

FORT DEARBORN INCOME SECURITIES INC
Form N-CSRS
December 02, 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.
51 West 52nd Street
New York, NY 10019-6114
(Name and address of agent for service)

Copy to:
M. Finley Maxson, Esq.
Winston & Strawn
35 West Wacker Drive
Chicago, Illinois 60606

Registrant's telephone number, including area code: 312-525 7877

Date of fiscal year end: September 30, 2003

Date of reporting period: September 30, 2003

Item 1. Reports to Stockholders.

November 15, 2003

Dear Shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the "Fund") for the fiscal year ended September 30, 2003.

An Interview with the Portfolio Manager

Q. Can you describe the economic environment during the reporting period?

A. As the reporting period began in October 2002, there was a great deal of uncertainty surrounding the economy. Fourth quarter 2002 and first quarter 2003 gross domestic product (GDP) growth was a tepid 1.4%. While consumer

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spending was resilient leading up to the start of the war in Iraq, corporations postponed major purchases as they waited for clearer signs of a sustainable economic upturn.

Although the conclusion of major combat in Iraq stimulated the equity markets, its impact on the economy was initially unclear. Despite some indications that the economy was turning a corner; heightened concerns about terrorism, widening turmoil in the Middle East and continued lackluster corporate spending all served to undermine the economy.

The following quarter produced more positive news. The combined effects of significantly higher military spending, an increase in exports, and a stronger manufacturing sector fueled an uptick in economic growth that resulted in a second quarter 2003 GDP figure of 3.3%. This was followed by a preliminary third quarter 2003 GDP estimate of 7.2%--far higher than anticipated, and the sharpest recorded advance since 1984. Consumer and business spending provided significant impetus behind this figure; consumer spending rose 6.6%, its highest rate since 1988, while business spending surged to 11.1%, its best posting since the first quarter of 2000.

- Q. How did the Federal Reserve Board (the "Fed") react in this economic environment?
- A. The Fed was on hold early in the reporting period, as it waited for more definitive signs regarding the economy's direction. However, by November 2002, it became apparent that the interest rate cuts up to that point had not spurred meaningful growth. Thus, the Fed lowered interest rates by another 50 basis points to 1.25%--a four-decade low. (A basis point is 1/100th of a percent.)

Given consumers' and businesses' preoccupation with the situation in Iraq, the economic picture remained murky during the early months of 2003. Fed Chairman Alan Greenspan, in a statement at that time, expressed concerns about deflation. It came as no surprise, then, when, in June 2003, the Fed moved to cut rates an additional 25 basis points to 1.00%--the lowest level since 1958. Since that time, the Fed has remained on hold, although it has made clear its willingness to cut rates further if necessary. At its September 16, 2003 meeting, the Fed rationalized this position, noting, "an accommodative stance on monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity."

- Q. How did the overall fixed income markets perform during the fiscal year?
- A. The fixed income markets were extremely volatile during the reporting period. Initially, interest rates fell and bond prices rose as geopolitical concerns and the weak stock market caused investors to flock to the relative safety offered by fixed income securities.

In the days leading up to the war and during its initial phases, bond prices generally fell. Based on reports surrounding the progress of the war, investors believed that it would be short-lived and would result in an increase in economic activity. However, following the end of major conflict in Iraq and the absence of a post-war economic bounce, bond prices rallied. The riskier segments of the bond market generated the best returns, as investors searched for incremental yields in the low interest rate environment.

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Toward the end of the fiscal year, the bond market experienced unprecedented fluctuations. Fed-driven concerns about deflation dominated the market and drove the yield on the 10-year Treasury to a 45-year low of 3.1%. This gave way, however, to a market that began pricing in stronger economic growth prospects for the second half of the year. A selloff ensued, and the yield on the 10-year Treasury surged to 4.60% in a span of 10 weeks, reaching a 14-month high. By period end, this figure fell back to 3.93%, as continued high unemployment eased fears that the Fed would raise rates at its September meeting. Indeed, the Fed did leave rates on hold at that time, citing labor statistics as a significant reason behind its decision to do so. Further, it reiterated its commitment to maintaining low rates.

Q. How did you position the Fund's portfolio during the period?

A. For much of the reporting period, the Fund's duration was shorter than that of its benchmark, the Investment Grade Bond Index (the "benchmark").* This stance led to mixed results--hurting performance when interest rates declined, helping performance when interest rates rose. Toward the end of the period, we opportunistically increased the Fund's duration to a neutral position, since we believed rates had risen too far, too fast. This benefited results when rates subsequently declined at the end of the reporting period.

From a sector standpoint, corporate credit was the best performing segment of the investment grade market. Throughout the period, our long-standing process of utilizing bottom-up credit analysis in this market helped us to identify compelling opportunities that generated positive absolute returns. However, our underweight in credit compared to the benchmark hurt relative results.

The Fund also maintained an overweight position in asset-backed and commercial mortgage-backed securities over the period. These sectors underperformed the credit markets, detracting from results.

Q. What is your outlook for the economy and how do you anticipate positioning the Fund going forward?

A. We are fairly positive regarding the growth prospects for the economy. Consumer spending is solid, the manufacturing sector appears to be gaining momentum, the housing market remains strong, tax cuts are starting to work their way through the system, and the Fed should remain accommodative. One major issue we're following very closely is the job market. Even though the economy appears to be picking up steam, it has not yet triggered an increase in job growth. With approximately 70% of the economy driven by the consumer, continued high unemployment could hurt consumer confidence and temper economic expansion.

In terms of the Fund's portfolio, its duration is now in line with the benchmark. To the extent possible, we have added long duration and short duration bonds, as we believe this will be beneficial if the yield curve flattens from its current steep slope. We continue to be underweight investment grade credit, as we feel spreads are too tight relative to their risk.

*Index composition, 12/31/81 to present: 5% Lehman U.S. Agency Index, 75% Lehman U.S. Credit Index, 10% Lehman U.S. Mortgage Fixed Rate MBS Index, 10% Lehman U.S. Treasury Index.

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Net investment income for the 12 months was \$0.83 per share and net realized and unrealized gains on investments totaled \$0.81 per share. On September 30, 2003, the net asset value per share was \$16.46 and the stock closed that day at \$14.70 per share.

During the period, the Board of Directors declared regular quarterly dividends of \$0.23 per share, \$0.22 per share, \$0.20 per share and \$0.20 per share payable on December 13, 2002, March 26, 2003, June 13, 2003 and September 12, 2003, respectively. In addition to regular dividends, the Board declared a capital gains distribution of \$0.04 per share payable on December 13, 2002.

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 8.3 years, and an average maturity of 14.9 years. The distribution of the portfolio's expected maturities and quality was as follows:

Maturities		Quality	
0-1 year	1.0%	Treasury, Agency and Aaa	36.6%
1-3 years	3.7	Aa	1.8
3-5 years	1.9	A	28.7
5-10 years	53.6	Baa	30.8
10-20 years	11.3	Below Baa	2.1
20 plus years	28.5		-----
	-----		100.0%
	100.0%		

Our ultimate objective in managing your investments is to help you successfully meet your financial goals. We thank you for your continued support and welcome any comments or questions you may have.

Sincerely,

/s/ Joseph A. Varnas

Joseph A. Varnas
President

Sincerely,

/s/ Craig G. Ellinger

Craig G. Ellinger
Portfolio Manager

This letter is intended to assist shareholders in understanding how the Fund performed during the fiscal year ended September 30, 2003, and reflects our views at the time of its writing. Of course, these views may change in response to changing circumstances, and they do not guarantee the future performance of the markets or the Fund. We encourage you to consult your financial advisor regarding your personal investment program.

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Fort Dearborn Income Securities, Inc.

Performance At A Glance

Average Annual Return, Periods Ended 9/30/03

Net Asset Value Returns	6 months	1 year	5 years	10 years

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Fort Dearborn Income Securities, Inc.	5.04%	10.63%	6.87%	7.32%
Investment Grade Bond Index	4.82%	10.71%	7.22%	7.63%

Market Price Returns

Fort Dearborn Income Securities, Inc.	0.61%	3.21%	6.40%	6.80%
Investment Grade Bond Index	4.82%	10.71%	7.22%	7.63%

Past performance does not predict future performance. The return and principal value of an investment will fluctuate, so that an investor's shares, when sold, may be worth more or less than their original cost. NAV return assumes, for illustration only, that dividends were reinvested at the net asset value on the ex-dividend dates. Market price return assumes dividends were reinvested under the Dividend Reinvestment Plan. NAV and market price returns for periods of less than one year are cumulative. Returns do not include brokerage commissions or taxes paid on realized capital gains.

Index composition, 12/31/81 - present: 5% Lehman US Agency Index; 75% Lehman US Credit Index; 10% Lehman US Mortgage Fixed Rate MBS Index; 10% Lehman US Treasury Index.

Market Price, Dividend and Yields as of 9/30/03

Market Price	\$14.70
Net Asset Value (per share applicable to common shareholders)	\$16.46
12-Month Net Investment Income Dividend (ended 9/30/03)	\$0.850
September 2003 Dividend	\$0.200
Market Yield*	5.44%
NAV Yield*	4.86%
IPO Yield*	4.27%

* Market yield is calculated by multiplying the September dividend by 4 and dividing by the month-end market price. NAV yield is calculated by multiplying the September dividend by 4 and dividing by the month-end net asset value. IPO yield is calculated by multiplying the September dividend by 4 and dividing by the initial public offering price. Prices and yields will vary.

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ASSETS:

Portfolio of investments:	
Debt securities, at value (cost \$132,912,304)	\$142,506,017
Short-term securities, at cost, which approximates market	1,200,255

Total portfolio of investments	143,706,272
Receivable for interest on debt securities	2,003,737
Other assets	8,055

Total assets	145,718,064

LIABILITIES:

Payable for investments purchased	1,014,844
Accrued investment advisory and administrative fees	160,155
Accrued professional fees	28,000
Accrued custodial and transfer agent fees	14,053
Accrued other expenses	31,743

Total liabilities	1,248,795

NET ASSETS (equivalent to \$16.46 per share for 8,775,665 shares of capital stock outstanding)	\$144,469,269
	=====

Analysis of Net Assets:

Shareholders' capital	\$135,120,133
Accumulated undistributed net investment income	20,394
Accumulated net realized loss on sales of investments	(264,971)
Unrealized appreciation on investments	9,593,713

Net assets applicable to outstanding shares	\$144,469,269
	=====

See Notes to Financial Statements.

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STATEMENT OF OPERATIONS

For the Year Ended
September 30, 2003

Investment income:	
Interest income earned	\$ 8,310,515

Expenses:	
Investment advisory and administrative fees	663,376
Directors' fees and expenses	89,898
Transfer agent and dividend disbursing agent fees	72,212
Stockholders' reports and annual meeting fees	61,929
Professional fees	54,444
Custody fees	38,434
Franchise taxes	15,856
Other expenses	43,131

Total expenses	1,039,280

Net investment income	7,271,235

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Net realized and unrealized gain on investments:	
Net realized gain from investment transactions	186,121
Change in unrealized appreciation	6,960,588

Total realized and unrealized gain on investments	7,146,709

Net increase in net assets from operations	\$14,417,944
	=====

See Notes to Financial Statements.

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STATEMENT OF CHANGES IN NET ASSETS

	For the Years Ended September 30, 2003	2002
	-----	-----
From operations:		
Net investment income	\$ 7,271,235	\$ 8,314,247
Net realized gain from investment transactions	186,121	623,636
Change in unrealized appreciation (depreciation) of investments	6,960,588	(1,229,377)
	-----	-----
Net increase in net assets from operations	14,417,944	7,708,506
Distributions to shareholders from:		
Net investment income	(7,459,315)	(8,424,638)
Net realized gain	(351,027)	(1,404,106)
	-----	-----
Total distributions	(7,810,342)	(9,828,744)
	-----	-----
Net increase (decrease) in net assets	6,607,602	(2,120,238)
Net Assets:		
Beginning of period	137,861,667	139,981,905
	-----	-----
End of period (including accumulated undistributed net investment income of \$20,394 and \$133,939, respectively)	\$144,469,269	\$137,861,667
	=====	=====

See Notes to Financial Statements.

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FINANCIAL HIGHLIGHTS

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

Years Ended September 30

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	2003	2002	2001	
Net asset value, beginning of period	\$ 15.71	\$ 15.95	\$ 15.05	\$
Net investment income	0.83	0.95	1.04	
Net realized and unrealized gain (loss) on investments	0.81	(0.07)	0.90	
Total from investment operations	1.64	0.88	1.94	
Less distributions from:				
Net investment income	(0.85)	(0.96)	(1.04)	
Net realized gain	(0.04)	(0.16)	--	
Total distributions	(0.89)	(1.12)	(1.04)	
Net asset value, end of period	\$ 16.46	\$ 15.71	\$ 15.95	\$
Market price per share at end of period	\$ 14.70	\$ 15.10	\$ 14.84	\$
Total investment return (market value) (1)	3.21%	9.46%	18.98%	
Total return (net asset value) (2)	10.63%	5.82%	13.22%	
Net assets at end of period (in millions)	\$144.47	\$137.86	\$139.98	\$1
Ratios of expenses to average net assets	0.74%	0.73%	0.71%	
Ratio of net investment income to average net assets	5.16%	6.07%	6.68%	
Portfolio turnover	62.3%	126.8%	142.7%	
Number of shares outstanding at end of period (in thousands)	8,776	8,776	8,776	

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- (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.
- (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.

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS
September 30, 2003

Face Value		Moody's Rating	Cost
-----		-----	-----
	DEBT SECURITIES-- (99.2%)		
	[] MUNICIPAL SECURITIES-- (3.0%)		
\$10,000,000	New Jersey Economic Development Authority, Zero Coupon Revenue Bond, due 02/15/18	Aaa	\$ 3,421,054
	[] U.S. GOVERNMENT SECURITIES-- (16.1%)		
	AGENCY OBLIGATIONS-- (5.9%)		
	Fannie Mae,		

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1,180,000	4.625%, due 05/01/13	Aa2	1,177,465
430,000	7.125%, due 01/15/30	Aaa	552,567
	Fannie Mae Grantor Trust,		
736,739	5.500%, due 03/01/33	(a)	759,301
1,218,237	6.500%, due 07/25/42	(a)	1,324,452
	Federal Home Loan Mortgage Corp., Gold Pool,		
587,382	6.500%, due 02/01/17	(a)	621,157
	Federal National Mortgage Association,		
451,514	6.000%, due 06/01/23	(a)	470,280
809,182	6.000%, due 11/01/28	(a)	796,792
692,770	7.000%, due 03/01/31	(a)	701,538
	Federal National Mortgage Association,		
	Guaranteed Mortgage Pass Thru Certificates,		
154,902	REMIC, 7.000%, due 06/25/13	(a)	144,041
	Freddie Mac,		
1,365,000	5.875%, due 03/21/11	Aa2	1,557,182
	Government National Mortgage Association,		
398,411	6.500%, due 05/15/29	(a)	367,596

			8,472,371

	U.S. TREASURY BONDS--(10.2%)		
1,000,000	4.250%, due 08/15/13	Aaa	1,014,844
830,000	4.375%, due 08/15/12	Aaa	824,877
4,195,000	6.250%, due 05/15/30	Aaa	4,959,933
2,745,000	8.000%, due 11/15/21	Aaa	3,639,015
13,250,000	Principal Only, due 08/15/26	Aaa	3,583,271

			14,021,940

	Total U.S. Government Securities		22,494,311

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

Face Value		Moody's Rating	Cost
-----		-----	-----
	[] CORPORATE BONDS AND NOTES--(80.1%)		
	FINANCE--(38.8%)		
\$ 195,000	Allstate Corp. (The), 6.750%, due 05/15/18	A1	\$ 208,
745,000	Anadarko Finance Co., 7.500%, due 05/01/31	Baa1	785,
375,000	Avalonbay Communities, Inc., 7.500%, due		
	08/01/09	Baa1	391,
1,915,000	Bank of America Corp., 7.400%, due 01/15/11	Aa3	1,978,
235,000	Bank of New York Co., Inc. (The), 7.300%, due		
	12/01/09	A1	265,
815,000	Bank One Corp., 7.875%, due 08/01/10	A1	868,
1,655,000	Barclays Bank, PLC, 144A, 8.550%, due		
	12/31/49	Aa3	1,652,
1,250,000	Bear Stearns Commercial Mortgage Securities,		
	00-WF2, Class A2, 7.320%, due 10/15/32	AAA*	1,436,

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320,000	Boeing Capital Corp., 7.375%, due 09/27/10	A3	342,
140,000	CIT Group, Inc., 7.750%, due 04/02/12	A2	152,
2,175,000	Citigroup, Inc., 7.250%, due 10/01/10	Aa2	2,298,
275,000	Conoco Funding Co., 7.250%, due 10/15/31	A3	314,
3,000,000	CPL Transition Funding LLC, 6.250%, due 01/15/17	Aaa	3,243,
1,105,000	Credit Suisse First Boston USA, Inc., 6.500%, due 01/15/12	Aa3	1,123,
2,800,000	CS First Boston Mortgage Securities Corp., 00-C1, Class A2, 7.545%, due 04/15/62	AAA*	3,026,
1,075,838	CS First Boston Mortgage Securities Corp., 03-8, Class 5A1, 6.500%, due 04/25/33	Aaa	1,116,
635,000	DLJ Commercial Mortgage Corp., 00-CKP1, Class A1B, 7.180%, due 08/10/10	Aaa	638,
750,000	DLJ Commercial Mortgage Corp., 99-CG3, Class A1B, 7.340%, due 10/10/32	Aaa	814,
700,000	EOP Operating, 7.250%, due 06/15/28	Baa1	709,
590,000	FleetBoston Financial Corp., 7.375%, due 12/01/09	A2	623,
1,805,000	Ford Motor Co., 7.450%, due 07/16/31	Baa1	1,657,
1,185,000	Ford Motor Credit Co., 7.375%, due 02/01/11	A3	1,167,
930,000	General Electric Capital Corp., 6.750%, due 03/15/32	Aaa	907,

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

Face Value		Moody's Rating	Cos
-----		-----	-----
\$ 1,730,000	General Electric Capital Corp., 6.000%, due 06/15/12	Aaa	\$ 1,834
365,000	General Motors Acceptance Corp., 6.875%, due 09/15/11	A3	361
1,000,000	General Motors Acceptance Corp., 8.375%, due 07/15/33	Baa1	982
1,565,000	General Motors Acceptance Corp., 8.000%, due 11/01/31	A3	1,590
170,000	Goldman Sachs Group, Inc., 6.125%, due 02/15/33	Aa3	170
665,000	Goldman Sachs Group, Inc., 6.875%, due 01/15/11	Aa3	664
1,165,000	Household Finance Corp., 6.750%, due 05/15/11	A1	1,156
260,000	HSBC Holdings PLC, 5.250%, due 12/12/12	A1	259
475,000	Lehman Brothers Holdings, Inc., 6.625%, due 01/18/12	A2	472
390,000	Lincoln National Corp., 6.200%, due 12/15/11	A3	388
320,000	Marsh & McLennan Cos., Inc., 6.250%, due 03/15/12	A2	354
190,000	MBNA America Bank N.A., 7.125%, due 11/15/12	Baa2	194
195,000	Mellon Funding Corp., 5.000%, due 12/01/14	A2	193

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1,213,031	Merrill Lynch Mortgage Investors, Inc., 96-C2, Class A3, 6.960%, due 11/21/28	AAA*	1,287
170,000	Morgan Stanley, 7.250%, due 04/01/32	Aa3	170
1,640,000	Morgan Stanley, 6.750%, due 04/15/11	Aa3	1,645
360,000	National City Bank, 4.625%, due 05/01/13	A1	359
670,000	Pemex Project Funding Master Trust, 8.000%, due 11/15/11	Baa1	732
1,500,000	PNC Mortgage Acceptance Corp., 99-CM1, Class A1B, 7.330%, due 12/10/32	Aaa	1,608
870,000	Prudential Mortgage Capital Funding, LLC, 01-ROCK, Class A2, 6.605%, due 05/10/34	Aaa	874
1,380,000	PSE&G Transition Funding LLC, 6.450%, due 03/15/13	Aaa	1,445

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

Face Value -----		Moody's Rating -----	Cost -----
\$ 3,000,000	PSE&G Transition Funding LLC, 6.610%, due 06/15/15	Aaa	\$ 3,376,875
830,000	Qwest Capital Funding, Inc., 7.900%, due 08/15/10	Caa2	862,051
115,000	SLM Corp., 5.125%, due 08/27/12	A2	114,202
500,000	U.S. Bank N.A., Minnesota, 6.375%, due 08/01/11	Aa3	509,916
945,000	Unilever Capital Corp., 7.125%, due 11/01/10	A1	1,008,792
1,620,000	Wachovia Bank N.A. (Charlotte), 7.800%, due 08/18/10	Aa3	1,709,242
350,000	Washington Mutual Bank, 6.875%, due 06/15/11	A3	377,971
1,025,000	Wells Fargo Bank, N.A., 6.450%, due 02/01/11	Aa1	1,014,672
			51,444,909
	UTILITIES--(7.0%)		
305,000	Apache Corp., 6.250%, due 04/15/12	A3	308,151
110,000	Boston Edison Co., 4.875%, due 10/15/12	A1	109,227
370,000	Burlington Resources Finance Co., 6.680%, due 02/15/11	Baa1	404,302
270,000	Commonwealth Edison Co., 6.150%, due 03/15/12	A3	270,563
680,000	ConocoPhillips, 8.750%, due 05/25/10	A3	769,943
1,400,000	Consolidated Edison Co. of New York, 7.500%, due 09/01/10	A1	1,389,332
670,000	Devon Financing Corp., ULC, 6.875%, due 09/30/11	Baa2	651,274
415,000	Dominion Resources, Inc., 5.700%, due 09/17/12	Baa1	414,718
205,000	DTE Energy Co., 7.050%, due 06/01/11	Baa2	222,906
590,000	Duke Energy Field Services, LLC, 8.125%, due 08/16/30	Baa2	637,752
650,000	FirstEnergy Corp., 6.450%, due 11/15/11	Baa2	642,400
165,000	Kerr-McGee Corp., 7.875%, due 09/15/31	Baa3	198,145

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345,000	Midamerican Energy Co., 5.125%, due 01/15/13	A3	344,251
210,000	Praxair, Inc., 6.375%, due 04/01/12	A3	213,065
520,000	Progress Energy, Inc., 7.000%, due 10/30/31	Baa2	526,487
290,000	PSEG Power LLC, 8.625%, due 04/15/31	Baa1	206,415
480,000	Sempra Energy, 7.950%, due 03/01/10	Baa1	478,742

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

Face Value		Moody's Rating	Cost
-----		-----	-----
\$ 325,000	Southern Power Co., 6.250%, due 07/15/12	Baa1	\$ 328,8
300,000	Union Oil Co. of California, 7.500%, due 02/15/29	Baa2	316,2
470,000	Valero Energy Corp., 7.500%, due 04/15/32	Baa3	465,9

			8,898,6

	INDUSTRIAL--(17.6%)		
720,000	Alcoa, Inc., 6.000%, due 01/15/12	A2	718,1
675,000	Altria Group, Inc., 7.750%, due 01/15/27	Baa2	700,8
180,000	Amerada Hess Corp., 7.875%, due 10/01/29	Baa3	211,9
940,000	Anheuser-Busch Cos., Inc., 9.000%, due 12/01/09	A1	1,095,8
1,815,000	AOL Time Warner, Inc., 7.625%, due 04/15/31	Baa1	1,785,6
1,270,000	Avon Products, Inc., 7.150%, due 11/15/09	A2	1,290,8
325,000	Bear Stearns Co., 5.700%, due 11/15/14	A2	340,1
670,000	Bombardier, Inc., 144A, 6.750%, due 05/01/12	Baa3	633,9
395,000	Bristol-Myers Squibb Co., 5.750%, due 10/01/11	A1	404,4
720,000	Caterpillar, Inc., 6.550%, due 05/01/11	A2	720,8
340,000	Cendant Corp., 7.375%, due 01/15/13	Baa1	405,8
300,000	Centex Corp., 7.875%, due 02/01/11	Baa2	360,8
420,000	Conagra Foods, Inc., 6.750%, due 09/15/11	Baa1	466,9
350,000	Coors Brewing Co., 6.375%, due 05/15/12	Baa2	348,5
380,000	DaimlerChrysler N.A. Holding Corp., 8.500%, due 01/18/31	A3	426,2
825,000	Deere & Co., 7.125%, due 03/03/31	A3	841,3
330,000	Dow Chemical Co. (The), 6.125%, due 02/01/11	A3	333,2
300,000	Federated Department Stores, Inc., 6.625%, due 04/01/11	Baa1	333,6
375,000	First Data Corp., 5.625%, due 11/01/11	A1	373,8
730,000	General Dynamics Corp., 4.250%, due 05/15/13	A2	728,8
440,000	Harrah's Operating Co., Inc., 7.500%, due 01/15/09	Baa3	480,9
875,000	International Paper Co., 6.750%, due 09/01/11	Baa2	876,0
285,000	Kohl's Corp., 6.300%, due 03/01/11	A3	288,6
760,000	Kraft Foods, Inc., 5.625%, due 11/01/11	A3	790,6
685,000	Kroger Co., 7.500%, due 04/01/31	Baa3	765,5
255,000	Lockheed Martin Corp., 8.500%, due 12/01/29	Baa2	351,0
520,000	Merck & Co., Inc., 6.400%, due 03/01/28	Aaa	563,2

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See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

Face Value		Moody's Rating	Cost
-----		-----	-----
\$ 350,000	Miller Brewing Co., 144A, 5.500%, due 08/15/13	Baa1	\$ 348,65
235,000	Newell Rubbermaid, Inc., 6.750%, due 03/15/12	Baa1	258,97
425,000	Northrop Grumman Corp., 7.125%, due 02/15/11	Baa3	493,11
735,000	Occidental Petroleum Corp., 8.450%, due 02/15/29	Baa1	830,32
275,000	Progressive Corp. (The), 6.250%, due 12/01/32	A1	281,68
290,000	Rohm & Haas Co., 7.850%, due 07/15/29	A3	319,21
435,000	Safeway, Inc., 7.250%, due 02/01/31	Baa2	465,04
525,000	Target Corp., 7.000%, due 07/15/31	A2	567,63
585,000	Transocean, Inc., 7.500%, due 04/15/31	Baa2	568,12
125,000	Tyson Foods Inc, 8.250%, due 10/01/11	Baa3	144,46
430,000	United Technologies Corp., 6.100%, due 05/15/12	A2	429,24
475,000	UST, Inc., 6.625%, due 07/15/12	A3	472,77
400,000	Walt Disney Co. (The), 6.375%, due 03/01/12	Baa1	406,21
310,000	Wendy's International, Inc., 6.200%, due 06/15/14	Baa1	309,09
665,000	Weyerhaeuser Co., 7.375%, due 03/15/32	Baa2	658,43

			23,191,39

	COMMUNICATION--(7.1%)		
455,000	AT&T Corp., 8.000%, due 11/15/31	Baa2	397,94
840,000	AT&T Wireless Services, Inc., 8.750%, due 03/01/31	Baa2	927,64
315,000	BellSouth Telecommunications Corp., 6.000%, due 10/15/11	A1	321,61
340,000	British Telecommunications PLC, 8.125%, due 12/15/10	Baa1	370,83
260,000	Cingular Wireless, 6.500%, due 12/15/11	A3	251,53
520,000	Citizens Communications Co., 9.000%, due 08/15/31	Baa2	538,83
1,005,000	Comcast Corp., 7.050%, due 03/15/33	Baa3	998,86
740,000	International Business Machines Corp., 5.875%, due 11/29/32	A1	716,49
170,000	Motorola, Inc., 7.625%, due 11/15/10	Baa2	158,50
820,000	News America, Inc., 7.125%, due 04/08/28	Baa3	730,96

See Notes to Financial Statements.

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PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

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Face Value -----		Moody's Rating -----	Cos -----
\$ 800,000	SBC Communications, Inc., 5.875%, due 02/01/12	A1	\$ 807
665,000	Sprint Capital Corp., 8.750%, due 03/15/32	Baa3	721
1,085,000	Verizon New York, Inc., 7.375%, due 04/01/32	A2	992
825,000	Viacom, Inc., 6.625%, due 05/15/11	A3	922

			8,858

	INTERNATIONAL--(6.4%)		
2,500,000	Augusta Funding Ltd., 7.375%, due 04/15/13	Aaa	2,426
285,000	Canadian National Railway Co., 6.900%, due 07/15/28	Baa1	296
625,000	Deutsche Telekom International Finance BV, 8.250%, due 06/15/30	Baa3	661
530,000	France Telecom S.A., 8.500%, due 03/01/31	Baa3	605
2,805,000	Mexico Government International Bond, 8.125%, due 12/30/19	Baa2	2,858
385,000	Royal Bank of Scotland, 9.118%, due 03/31/10	A1	472
475,000	State of Qatar, 144A, 9.750%, due 06/15/30	A3	621
365,000	Telus Corp., 8.000%, due 06/01/11	Ba1	363

			8,306

	TRANSPORTATION--(3.2%)		
120,000	Burlington Northern Santa Fe Corp., 6.875%, due 12/01/27	Baa2	117
740,000	Burlington Northern Santa Fe Corp., 7.082%, due 05/13/29	Baa2	733
700,000	Delta Air Lines, Inc., 10.500%, due 04/30/16	B1	853
1,065,000	Erac U.S.A. Finance Co., 144A, 8.000%, due 01/15/11	Baa1	1,118
470,000	Union Pacific Corp., 6.650%, due 01/15/11	Baa3	473
3,000,000	United Airlines, Inc., 7.870%, due 01/30/19	Ca	3,000

			6,297

	Total Corporate Bonds and Notes		106,996

	Total Debt Securities		132,912

See Notes to Financial Statements.

PORTFOLIO OF INVESTMENTS--(Continued)
September 30, 2003

Shares -----	Cost -----	Value -----
-----------------	---------------	----------------

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	SHORT-TERM INVESTMENTS--(0.8%)		
1,200,255	UBS Supplementary Trust U.S. Cash Management Prime Fund	\$ 1,200,255	\$ 1,200,255
		-----	-----
	Total Investments (100.0%)	\$134,112,559	\$143,706,272
		=====	=====

-
- (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.
- 144A Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2003, the value of these securities amounted to \$5,063,527 or 3.5% of the total portfolio of investments.
- REMIC Real Estate Mortgage Investment Conduit

See Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS September 30, 2003

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 investment company. The Company invests principally in investment grade long-term fixed income debt securities with the primary objective of providing its shareholders with:

- o a stable stream of current income consistent with external interest rate conditions, and
- o 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 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. If a market value is not available from an independent pricing source for a particular security, that security is valued

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at fair value as determined in good faith by or under the direction of the Fund's board of directors (the "Board"). The amortized cost method of valuation, which approximates market value, generally is used to value short-term debt instruments with sixty days or less remaining to maturity, unless the Board determines that this does not represent fair value.

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 September 30, 2003, was substantially the same as the cost of securities for financial statement purposes.

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NOTES TO FINANCIAL STATEMENTS--(Continued) September 30, 2003

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

At September 30, 2003, the components of net unrealized appreciation of investments were as follows:

Gross appreciation (investments having an excess of value over cost)	\$11,928,084
Gross depreciation (investments having an excess of cost over value)	(2,334,371)

Net unrealized appreciation of investments	\$ 9,593,713
	=====

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.

At September 30, 2003, the components of accumulated earnings on a tax basis were as follows:

Accumulated earnings	\$ 20,394
Undistributed long term capital gains	--
Accumulated capital and other losses	(235,576)
Unrealized appreciation	9,564,317

Total accumulated earnings	\$9,349,135
	=====

The differences between book-basis and tax-basis unrealized appreciation is attributable to the tax deferral of losses on wash sales.

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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.

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

The tax character of distributions paid during the fiscal years ended September 30, 2003 and September 30, 2002 were as follows:

Distributions paid from:	2003	2002
-----	-----	-----
Ordinary income	\$7,643,604	\$9,828,744
Capital gains	166,738	--
	-----	-----
	\$7,810,342	\$9,828,744
	=====	=====

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NOTES TO FINANCIAL STATEMENTS--(Continued) September 30, 2003

3. DISTRIBUTIONS (Continued)

At September 30, 2003, the Fund had a net capital loss carryforward of \$235,576, which is available as a reduction, to the extent provided in the regulations, of future net realized capital gains, and will expire on September 30, 2011. To the extent that such losses are used to offset future net realized capital gains as provided in the regulations, such gains will not be distributed.

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. Permanent book and tax differences of \$74,535 were reclassified from accumulated net realized gain (loss) on investments to undistributed net investment income due to gains from paydown adjustments related to mortgage-backed securities.

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 September 30, 2003, there were 12,000,000 shares of \$.01 par value

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capital stock authorized, and shareholder capital of \$135,120,133. During the year ended September 30, 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 year ended September 30, 2003, were as follows: debt securities and preferred stock, \$29,466,887 and \$24,256,812, respectively; short-term securities, \$34,153,023 and \$37,714,853, respectively; and United States government debt obligations, \$60,038,752 and \$61,351,783, 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 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.

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NOTES TO FINANCIAL STATEMENTS--(Continued) September 30, 2003

6. MANAGEMENT AND OTHER FEES (Continued)

The following table sets forth as to each Director the compensation paid to such Director in the fiscal year ended September 30, 2003 for service on the Board of the Company and, in the case of Messrs. Reilly and Roob, on the boards of three other investment companies for which the Advisor performed investment advisory services.

Name of Director -----	Aggregate Compensation from Company -----	Pension or Retirement Benefits Accrued as Part of Company Expenses -----	Estimated Annual Benefits Upon Retirement -----	Total Compens from Company Fund Compl (unaudited) -----
Adela Cepeda	\$13,500	--	--	\$13,500
C. Roderick O'Neal	16,500	--	--	16,500
Frank K. Reilly	13,500	--	--	75,600
Edward M. Roob	13,500	--	--	75,600
J. Mikesell Thomas	13,500	--	--	13,500

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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 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 September 30, 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	\$33,941,563	\$37,503,843	\$42,474	\$1,200,25

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. Securities issued by Government National Mortgage Association (GNMA) are backed by the full faith and credit of the U.S. Government. Securities issued by Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) are not backed by the full faith and credit of the U.S. Government, but the issuing agency has the right to borrow from the U.S. Treasury to meet it's obligations. However, some securities may be issued by private, non-

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NOTES TO FINANCIAL STATEMENTS--(Continued) September 30, 2003

7. MORTGAGE BACKED SECURITIES AND OTHER INVESTMENTS (Continued)

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 that 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 underlying mortgages are repaid. For instance, a Planned Amortization Class (PAC) is a specific class of mortgages, which over its life generally has the most stable cash flows and the lowest prepayment risk. A GPM (Graduated Payment

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

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Report of Independent Auditors

To the Shareholders and Board of Directors of
Fort Dearborn Income Securities, Inc.

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Fort Dearborn Income Securities, Inc., (the "Company") as of September 30, 2003, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the two years in the period ended September 30, 2000, were audited by other auditors whose report dated October 26, 2000, expressed an unqualified opinion on the financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of September 20, 2003, by correspondence with the custodian and others. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Fort Dearborn Income Securities, Inc. as of September 30, 2003, and the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

New York, New York
November 3, 2003

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 year ended September 30, 2003, 59,608 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
June 13, 2003	13,649	\$15.70	Open Market
September 12, 2003	13,516	\$14.55	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 759 participants on September 12, 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., P.O. Box 43081, Providence, RI 02940-3081 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 ensure that cost information is available if and when it is needed.

Shareholder Information

For the year ended September 30, 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.

General Information

Stock Repurchase Plan

On July 28, 1988, the Board of Directors of the Company approved a 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 shareholders with respect to any shares repurchased within the next six months pursuant to the Company's stock repurchase plan.

Audited financial statements for the year ended September 30, 2003 and a list of securities owned on that date are included in this report.

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Supplemental Information (Unaudited)

Board of Directors & Officers

The Company is governed by a Board of Directors which oversees the Company's operations. Each Director serves until the next annual meeting of shareholders or until his or her successor is elected and qualified. Officers are appointed by the Directors and serve at the pleasure of the Board. The table below shows, for each Director and Officer, his or her name, address and age, the position held with the Company, the length of time served as a Director or Officer of the Company, the Director's or Officer's principal occupations during the last five years, other directorships held by the Director or Officer, the number of funds in the Fort Dearborn fund complex overseen by the Director or for which a person served as an Officer, and shares owned by the Director or Officer.

Name, Address and Age	Position(s) Held with Trust	Term of Office(1) and Length of Time Served	Principal Occupa
DIRECTORS:			
C. Roderick O'Neil; 71 O'Neil Associates P.O. Box 405	Director and Chairman of the Board of	Since 1992	Mr. O'Neil is chai investment and fin

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South Glastonbury, CT 06073	Directors		
Adela Cepeda; 44 A.C. Advisory, Inc. 161 No. Clark Street, Suite 4975 Chicago, Illinois 60601	Director	Since 2000	Ms. Cepeda is found Advisory, Inc. (si
Frank K. Reilly; 67 College of Business Administration University of Notre Dame Notre Dame, IN 46556-0399	Director	Since 1993	Mr. Reilly is a Pr Notre Dame since 1 of Battery Park Fu
Edward M. Roob; 69 841 Woodbine Lane Northbrook, IL 60002	Director	Since 1993	Mr. Roob is retire Committee Member o Exchange from 1993
J. Mikesell Thomas, 51 c/o UBS Global Asset Management (Americas) Inc. One N. Wacker Drive Chicago, Illinois 60606	Director	Since 2002	Mr. Thomas is an i (since 2001). He w Lazard Freres & Co

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Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Mr. O'Neil is a director of one investment company (consisting of one portfolio) for which UBS Global AM (Americas) serves as investment advisor	Mr. O'Neil is also a director of Beckm Inc., Cadre Institutional Investors Tr trustee of Optimum Qu Fund.
Ms. Cepeda is a director of one investment company (consisting of one portfolio) for which UBS Global AM (Americas) serves as investment advisor	Ms. Cepeda is a director of Lincoln Na Income Fund, Inc. and Lincoln National Convertible Securities Fund.
Mr. Reilly is a director or trustee of five investment companies (consisting of 44 portfolios) for which UBS Global AM (Americas) or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Reilly is a Director of Discover B Stanley Trust, FSB; and NIBCO, Inc.
Mr. Roob is a director or trustee of five investment companies (consisting of 44 portfolios) for which UBS Global AM (Americas) or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Roob is a Trustee of the CCM Fund (9 portfolios).
Mr. Thomas is a director of one investment company (consisting of one portfolio) for which UBS Global AM (Americas) serves as investment advisor	Mr. Thomas is a director and chairman Finance Committee for Evanston Northwe Healthcare. He is also a vice presiden Board of Trustees for Mid-Day Club and leadership of Greater Chicago Associat

Name, Address and Age	Position(s) Held with Trust	Term of Office(1) and Length of Time Served	Princip Occupatio During P 5 Year
OFFICERS:			
Joseph A. Anderson*; 41	Assistant Treasurer	Since 1992	Mr. Anderson is an executive (Americas). (since 1991) and president of UBS Global Asset Company (since 1995). Mr. Anderson is treasurer of one investment company (portfolio) for which UBS Global Asset Management is investment advisor.
Amy R. Doberman**; 41	Vice President and Assistant Secretary	Since 2003	Ms. Doberman is a managing director and general counsel of UBS Global AM. From 1997 through July 2000, she was general manager of UBS Investment Management, Inc. Ms. Doberman was president and assistant secretary of 17 investment companies (consisting of 44 portfolios) and secretary of 17 investment companies (consisting of 37 portfolios) for which UBS Global Asset Management affiliates serves as investment manager.
Craig G. Ellinger*; 33	Vice President	Since 2001	Mr. Ellinger is a portfolio manager at UBS Global AM (Americas). He previously served in a similar capacity at UBS Investment Inc. (1997 to 2000). Mr. Ellinger is currently an investment company (consisting of 17 investment companies) which UBS Global AM (Americas) serves as investment advisor.
David M. Goldenberg**; 37	Vice President and Secretary	Since 2003	Mr. Goldenberg is an executive vice president and general counsel of UBS Global Asset Management. He was director, legal affairs and compliance at UBS Investment Management. Mr. Goldenberg served in various capacities, including most recently as director of Compliance, at SSB Citi Asset Management from 1996 to 2000. Mr. Goldenberg was secretary of five investment companies (consisting of 17 portfolios) and a vice president of 17 investment companies (consisting of 17 investment companies) which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor.

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Name, Address and Age	Position(s) Held with Trust	Term of Office(1) and Length of Time Served	Principal Occupation During 5 Years
Rita Rubin**, 33	Assistant Secretary	Since 2002	Ms. Rubin is a director and an advisor of UBS Global AM. Prior to 2002, she was an assistant secretary of the law firm of Kirkpatrick & Butler (consisting of 42 portfolios in the Americas) or one of its advisors, sub-advisor or manager.
Paul H. Schubert**, 40	Vice President and Treasurer	Since 2003	Mr. Schubert is an executive in the mutual fund finance department of UBS Global AM. Mr. Schubert is treasurer of three investment companies (consisting of three portfolios), a vice president of two investment companies (consisting of two portfolios), treasurer and chief financial officer of one investment company (consisting of two portfolios), Global AM or one of its advisors, sub-advisor or manager.
Joseph A. Varnas**, 35	President	Since 2003	Mr. Varnas is a managing director and chief technology officer (responsible for product, technology and operations) of UBS Global AM (since November 2002). From 2000 to 2002, he was a manager of product development at UBS Consulting Services at UBS Global AM. Mr. Varnas was a senior analyst at Research and Economics Group of UBS Global AM from 1995 to 1999. Mr. Varnas is an advisor of seven investment companies (consisting of 7 portfolios), Global AM or one of its advisors, sub-advisor or manager.

* This person's business address is One North Wacker Drive, Chicago, IL 60606.

** This person's business address is 51 West 52nd Street, New York, New York 10019-6114.

- (1) Each Director serves until the next annual meeting of shareholders or until his or her successor is elected and qualified, or until he or she resigns or is otherwise removed. Officers of the Fund are appointed by the Directors and serve at the pleasure of the Board.

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 Chicago, Illinois 60601

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-----	[LOGO] Chicago	SEPTEMBER 30, 2003
Listed	Stock Exchange	

NYSE		

Item 2. Code of Ethics.

The registrant has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions pursuant to Section 406 of the Sarbanes-Oxley Act of 2002. (The registrant has designated the code of ethics adopted pursuant to Sarbanes-Oxley as a "Code of Conduct" to lessen the risk of confusion with its separate code of ethics adopted pursuant to Rule 17j-1 under the Investment Company Act of 1940, as amended.)

Item 3. Audit Committee Financial Expert.

The registrant's Board of Directors has determined that the following person serving on the registrant's Audit Committee is an "audit committee financial expert" as defined in item 3 of Form N-CSR : J. Mikesell Thomas. Mr. Thomas is independent as defined in item 3 of Form N-CSR.

Item 4. Principal Accountant Fees and Services.

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

Item 5. Audit Committee of Listed Registrants.

Not applicable to the registrant.

Item 6. [Reserved by SEC for future use.]

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed -

End Management Investment Companies.

The registrant's Board of Directors believes that the voting of proxies on securities held by the registrant is an important element of the overall investment process. As such, the Board has delegated the responsibility to vote such proxies to the registrant's advisor. Following is a summary of the proxy voting policy of the advisor.

Corporate Governance Philosophy, Voting Guidelines and Policy Summary

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The proxy voting policy of UBS Global Asset Management (Americas) Inc. ("UBS Global AM (Americas)") is based on its belief that voting rights have economic value and must be treated accordingly. Generally, UBS Global AM (Americas) expects the boards of directors of companies issuing securities held by its clients to act as stewards of the financial assets of the company, to exercise good judgment and practice diligent oversight with the management of the company. While there is no absolute set of rules that determine appropriate corporate governance under all circumstances and no set of rules will guarantee ethical behavior, there are certain benchmarks, which, if substantial progress is made toward, give evidence of good corporate governance. UBS Global AM (Americas) may delegate to an independent proxy voting and research service the authority to exercise the voting rights associated with

certain client holdings. Any such delegation shall be made with the direction that the votes be exercised in accordance with UBS Global AM (Americas)'s proxy voting policy.

When UBS Global AM (Americas)'s view of a company's management is favorable, UBS Global AM (Americas) generally supports current management initiatives. When UBS Global AM (Americas)'s view is that changes to the management structure would probably increase shareholder value, UBS Global AM (Americas) may not support existing management proposals. In general, UBS Global AM (Americas) (1) opposes proposals which act to entrench management; (2) believes that boards should be independent of company management and composed of persons with requisite skills, knowledge and experience; (3) opposes structures which impose financial constraints on changes in control; (4) believes remuneration should be commensurate with responsibilities and performance; and (5) believes that appropriate steps should be taken to ensure the independence of auditors.

UBS Global AM (Americas) has implemented procedures designed to identify whether it has a conflict of interests in voting a particular proxy proposal, which may arise as a result of its or its affiliates' client relationships, marketing efforts or banking, investment banking and broker/dealer activities. To address such conflicts, UBS Global AM (Americas) has imposed information barriers between it and its affiliates who conduct banking, investment banking, and broker/dealer activities and has implemented procedures to prevent business, sales and marketing issues from influencing our proxy votes. Whenever UBS Global AM (Americas) is aware of a conflict with respect to a particular proxy, its appropriate local corporate governance committee is required to review and agree to the manner in which such proxy is voted.

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-3(c) under the Investment Company Act of 1940, as amended) 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 that occurred during the registrant's most recent fiscal half-year that has materially affected, or is reasonably

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likely to materially affect, the registrant's internal control over financial reporting.

Item 10. Exhibits.

- (a) (1) Code of Conduct.
- (a) (2) Certifications of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit Ex-99.CERT.
- (b) Certifications of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit Ex-99.906CERT.

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/ Joseph A. Varnas

Joseph A. Varnas
President

Date: December 2, 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/ Joseph A. Varnas

Joseph A. Varnas
President

Date: December 2, 2003

By: /s/ Paul H. Schubert

Paul H. Schubert
Treasurer

Date: December 2, 2003
