChrysler N.A. Holdings Corp., 8.500%, due 01/18/31.....	A3	\$ 1,116,556	\$ 1,185,561
825,000	Deere & Co., 7.125%, due 03/03/31.....	A3	841,456	957,409
445,000	Dow Chemical Co. (The), 6.125%, due 02/01/11.....	A3	450,212	460,108
375,000	First Data Corp., 5.625%, due 11/01/11....	A1	373,845	405,972
440,000	Harrahs Operating Co., Inc., 7.500%, due 01/15/09.....	Baa3	484,276	493,507
875,000	International Paper Co., 6.750%, due 09/01/11.....	Baa2	876,113	980,960
285,000	Kohl's Corp., 6.300%, due 03/01/11.....	A3	288,795	320,840
685,000	Kroger Co., 7.500%, due 04/01/31.....	Baa3	766,071	766,086
520,000	Merck & Co., Inc., 6.400%, due 03/01/28...	Aaa	563,681	583,157
235,000	Newell Rubbermaid, Inc., 6.750%, due 03/15/12.....	Baa1	260,087	268,399
735,000	Occidental Petroleum Corp., 8.450%, due 02/15/29.....	Baa2	830,977	953,574
680,000	Pepsi Bottling Holdings, Inc., 144-A, 5.625%, due 02/17/09.....	A1	684,869	751,495
185,000	Progressive Corp. (The), 6.250%, due 12/01/32.....	A2	183,607	194,533
290,000	Rohm & Haas Co., 7.850%, due 07/15/29....	A3	319,414	354,684
320,000	Safeway, Inc., 7.250%, due 02/01/31.....	Baa2	334,391	359,168
525,000	Target Corp., 7.000%, due 07/15/31.....	A2	567,917	592,095
1,135,000	Transocean, Inc., 7.500%, due 04/15/31....	Baa2	1,102,267	1,333,374
430,000	United Technologies Corp., 6.100%, due 05/15/12.....	A2	429,248	482,371
475,000	UST, Inc., 6.625%, due 07/15/12.....	A3	472,777	529,854
145,000	Wal-Mart Stores, Inc., 6.875%, due 08/10/09.....	Aa2	154,118	171,385
400,000	Walt Disney Co. (The), 6.375%, due 03/01/12.....	Baa1	406,542	429,957
310,000	Wendy's International, Inc., 6.200%, due 06/15/14.....	Baa1	309,095	345,243
665,000	Weyerhaeuser Co., 7.375%, due 03/15/32....	Baa2	658,430	726,592
			-----	-----
			20,756,677	22,751,734
			-----	-----
	UTILITIES-- (8.6%)			
265,000	Apache Corp., 6.250%, due 04/15/12.....	A3	263,113	300,159
110,000	Boston Edison Co., 4.875%, due 10/15/12...	A1	109,227	112,599
370,000	Burlington Resources Finance Co., 6.680%, due 02/15/11.....	Baa1	406,208	419,222

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS-- (CONTINUED)
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
-----		-----	-----	-----
\$ 270,000	Commonwealth Edison Co., 6.150%, due 03/15/12.....	A3	\$ 270,597	\$ 301,471
680,000	ConocoPhillips, 8.750%, due 05/25/10.....	A3	775,323	851,953

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1,400,000	Consolidated Edison Co. of New York, 7.500%, due 09/01/10.....	A1	1,389,332	1,673,137
670,000	Devon Financing Corp., ULC, 6.875%, due 09/30/11.....	Baa2	650,429	762,514
415,000	Dominion Resources, Inc., 5.700%, due 09/17/12.....	Baa1	414,718	434,976
205,000	DTE Energy Co., 7.050%, due 06/01/11.....	Baa2	223,832	234,738
1,300,000	Duke Energy Field Services, LLC, 8.125%, due 08/16/30.....	Baa2	1,405,838	1,411,694
835,000	FirstEnergy Corp., 6.450%, due 11/15/11...	Baa2	826,754	882,752
165,000	Kerr-McGee Corp., 7.875%, due 09/15/31....	Baa2	198,360	191,367
345,000	Midamerican Energy Co., 5.125%, due 01/15/13.....	A3	344,251	355,822
985,000	Mirant Americas Generation, Inc., 9.125%, due 05/01/31.....	B3	1,067,491	467,875
210,000	Praxair, Inc., 6.375%, due 04/01/12.....	A3	213,200	235,070
520,000	Progress Energy, Inc., 7.000%, due 10/30/31.....	Baa2	526,527	555,796
105,000	PSEG Power LLC, 7.750%, due 04/15/11.....	Baa1	98,969	121,108
250,000	PSEG Power LLC, 8.625%, due 04/15/31.....	Baa1	158,571	306,864
1,000,000	Sempra Energy, 7.950%, due 03/01/10.....	Baa1	997,380	1,163,355
325,000	Southern Power Co., 6.250%, due 07/15/12.....	Baa1	329,001	355,859
300,000	Union Oil Co. of California, 7.500%, due 02/15/29.....	Baa2	316,322	343,712
470,000	Valero Energy Corp., 7.500%, due 04/15/32.....	Baa3	465,959	505,770
			-----	-----
			11,451,402	11,987,813
			-----	-----
	COMMUNICATION--(7.3%)			
455,000	AT&T Corp., 8.000%, due 11/15/31.....	Baa2	396,996	489,105
140,000	AT&T Wireless Services, Inc., 7.875%, due 03/01/11.....	Baa2	117,554	156,583
760,000	AT&T Wireless Services, Inc., 8.750%, due 03/01/31.....	Baa2	836,950	871,539
315,000	BellSouth Telecommunications Corp., 6.000%, due 10/15/11.....	Aa3	321,935	350,932

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(CONTINUED)
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
-----		-----	-----	-----
\$ 340,000	British Telecommunications PLC, 8.125%, due 12/15/10.....	Baa1	\$ 372,474	\$ 412,966
260,000	Cingular Wireless, 6.500%, due 12/15/11...	A3	251,213	281,120
520,000	Citizens Communications Co., 9.000%, due 08/15/31.....	Baa2	538,920	675,933
1,105,000	Comcast Cable Communications, 6.750%, due 01/30/11.....	Baa3	1,085,330	1,191,546
740,000	International Business Machines Corp., 5.875%, due 11/29/32.....	A1	716,497	756,219

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170,000	Motorola, Inc., 7.625%, due 11/15/10.....	Baa2	157,760	182,750
820,000	News America, Inc., 7.125%, due 04/08/28.....	Baa3	730,391	853,841
800,000	SBC Communications, Inc., 5.875%, due 02/01/12.....	A1	808,572	871,869
650,000	Sprint Capital Corp., 6.875%, due 11/15/28.....	Baa3	598,042	568,750
100,000	Tele-Communications, Inc., 7.875%, due 08/01/13.....	Baa3	85,772	114,516
260,000	Verizon New England, Inc., 6.500%, due 09/15/11.....	Aa3	245,392	292,262
960,000	Verizon New York, Inc., 7.375%, due 04/01/32.....	A2	857,653	1,133,197
825,000	Viacom, Inc., 6.625%, due 05/15/11.....	A3	927,846	935,851
			-----	-----
			9,049,297	10,138,979
			-----	-----
	INTERNATIONAL--(6.0%)			
2,500,000	Augusta Funding Ltd., 7.375%, due 04/15/13.....	Aaa	2,426,113	2,749,350
285,000	Canadian National Railway Co., 6.900%, due 07/15/28.....	Baa1	296,768	328,874
625,000	Deutsche Telekom International Finance, 8.250%, due 06/15/30.....	Baa3	660,783	741,658
530,000	France Telecom, 8.500%, due 03/01/31.....	Baa3	606,110	690,251
2,235,000	Mexico Government International Bond, 8.125%, due 12/30/19.....	Baa2	2,224,003	2,403,742
385,000	Royal Bank of Scotland, 9.118%, due 12/31/49.....	A1	472,832	479,563
365,000	Telus Corp., 8.000%, due 06/01/11.....	Ba1	363,095	386,900

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(CONTINUED)
MARCH 31, 2003 (UNAUDITED)

FACE VALUE		MOODY'S RATING	COST	VALUE
-----		-----	-----	-----
\$ 500,000	WestDeutsche Landesbank, 6.750%, due 06/15/05.....	Aa1	\$ 542,531	\$ 542,531
			-----	-----
			7,592,235	8,322,869
			-----	-----
	TRANSPORTATION--(2.7%)			
120,000	Burlington Northern Santa Fe Corp., 6.875%, due 12/01/27.....	Baa2	117,861	131,281
740,000	Burlington Northern Santa Fe Corp., 7.082%, due 05/13/29.....	Baa2	733,560	832,149
700,000	Delta Air Lines, Inc., 10.500%, due 04/30/16**.....	Ba1	853,510	337,162
1,065,000	Erac U.S.A. Finance Co., 144-A, 8.000%, due 01/15/11.....	Baa1	1,121,321	1,236,118
470,000	Union Pacific Corp., 6.650%, due 01/15/11.....	Baa3	474,201	532,089
3,000,000	United Airlines, Inc., 7.870%, due			

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01/30/19**.....	Caa2	3,000,000	661,980
		-----	-----
		6,300,453	3,730,779
		-----	-----
Total Corporate Bonds and Notes.....		107,864,600	113,078,172
		-----	-----
Total Debt Securities.....		131,656,245	138,321,546
		-----	-----

SHARES

	SHORT-TERM INVESTMENTS--(0.8%)		
1,167,983	UBS Supplementary Trust U.S. Cash Management Prime Fund.....	1,167,983	1,167,983
		-----	-----
	Total Investments (100.0%).....	\$132,824,228	\$139,489,529
		=====	=====

(a) Moody's as a matter of policy, does not rate this issue.

* Standard & Poor's Corporation rating. Security is not rated by Moody's Investor Service, Inc.

** Illiquid securities represent 0.72% of the total portfolio of investments.

144-A Securities exempt from registration under Rule 144-A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2003, the value of these securities amounted to \$4,545,427 or 3.26% of the total portfolio of investments.

REMIC Real Estate Mortgage Investment Conduit

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2003 (UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES

Fort Dearborn Income Securities, Inc. ("the Company") is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end management company. The Company invests principally in investment grade long-term fixed income debt securities with the primary objective of providing its shareholders with:

- a stable stream of current income consistent with external interest rate conditions, and
- 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.

The following is a summary of the significant accounting policies followed by the Company in the preparation of its financial statements. The preparation

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of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. VALUATION OF INVESTMENTS -- 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 the portfolio securities.

B. INVESTMENT INCOME AND SECURITY TRANSACTIONS -- Interest income is recorded on the accrual basis. Dividend income is recorded on ex-dividend date. Security transactions are accounted for on the trade date. The Company has elected to amortize market discount and premium on all issues purchased. Realized gains and losses from security transactions and unrealized appreciation and depreciation of investments are reported on a first-in first-out basis.

C. FEDERAL INCOME TAXES -- For federal income tax purposes, the cost of securities owned at March 31, 2003, was substantially the same as the cost of securities for financial statement purposes.

At March 31, 2003, the components of net unrealized appreciation of investments were as follows:

Gross appreciation (investments having an excess of value over cost)	\$10,823,136
Gross depreciation (investments having an excess of cost over value)	(4,157,835)

Net unrealized appreciation of investments	\$ 6,665,301
	=====

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NOTES TO FINANCIAL STATEMENTS--(CONTINUED) MARCH 31, 2003 (UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Fund intends to distribute substantially all of its taxable income and to comply with the other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income taxes is required. In addition, by distributing during each calendar year substantially all of its net investment income, capital gains and certain other amounts, if any, the Fund intends not to be subject to a federal excise tax.

Net realized gains or losses may differ for financial and tax reporting purposes as a result of post October 31 losses, which are not recognized for tax purposes until the first day of the following fiscal year along with losses from wash sales.

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2. NET ASSET VALUATIONS

The net asset value of the Company's shares is determined as of the close of business each day the New York Stock Exchange is open.

3. DISTRIBUTIONS

Dividends and distributions payable to shareholders are recorded by the Company on the ex-date. Net realized gains from the sale of investments, if any, are distributed annually. Net investment income and realized gains and losses for federal income tax purposes may differ from that reported on the financial statements because of permanent and temporary book and tax basis differences.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes.

4. CAPITAL STOCK

At March 31, 2003, there were 12,000,000 shares of \$.01 par value capital stock authorized, and shareholder capital of \$135,120,133. During the six months ended March 31, 2003 no new shares were issued as part of the dividend reinvestment plan and no shares were repurchased in the open market.

5. PURCHASES AND SALES OF SECURITIES

Purchases and sales (including maturities) of portfolio securities during the six months ended March 31, 2003, were as follows: debt securities and preferred stock, \$13,564,508 and \$7,907,232, respectively; short-term securities, \$14,216,001 and \$17,599,093, respectively; and United States government debt obligations, \$27,743,838 and \$30,361,595, respectively.

6. MANAGEMENT AND OTHER FEES

Under an agreement between the Company and UBS Global Asset Management (Americas) Inc. ("the Advisor"), the Advisor manages the Company's investment portfolio, maintains its accounts and records, and furnishes the services of individuals to perform executive and administrative functions for the Company. In return for these services, the Company pays the Advisor 50 basis points (annualized) of the

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NOTES TO FINANCIAL STATEMENTS--(CONTINUED) MARCH 31, 2003 (UNAUDITED)

6. MANAGEMENT AND OTHER FEES (CONTINUED)

Company's average weekly net assets up to \$100,000,000 and 40 basis points (annualized) of average weekly net assets in excess of \$100,000,000.

The Company pays each of its directors (except the Chairman) at the rate of \$9,000 annually to serve as directors and \$750 for each Board of Directors meeting attended. The Company pays the Chairman at the rate of \$13,000 annually to serve in such capacity and \$750 for each Board of Directors meeting attended.

All Company officers serve without direct compensation from Fort Dearborn.

Fort Dearborn Income Securities, Inc. invests in shares of the UBS Supplementary Trust U.S. Cash Management Prime Fund ("Supplementary Trust"). The Supplementary Trust is a business trust managed by the Advisor. The Supplementary Trust is offered as a cash management option only to mutual funds

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and other accounts managed by the Advisor.

The Supplementary Trust pays no management fees. Distributions from the Supplementary Trust are reflected as interest income on the statement of operations. Amounts relating to those investments at March 31, 2003 and for the period ended are summarized as follows:

FUND	COST OF PURCHASE	SALES PROCEEDS	INTEREST INCOME	VALUE	%
-----	-----	-----	-----	-----	-----
UBS Supplementary Trust U.S. Cash Management Prime Fund.....	\$14,004,541	\$17,599,093	\$31,937	\$1,167,983	0

7. MORTGAGE BACKED SECURITIES AND OTHER INVESTMENTS

The Company 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. Most of the securities are guaranteed by federally sponsored agencies -- Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). However, some securities may be issued by private, non-governmental corporations. 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.

The Company invests in Collateralized Mortgage Obligations (CMOs). A CMO is a bond, which is collateralized by a pool of MBS. The Company also invests 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

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NOTES TO FINANCIAL STATEMENTS--(CONTINUED) MARCH 31, 2003 (UNAUDITED)

7. MORTGAGE BACKED SECURITIES AND OTHER INVESTMENTS (CONTINUED)

underlying mortgages are repaid. For instance, a Planned Amortization Class (PAC) is a specific class of mortgages, which over its life will generally have the most stable cash flows and the lowest prepayment risk. A GPM (Graduated Payment Mortgage) is a negative amortization mortgage where the payment amount gradually increases over the life of the mortgage. The early payment amounts are not sufficient to cover the interest due, and therefore, the unpaid interest is added to the principal, thus increasing the borrower's mortgage balance. Prepayment may shorten the stated maturity of the CMO and can result in a loss of premium, if any has been paid.

The Company invests in Asset Backed Securities, representing interests in pools of certain types of underlying installment loans or leases or by revolving lines of credit. They often include credit enhancement that help limit investors exposure to the underlying credit. These securities are valued on the basis of

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timing and certainty of cash flows compared to investments with similar durations.

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REPORT ON THE AUTOMATIC DIVIDEND INVESTMENT PLAN

THE COMPANY'S AUTOMATIC DIVIDEND INVESTMENT PLAN, OPERATED FOR THE CONVENIENCE OF THE SHAREHOLDERS, HAS BEEN IN OPERATION SINCE THE DIVIDEND PAYMENT OF MAY 5, 1973.

For the six months ended March 31, 2003, 32,443 shares were purchased for the Plan participants. The breakdown of these shares is listed below:

DIVIDEND PAYMENT DATE	NO. OF SHARES PURCHASED	AVERAGE PRICE	WHERE SHARES WERE PURCHASED
December 13, 2002	18,318	\$14.83	Open Market
March 26, 2003	14,125	\$15.50	Open Market

As explained in the Plan, shares are purchased at the lower of the market value (including commission) or net asset value, depending upon availability. The expense of maintaining the Plan, \$1.35 for each participating account per dividend payment, is borne by the Company. Shareholders who have not elected to participate in the Plan receive all dividends in cash.

The Plan had 768 participants on March 18, 2003. Under the terms of the Plan, any shareholder may terminate participation by giving written notice to the Company. Upon termination, a certificate for all full shares, plus a check for the value of any fractional interest in shares, will be sent to the withdrawing shareholders, unless the sale of all or part of such shares is requested. ANY REGISTERED SHAREHOLDER WHO WISHES TO PARTICIPATE IN THE PLAN MAY DO SO BY WRITING TO EQUISERVE TRUST COMPANY N.A. OF NEW YORK, P.O. BOX 2500, JERSEY CITY, NJ 07303-2500 OR CALLING THEM AT (800) 446-2617. A copy of the Plan and enrollment card will be mailed to you. Shareholders who own shares in nominee name should contact their brokerage firm. All new shareholders will receive a copy of the Plan and a card, which may be signed to authorize reinvestment of dividends pursuant to the Plan.

THE INVESTMENT OF DIVIDENDS DOES NOT RELIEVE PARTICIPANTS OF ANY INCOME TAX WHICH MAY BE PAYABLE THEREON. THE COMPANY STRONGLY RECOMMENDS THAT ALL AUTOMATIC DIVIDEND INVESTMENT PLAN PARTICIPANTS RETAIN EACH YEAR'S FINAL STATEMENT ON THEIR PLAN PARTICIPATION AS A PART OF THEIR PERMANENT TAX RECORD. THIS WILL INSURE THAT COST INFORMATION IS AVAILABLE IF AND WHEN IT IS NEEDED.

SHAREHOLDER INFORMATION

FOR THE SIX MONTHS ENDED MARCH 31, 2003, THERE WERE: (I) NO MATERIAL CHANGES IN THE COMPANY'S INVESTMENT OBJECTIVES OR POLICIES, (II) NO CHANGES IN THE COMPANY'S CHARTER OR BY-LAWS THAT WOULD DELAY OR PREVENT A CHANGE OF CONTROL OF THE COMPANY, (III) NO MATERIAL CHANGES IN THE PRINCIPAL RISK FACTORS ASSOCIATED WITH INVESTMENT IN THE COMPANY, AND (IV) NO CHANGE IN THE PERSON PRIMARILY RESPONSIBLE FOR THE DAY-TO DAY MANAGEMENT OF THE COMPANY'S PORTFOLIO.

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REPORT ON ANNUAL MEETING

At the annual meeting of shareholders, held on December 16, 2002, shareholders elected the Company's four nominees as directors and ratified the selection of Ernst and Young LLP as accountants. The votes were as follows:

1.	DIRECTORS -----	FOR -----	WITHHELD -----
	C.R. O'Neil	7,613,606	55,326
	A. Cepeda	7,613,226	55,706
	F.K. Reilly	7,613,606	55,326
	E.M. Roob	7,607,341	61,591

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BOARD OF DIRECTORS

C. RODERICK O'NEIL, CFA
Chairman of the Board

ADELA CEPEDA
Director

FRANK K. REILLY, CFA
Director

EDWARD M. ROOB
Director

J. MIKESELL THOMAS
Director

OFFICERS

JEFFREY J. DIERMEIER, CFA
President

DAVID M. GOLDENBERG
Vice President and Secretary

AMY R. DOBERMAN
Vice President and Assistant Secretary

RITA RUBIN
Assistant Secretary

PAUL H. SCHUBERT
Vice President and Treasurer

JOSEPH A. ANDERSON
Assistant Treasurer

CRAIG G. ELLINGER, CFA
Portfolio Manager

FORT DEARBORN

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INCOME SECURITIES, INC.

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STOCK TRANSFER AND
DIVIDEND DISBURSEMENT
AGENT
(1-800-446-2617)

Mail correspondence to:
EquiServe
P.O. Box 2500
Jersey City, New Jersey 07303-2500

Mail stock certificates to:
EquiServe
P.O. Box 2506
Jersey City, New Jersey 07303-2506

INDEPENDENT AUDITORS
Ernst & Young LLP
5 Times Square
New York, New York 10036

LEGAL COUNSEL
Winston & Strawn
35 West Wacker Drive
Chicago, IL 60601

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ITEM 2. CODE OF ETHICS.

Form N-CSR disclosure requirement not yet effective with respect to registrant.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Form N-CSR disclosure requirement not yet effective with respect to registrant.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Form N-CSR disclosure requirement not yet effective with respect to registrant.

ITEM 5 - 6. [RESERVED BY SEC FOR FUTURE USE.]

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED - END
MANAGEMENT INVESTMENT COMPANIES.

Form N-CSR disclosure requirement not yet effective with respect to registrant.

ITEM 8. [RESERVED BY SEC FOR FUTURE USE.]

ITEM 9. 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-2(c) under the Investment Company Act of 1940, as amended) are effective based on their evaluation of these controls

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and procedures as of a date within 90 days of the filing date of this document.

- (b) There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 10. EXHIBITS.

- (a) Form N-CSR disclosure requirement not yet effective with respect to registrant.
- (b) The certifications required by Rule 30a-2 of the Investment Company Act of 1940, as amended, and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

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/ Jeffrey J. Diermeier

Jeffrey J. Diermeier
President

Date: June 4, 2003

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/ Jeffrey J. Diermeier

Jeffrey J. Diermeier
President

Date: JUNE 4, 2003

By: /s/ Paul H. Schubert

Paul H. Schubert
Chief Financial Officer

Date: June 4, 2003

