FORT DEARBORN INCOME SECURITIES INC
Form N-CSRS
June 09, 2014

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, IL 60606-2807

(Address of principal executive offices) (Zip code)

Joseph J. Allessie, Esq.
UBS Global Asset Management (Americas), Inc.
1285 Avenue of the Americas
New York, NY 10019
(Name and address of agent for service)

Copy to:
Bruce Leto, Esq.
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2600 One Commerce Square
Philadelphia, PA 19103-7098

Registrant s telephone number, including area code: 212-821 3000

Date of fiscal year end: September 30

Date of reporting period: March 31, 2014

Item 1. Reports to Stockholders.

Closed-end funds

March 31, 2014

Fort Dearborn Income Securities, Inc.
Semiannual Report

Fort Dearborn Income Securities, Inc.

May 9, 2014

Dear shareholder,

We present you with the semiannual report for Fort Dearborn Income Securities, Inc. (the Fund) for the six months ended March 31, 2014.

Performance

For the six months ended March 31, 2014, the Fund posted a total return on a net asset value (NAV) basis of 4.61% and 8.01% on a market price basis. Over the same time period, the Fund s benchmark, the Barclays US Aggregate Index (the Index) returned 1.70%, while the Fund s peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated classification, posted a median total return of 3.80% on a NAV basis, and 7.38% on a market price basis. (For more performance information, please refer to Performance at a glance on page 5.)

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

The Fund traded at a discount to its NAV during the six months, although the discount slightly narrowed toward the end of the reporting period. On the last trading day preceding the reporting period, September 30, 2013, the Fund traded at a discount of 12.1%, which was the same as the median discount of the Fund s Lipper peer group. As of March 31, 2014, the Fund traded at a 9.7% discount, which is in line with its Lipper peer group median discount of 9.7%. A fund trades at a discount when the market price at which its shares trade is less than its NAV. Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV per share. The market price is the price the market is willing to pay for shares of a fund at a given time, and may be influenced by a range of factors, including supply and demand and market conditions. NAV per share is determined by dividing the value of the Fund s securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

Fort Dearborn Income Securities, Inc.

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

Portfolio Manager:
Scott Dolan, John Dugenske, Craig Ellinger and Brian Fehrenbach UBS Global Asset Management (Americas) Inc.

Commencement:
December 19, 1972

NYSE symbol:
FDI

Dividend payments:
Quarterly

[1] The Barclays US Aggregate Index is an unmanaged broad based index designed to measure the US-dollar-denominated, investment-grade, taxable bond market. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed, asset-backed and commercial mortgage-backed sectors. Investors should note that indices do not reflect the deduction of fees and expenses.

Fort Dearborn Income Securities, Inc.

Market commentary

The overall US economy continued to grow during the reporting period, but the pace of the expansion moderated. The Commerce Department reported gross domestic product (GDP) growth in the US of 4.1% during the third quarter of 2013. This represented the highest GDP reading since the fourth quarter of 2011. The Commerce Department then reported that fourth quarter 2013 GDP growth was 2.6%. The initial estimate for first quarter 2014 GDP growth was 0.1%.[2] Decelerating growth was partially due to severe winter weather in parts of the US, along with moderating growth overseas which negatively impacted US exports.

The Federal Reserve Board (the Fed) took a number of actions during the reporting period. Looking back, at his press conference following the central bank s meeting in June 2013, Fed Chairman Ben Bernanke signaled that the Fed might moderate the monthly pace of its bond purchases later in the year. However, at its meeting in September 2013, the Fed surprised the market by delaying the tapering of its asset purchases.

At its final meeting of 2013, in December, the Fed announced that it would begin paring back its monthly asset purchases, saying, Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a [reduced] pace of $35 billion per month rather than $40 billion per month, and will add to its holdings of longer-term Treasury securities at a [reduced] pace of $40 billion per month rather than $45 billion per month.

At its meetings in January and March 2014, the Fed said it would further taper its asset purchases, in each case paring its total purchases a total of $10 billion a month. Beginning in April 2014, the Fed planned to purchase a total of $55 billion a month ($25 billion per month of agency mortgage-backed securities and $30 billion per month of longer-term Treasuries). At its meeting in March 2014, the Fed also backed off its previous statement that raising interest rates could be tied to a 6.5% unemployment rate. In its official statement, the Fed said, This assessment [of when to raise rates] will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments.

Finally, at the Fed s meeting in April, it said it would further reduce its monthly purchases. Beginning in May, it will buy a total of $45 billion a month ($20 billion of agency mortgage-backed securities and $25 billion of longer-term Treasuries).[3]

US Treasury yields moved higher during the reporting period and provided a headwind for the overall bond market (yields and bond prices move in opposite directions). Despite this, the US taxable spread sectors[4] generated positive results during the six months ended March 31, 2014. Among the best performers were high yield bonds (up 6.56% as measured by the BofA Merrill Lynch High Yield Cash Pay Constrained Index), as they were supported by overall solid corporate fundamentals, low defaults and generally strong demand. The overall US bond market, as measured by the Barclays US Aggregate Index, gained 1.70% during the reporting period.

Portfolio commentary

What worked

- **The Fund s spread sector exposure drove its outperformance during the reporting period.**

  Security selection and a large overweight allocation to investment grade corporate bonds with a focus on financials contributed the most to performance.

[2] Based on the Commerce Department s initial estimate announced on April 30, 2014, after the reporting period had ended.
[3] The Fed s decision to further taper was made at its meeting that concluded on April 30, 2014, after the reporting period had ended.
[4] A spread sector refers to non-government fixed income sectors, such as investment grade or high yield bonds, commercial mortgage-backed securities (CMBS), etc.

Fort Dearborn Income Securities, Inc.

An overweight and selection of high yield corporate bonds was also beneficial to results during the six-month reporting period.

Elsewhere, an overweight to and security selection of commercial mortgage-backed securities (CMBS) was beneficial for results, albeit to a lesser extent.

- **The Fund s yield curve positioning was also positive for results.**

What didn t work

- **The Fund s duration positioning produced mixed results during the reporting period.**

We tactically adjusted the Fund s duration during the reporting period, given changing economic and market conditions. When the reporting period began, the Fund s duration was 5.6 years. This was reduced to 4.6 years at the end of March 2014. While this positioning added value earlier in the period, it detracted from relative performance in early 2014 as yields declined from their year-end highs.

Portfolio adjustments

- **There were no significant adjustments made to the portfolio s sector positioning during the reporting period. However, we started to employ certain derivatives. Elsewhere, the Fund initiated a position in collateralized loan obligations during the second half of the period.**

The fund utilized US Treasury and Eurodollar futures and options to more effectively manage the Fund s duration and yield curve positioning. Overall, duration and yield curve management strategies generated mixed results during the reporting period.

The Fund also utilized certain credit default swaps to add to its CMBS exposure.

Outlook

Despite experiencing headwinds from severe winter weather, we believe that the US economy has enough momentum to continue expanding and will accelerate somewhat as the year progresses. Overseas, a modest economic recovery is occurring in Europe, although deflation remains a concern. Elsewhere, growth in China has decelerated, which could negatively impact the global economy.

Turning to the fixed income market, regardless of some weaker than expected economic data and geopolitical issues, the Fed appears on track to continue paring its monthly asset purchases and potentially ending this phase of quantitative easing during the fourth quarter of 2014. While the market has been rather fixated on when the Fed will move to raise rates, we do not see this occurring until sometime in 2015. However, the market may begin to price in rising rates prior to the Fed taking action. We maintain our generally positive outlook for the spread sectors. US credit fundamentals continue to be strong and defaults should remain well below their historical average. That said, spreads in the US are significantly tighter than they were during the financial crisis. As such, their returns will likely be less robust in 2014. Given relatively wider spreads, we see select opportunities in euro-denominated credit.

Fort Dearborn Income Securities, Inc.

We thank you for your continued support and welcome any comments or questions you may have. For additional information regarding the Fund, please contact your Financial Advisor, or visit us at www.ubs.com/globalam-us.

Sincerely,

Mark E. Carver
President
Fort Dearborn Income
Securities, Inc.
Managing Director
UBS Global Asset Management
(Americas) Inc.

Scott Dolan
Portfolio Manager
Managing Director
UBS Global Asset Management
(Americas) Inc.

John Dugenske
Portfolio Manager
Managing Director
UBS Global Asset Management
(Americas) Inc.

Craig Ellinger
Portfolio Manager
Managing Director
UBS Global Asset Management
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Brian Fehrenbach
Portfolio Manager
Managing Director
UBS Global Asset Management
(Americas) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the six months ended March 31, 2014. The views and opinions in the letter were current as of May 9, 2014. They are not guarantees of future performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund s future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.

Fort Dearborn Income Securities, Inc.

Performance at a glance (unaudited)

Average annual total returns for periods ended 03/31/2014

Net asset value returns	**6 months**	**1 year**	**5 years**	**10 years**
Fort Dearborn Income Securities, Inc.	4.61%	0.89%	10.69%	6.31%
Lipper Corporate Debt Funds BBB-Rated median	3.80%	0.90%	10.74%	5.64%
Market price returns				
Fort Dearborn Income Securities, Inc.	8.01%	(0.50)%	10.69%	6.86%
Lipper Corporate Debt Funds BBB-Rated median	7.38%	(3.57)%	6.12%	4.89%
Index returns				
FDI Fund Index[1,4]	1.70%	(0.58)%	9.71%	5.93%
Barclays US Aggregate Index[2,4]	1.70%	(0.10)%	4.80%	4.46%
Investment Grade Bond Index[3]	5.36%	(0.02)%	9.83%	5.99%

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

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group. Lipper classifies the Fund in its Corporate Debt Funds BBB-Rated category, which includes non-leveraged closed-end funds that invest primarily in corporate and government debt issues rated in the top four grades.

1 The FDI Fund Index is an unmanaged index compiled by the Advisor, constructed as follows: From 12/31/81 to 5/31/2013 5% Barclays US Agency Index (7+ years), 75% Barclays US Credit Index (7+ years), 10% Barclays US Mortgage-Backed Securities Index (all maturities) and 10% Barclays US Treasury Index (7+ years). From 6/1/2013 to present 100% Barclays US Aggregate Index. Investors should note that indices do not reflect the deduction of fees and expenses.
2 The Barclays US Aggregate Index is an unmanaged broad based index designed to measure the US-dollar-denominated, investment-grade, taxable bond market. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed, asset-backed and commercial mortgage-backed sectors. Investors should note that indices do not reflect the deduction of fees and expenses.
3 The Investment Grade Bond Index is an unmanaged index compiled by the Advisor, constructed as follows: 5% Barclays US Agency Index (7+ years), 75% Barclays US Credit Index (7+ years), 10% Barclays US Mortgage-Backed Securities Index (all maturities) and 10% Barclays US Treasury Index (7+ years). Investors should note that indices do not reflect the deduction of fees and expenses.
4 Effective June 1, 2013, Fort Dearborn Income Securities, Inc. changed the Fund s benchmark from the Investment Grade Bond Index to the Barclays US Aggregate Index. The FDI Fund Index, an unmanaged index compiled by the Advisor, measures the combined performance of the Fund s prior benchmark until May 31, 2013 and the Fund s new benchmark effective June 1, 2013.
Performance information reflects the deduction of the Fund s fees and expenses, as indicated in the Statement of operations included in its shareholder reports, such as investment advisory and administration fees, custody fees, exchange listing fees, etc. It does not reflect any transaction charges that a shareholder may incur when (s)he buys or sells shares (e.g., a shareholder s brokerage commissions).

Investing in the Fund entails specific risks, such as interest rate, credit and US government securities risks. Further detailed information regarding the Fund, including a discussion of investment objectives, principal investment strategies and principal risks, may be found in the fund overview located at http://www.ubs.com/closedendfundsinfo. You may also request copies of the fund overview by calling the Closed-End Funds Desk at 888-793 8637.

Fort Dearborn Income Securities, Inc.

Portfolio statistics (unaudited)

Characteristics[1]	03/31/14	09/30/13	03/31/13
Net asset value	$15.95	$15.89	$16.83
Market price	$14.41	$13.96	$15.53
12-month dividends/distributions	$0.9900	$1.5230	$1.5230
Dividend/distribution at period-end	$0.1500	$0.1750	$0.1750
Net assets (mm)	$140.0	$139.4	$147.7
Weighted average maturity (yrs.)	8.8	8.1	15.5
Duration (yrs.)[2]	4.6	5.6	9.0

Credit quality[3]	03/31/14	09/30/13	03/31/13
AAA	%	%	0.4%
US Treasury[4]	0.2	2.2	11.1
US Agency[4,5]	3.0	3.1	4.7
AA	2.5	5.6	6.0
A	10.9	17.4	30.0
BBB	58.4	48.8	36.6
BB	12.4	10.3	7.2
B	2.3	2.8	1.1
CCC and Below	0.6	0.7	0.8
Non-rated	8.0	4.8	0.4
Cash equivalents	1.1	2.2	0.9
Other assets, less liabilities	0.6	2.1	0.8
Total	**100.0%**	**100.0%**	**100.0%**

1 Prices and other characteristics will vary over time.
2 Duration is a measure of price sensitivity of a fixed income investment or portfolio (expressed as % change in price) to a 1 percentage point (i.e., 100 basis points) change in interest rates, accounting for optionality in bonds such as prepayment risk and call/put features.
3 Weightings represent percentages of net assets as of the dates indicated. The Fund s portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are based on those assigned by Standard & Poor s Financial Services LLC, a part of McGraw-Hill Financial (S&P), to individual portfolio holdings. S&P is an independent ratings agency. Rating reflected represents S&P individual debt issue credit ratings. While S&P may provide a credit rating for a bond issuer (e.g., a specific company or country); certain issues, such as some sovereign debt, may not be covered or rated and therefore are reflected as non-rated for the purposes of this table. Credit ratings range from AAA, being the highest, to D, being the lowest, based on S&P s measures; ratings of BBB or higher are considered to be investment grade quality. Unrated securities do not necessarily indicate low quality. Further information regarding S&P s rating methodology may be found on its website at www.standardandpoors.com. Please note that references to credit quality made in the commentary above reflect ratings based on multiple providers (not just S&P) and thus may not align with the data represented in this table.
4 S&P downgraded long-term US government debt on August 5, 2011 to AA+. Other rating agencies continue to rate long-term US government debt in their highest ratings categories. The Fund s aggregate exposure to AA rated debt as of March 31, 2014 would include the percentages indicated above for AA, US Treasury and US Agency debt but has been broken out into three separate categories to facilitate understanding.
5 Includes agency debentures and agency mortgage-backed securities.

Fort Dearborn Income Securities, Inc.

Industry diversification (unaudited)

As a percentage of net assets as of March 31, 2014

Bonds	
Corporate bonds	
Automobiles	1.56%
Building products	0.08
Capital markets	3.22
Chemicals	2.91
Commercial banks	17.59
Commercial services & supplies	0.72
Communications equipment	0.40
Computers & peripherals	0.77
Construction materials	1.07
Consumer finance	1.86
Containers & packaging	0.32
Diversified financial services	9.49
Diversified telecommunication services	2.23
Electric utilities	0.58
Electronic equipment, instruments & components	1.04
Energy equipment & services	1.12
Food & staples retailing	0.57
Gas utilities	0.61
Health care providers & services	0.46
Hotels, restaurants & leisure	0.85
Insurance	6.56
IT services	0.45
Leisure equipment & products	0.16
Life sciences tools & services	0.11
Machinery	1.26
Media	2.80
Metals & mining	3.19
Oil, gas & consumable fuels	10.76
Paper & forest products	1.22
Pharmaceuticals	0.09
Real estate investment trust (REIT)	0.68
Tobacco	2.75
Trading companies & distributors	1.45
Wireless telecommunication services	0.49
Total corporate bonds	**79.42%**
Asset-backed securities	3.17
Commercial mortgage-backed securities	7.78
Mortgage & agency debt securities	3.66
Municipal bonds	2.61
US government obligation	0.15
Non-US government obligations	1.40
Total bonds	**98.19%**
Common stock	0.06
Preferred stocks	0.09
Short-term investment	1.07
Options purchased	0.01
Total investments	**99.42%**
Cash and other assets, less liabilities	0.58
Net assets	**100.00%**

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

	Face amount	Value
Bonds 98.19%		
Corporate bonds 79.42%		
Brazil 2.97%		
Caixa Economica Federal,		
2.375%, due 11/06/17[1]	$ 1,400,000	$ 1,351,000
Petrobras Global Finance BV,		
6.250%, due 03/17/24	400,000	410,280
Petrobras International Finance Co.,		
5.375%, due 01/27/21	1,130,000	1,134,147
6.875%, due 01/20/40	1,275,000	1,260,975
Total Brazil corporate bonds		4,156,402
Canada 0.49%		
EnCana Corp.,		
6.625%, due 08/15/37	250,000	297,615
Teck Resources Ltd.,		
6.250%, due 07/15/41	375,000	387,158
Total Canada corporate bonds		684,773
Cayman Islands 2.93%		
Seagate HDD Cayman,		
3.750%, due 11/15/18[1]	1,050,000	1,081,500
Transocean, Inc.,		
6.800%, due 03/15/38	835,000	900,762
7.500%, due 04/15/31	575,000	663,793
Vale Overseas Ltd.,		
4.375%, due 01/11/22	1,465,000	1,458,803
Total Cayman Islands corporate bonds		4,104,858
China 0.20%		
China Oil & Gas Group Ltd.,		
5.250%, due 04/25/18[1]	280,000	281,400
Curacao 0.09%		
Teva Pharmaceutical Finance IV BV,		
3.650%, due 11/10/21	125,000	125,208
France 0.59%		
Orange SA,		
9.000%, due 03/01/31	575,000	831,534
Luxembourg 0.64%		
Intelsat Jackson Holdings SA,		
7.500%, due 04/01/21	500,000	548,750
Telecom Italia Capital SA,		
6.375%, due 11/15/33	350,000	342,125
Total Luxembourg corporate bonds		890,875
Mexico 3.24%		
America Movil SAB de CV,		
5.000%, due 03/30/20	625,000	685,750
Cemex SAB de CV,		

9.000%, due 01/11/18[1]	1,370,000	1,493,300
Petroleos Mexicanos,		
3.500%, due 01/30/23	1,450,000	1,367,350
6.375%, due 01/23/45[1]	500,000	541,000
6.500%, due 06/02/41	410,000	448,540
Total Mexico corporate bonds		4,535,940
Netherlands 2.68%		
Basell Finance Co. BV,		
8.100%, due 03/15/27[1]	1,425,000	1,859,279
EDP Finance BV,		
4.900%, due 10/01/19[1]	1,000,000	1,045,000
6.000%, due 02/02/18[1]	350,000	379,750
LYB International Finance BV,		
4.875%, due 03/15/44	470,000	469,151
Total Netherlands corporate bonds		3,753,180
Norway 1.60%		
Eksportfinans ASA,		
5.500%, due 05/25/16	620,000	654,100
5.500%, due 06/26/17	1,500,000	1,591,875
Total Norway corporate bonds		2,245,975
Singapore 0.22%		
Flextronics International Ltd.,		
5.000%, due 02/15/23	300,000	303,000
Spain 1.99%		
BBVA US Senior SAU,		
4.664%, due 10/09/15	1,700,000	1,785,342
Telefonica Emisiones SAU,		
3.192%, due 04/27/18	970,000	993,465
Total Spain corporate bonds		2,778,807
Sweden 0.92%		
Nordea Bank AB,		
4.875%, due 05/13/21[1]	1,230,000	1,290,147
United Kingdom 5.22%		
Barclays Bank PLC,		
5.140%, due 10/14/20	1,110,000	1,176,745
6.050%, due 12/04/17[1]	1,500,000	1,681,119
Lloyds TSB Bank PLC,		
6.500%, due 09/14/20[1]	2,300,000	2,627,870
Royal Bank of Scotland Group PLC,		
6.100%, due 06/10/23	1,760,000	1,826,913
Total United Kingdom corporate bonds		7,312,647

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

	Face amount	Value
Bonds (Continued)		
Corporate bonds (Continued)		
United States 55.64%		
21st Century Fox America, Inc.,		
7.750%, due 12/01/45	$ 350,000	$ 485,292
ADT Corp.,		
3.500%, due 07/15/22	1,140,000	1,002,083
AEP Texas Central Co.,		
Series E, 6.650%, due 02/15/33	495,000	611,580
Allstate Corp.,		
5.750%, due 08/15/53[2]	1,000,000	1,050,000
Ally Financial, Inc.,		
4.078%, due 06/15/15[3]	1,150,000	1,114,062
8.300%, due 02/12/15	550,000	581,625
Altria Group, Inc.,		
5.375%, due 01/31/44	850,000	888,585
9.950%, due 11/10/38	750,000	1,203,361
Anadarko Holding Co.,		
7.500%, due 10/15/26	1,354,000	1,586,869
AT&T, Inc.,		
4.300%, due 12/15/42	26,000	23,038
Avery Point CLO, Ltd.,		
Series 2014-1A, Class C,		
3.329%, due 06/01/15[2,4,5]	450,000	450,000
AXA Financial, Inc.,		
7.000%, due 04/01/28	165,000	189,212
Bank of America Corp.,		
6.110%, due 01/29/37	2,000,000	2,236,752
7.750%, due 05/14/38	1,000,000	1,318,622
Barrick North America Finance LLC,		
5.750%, due 05/01/43	1,450,000	1,412,767
Boston Properties LP, REIT,		
3.800%, due 02/01/24	430,000	426,348
Case New Holland, Inc.,		
7.875%, due 12/01/17	1,500,000	1,758,750
CenturyLink, Inc.,		
Series P, 7.600%, due 09/15/39	200,000	190,250
CF Industries, Inc.,		
4.950%, due 06/01/43	1,500,000	1,457,944
Citigroup, Inc.,		
Series D, 5.350%, due 05/15/23[2,6]	2,130,000	1,975,575
8.125%, due 07/15/39	1,435,000	2,075,449
DISH DBS Corp.,		
7.875%, due 09/01/19	1,300,000	1,537,250
El Paso Corp.,		
6.500%, due 09/15/20	300,000	329,187
7.250%, due 06/01/18	300,000	341,276
Energy Transfer Partners LP,		
5.200%, due 02/01/22	500,000	539,754
9.000%, due 04/15/19	900,000	1,129,373
ERP Operating LP, REIT,		
4.750%, due 07/15/20	485,000	531,186
Fidelity National Financial, Inc.,		
5.500%, due 09/01/22	700,000	745,291
Ford Motor Co.,		

7.450%, due 07/16/31	1,700,000	2,181,306
Freeport-McMoRan Copper & Gold, Inc.,		
3.550%, due 03/01/22	200,000	191,004
General Electric Capital Corp.,		
Series C, 5.250%, due 06/15/23[2,6]	2,650,000	2,577,655
General Motors Financial Co., Inc.,		
4.750%, due 08/15/17	850,000	908,437
Genworth Holdings, Inc.,		
7.625%, due 09/24/21	900,000	1,108,700
Georgia-Pacific LLC,		
8.000%, due 01/15/24	1,300,000	1,708,264
Goldman Sachs Group, Inc.,		
5.750%, due 01/24/22	1,355,000	1,536,460
6.750%, due 10/01/37	570,000	652,946
Harris Corp.,		
6.375%, due 06/15/19	200,000	230,895
Hasbro, Inc.,		
6.350%, due 03/15/40	200,000	224,655
HCA, Inc.,		
7.875%, due 02/15/20	600,000	638,700
HSBC Bank USA N.A.,		
4.875%, due 08/24/20	250,000	271,442
International Lease Finance Corp.,		
7.125%, due 09/01/18[1]	1,750,000	2,034,375
JPMorgan Chase & Co.,		
3.375%, due 05/01/23	360,000	340,783
Series 1, 7.900%, due 04/30/18[2,6]	4,600,000	5,198,000
Kinder Morgan Energy Partners LP,		
5.800%, due 03/15/35	710,000	754,006
6.500%, due 09/01/39	75,000	85,129
Kroger Co.,		
6.900%, due 04/15/38	650,000	805,152
Liberty Mutual Group, Inc.,		
4.250%, due 06/15/23[1]	1,000,000	1,014,846
Life Technologies Corp.,		
6.000%, due 03/01/20	135,000	155,352
Massachusetts Mutual Life Insurance Co.,		
8.875%, due 06/01/39[1]	275,000	418,217
MetLife, Inc.,		
6.400%, due 12/15/36	1,130,000	1,192,150
Morgan Stanley,		
4.100%, due 05/22/23	1,000,000	989,863
Series F, 5.625%, due 09/23/19	1,175,000	1,336,472

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

	Face amount	Value
Bonds (Continued)		
Corporate bonds (Concluded)		
United States (Concluded)		
Motorola Solutions, Inc.,		
3.500%, due 03/01/23	$ 350,000	$ 334,588
NextEra Energy Capital Holdings, Inc.,		
6.650%, due 06/15/67[2]	200,000	201,500
ONEOK Partners LP,		
8.625%, due 03/01/19	215,000	269,483
Owens Corning,		
6.500%, due 12/01/16	97,000	107,110
Phillips 66,		
4.300%, due 04/01/22	225,000	237,870
Plains Exploration & Production Co.,		
6.500%, due 11/15/20	830,000	914,037
6.875%, due 02/15/23	950,000	1,056,875
PNC Financial Services Group, Inc.,		
4.454%, due 05/02/14[2,6]	1,000,000	1,003,000
Series R, 4.850%, due 06/01/23[2,6]	1,000,000	937,500
Prudential Financial, Inc.,		
5.200%, due 03/15/44[2]	2,305,000	2,287,713
Series B, 5.750%, due 07/15/33	40,000	44,979
Regions Bank,		
7.500%, due 05/15/18	1,850,000	2,183,351
Reynolds American, Inc.,		
6.150%, due 09/15/43	100,000	112,824
7.250%, due 06/15/37	1,325,000	1,641,617
Sanmina-SCI Corp.,		
7.000%, due 05/15/19[1]	1,090,000	1,154,038
Southern Copper Corp.,		
3.500%, due 11/08/22	800,000	760,226
6.750%, due 04/16/40	250,000	255,995
Southern Natural Gas Co.,		
8.000%, due 03/01/32	430,000	568,820
Sprint Capital Corp.,		
6.875%, due 11/15/28	200,000	194,000
SunTrust Bank,		
7.250%, due 03/15/18	495,000	581,342
Tesoro Corp.,		
9.750%, due 06/01/19	370,000	393,828
Time Warner Cable, Inc.,		
7.300%, due 07/01/38	600,000	749,609
8.750%, due 02/14/19	910,000	1,151,171
US Bancorp,		
2.950%, due 07/15/22	150,000	144,271
Valero Energy Corp.,		
7.500%, due 04/15/32	465,000	595,177
Valspar Corp.,		
4.200%, due 01/15/22	275,000	281,703
Wells Fargo Capital X,		
5.950%, due 12/15/36	1,475,000	1,475,000
Williams Cos., Inc.,		
8.750%, due 03/15/32	177,000	213,378
Williams Partners LP,		
6.300%, due 04/15/40	1,025,000	1,164,705

Wyndham Worldwide Corp., 3.900%, due 03/01/23	1,210,000	1,185,468
Xerox Corp., 6.350%, due 05/15/18	540,000	624,001
XL Group PLC, Series E, 6.500%, due 04/15/17[2,6]	1,350,000	1,328,063
Total United States corporate bonds		77,899,532
Total corporate bonds (cost $107,458,589)		**111,194,278**
Asset-backed securities 3.17%		
Cayman Islands 2.69%		
CIFC Funding Ltd., Series 2014-1A, Class C, 2.958%, due 04/18/25[1,2]	750,000	740,325
Dryden Senior Loan Fund, Series 2014-31A, Class C, 3.120%, due 04/18/26[1,2]	800,000	794,400
Goldentree Loan Opportunities VIII Ltd., Series 2014-8A, Class D, 3.776%, due 04/19/26[1,2,4,5]	550,000	540,375
Halcyon Loan Advisors Funding Ltd., Series 2014-1A, Class C, 3.278%, due 04/18/26[1,2]	850,000	841,925
JFIN CLO Ltd., Series 2014-1A, Class C, 3.234%, due 04/21/25[1,2]	450,000	439,650
Octagon Investment Partners XIX Ltd., Series 2014-1A, Class C, 3.083%, due 04/15/26[1,2]	420,000	414,364
		3,771,039
United States 0.48%		
Capital Auto Receivables Asset Trust, Series 2014-1, Class D, 3.390%, due 07/22/19	375,000	375,286
Continental Airlines, Inc., Series 2009-2, Class A, 7.250%, due 11/10/19	247,823	289,953
		665,239
Total asset-backed securities (cost $4,391,582)		**4,436,278**

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

		Face amount		Value
Bonds (Continued)				
Commercial mortgage-backed securities 7.78%				
United States 7.78%				
Americold 2010 LLC Trust, Series 2010-ARTA, Class D, 7.443%, due 01/14/29[1]	$	440,000	$	493,756
BAMLL Commercial Mortgage Securities Trust, Series 2013-DSNY, Class E, 2.755%, due 09/15/26[1,2]		1,000,000		1,005,024
Banc of America Commercial Mortgage, Inc., Series 2007-2, Class AM, 5.611%, due 04/10/49[2]		475,000		524,872
Boca Hotel Portfolio Trust, Series 2013-BOCA, Class D, 3.205%, due 08/15/26[1,2]		1,000,000		1,001,347
Commercial Mortgage Pass Through Certificates, Series 2013-THL, Class D, 2.805%, due 06/08/30[1,2]		1,500,000		1,505,002
Series 2013-FL3, Class MMHP, 3.755%, due 10/13/28[1,2]		900,000		913,448
FREMF Mortgage Trust, Series 2013-KF02, Class B, 2.820%, due 12/25/45[1,2]		771,820		786,558
GS Mortgage Securities Corp. II, Series 2013-KYO, Class D, 2.757%, due 11/08/29[1,2]		515,000		522,172
JP Morgan Chase Commercial Mortgage Securities Trust, Series 2013-JWRZ, Class D, 3.145%, due 04/15/30[1,2]		1,000,000		1,000,196
Madison Avenue Trust, Series 2013-650M, Class D, 4.034%, due 10/12/32[1,2]		500,000		492,097
Morgan Stanley Re-REMIC Trust, Series 2009-GG10, Class A4B, 5.819%, due 08/12/45[1,2]		1,000,000		1,100,461
NLY Commercial Mortgage Trust, Series 2014-FL1, Class B, 1.905%, due 11/15/30[1,2]		625,000		626,179
Wells Fargo Commercial Mortgage Trust, Series 2013-120B, Class C, 2.710%, due 03/18/28[1,2]		1,000,000		923,787
Total commercial mortgage-backed securities (cost $10,648,292)				**10,894,899**
Mortgage & agency debt securities 3.66%				
United States 3.66%				

Federal Home Loan Mortgage Corp. Gold Pools,[7] #E01127, 6.500%, due 02/01/17	16,718	17,590
Federal Home Loan Mortgage Corp. REMIC, IO,[7] 3.500%, due 10/15/42	2,634,298	609,613
Federal National Mortgage Association Pools,[7]		
#AE1568, 4.000%, due 09/01/40	392,999	408,452
#688066, 5.500%, due 03/01/33	91,450	102,023
#793666, 5.500%, due 09/01/34	372,384	413,528
#802481, 5.500%, due 11/01/34	82,437	91,518
#596124, 6.000%, due 11/01/28	85,445	96,378
Federal National Mortgage Association REMIC, IO,[7]		
Series 2013-15, Class IO, 2.500%, due 03/25/28	3,707,165	357,868
Series 2013-87, Class IW, 2.500%, due 06/25/28	5,443,340	595,071
Series 2013-64, Class LI, 3.000%, due 06/25/33	3,766,116	589,232
Series 2011-91, Class EI, 3.500%, due 08/25/26	3,420,876	391,955
Government National Mortgage Association Pools, #781029, 6.500%, due 05/15/29	23,406	27,011
Government National Mortgage Association, IO, Series 2013-53, Class OI, 3.500%, due 04/20/43	2,766,435	538,418
GSR Mortgage Loan Trust, Series 2006-2F, Class 3A4, 6.000%, due 02/25/36	933,115	888,337
Total mortgage & agency debt securities (cost $5,088,389)		**5,126,994**
Municipal bonds 2.61%		
Illinois 2.21%		
State of Illinois, GO,		
5.100%, due 06/01/33	1,350,000	1,332,922
5.665%, due 03/01/18	710,000	767,901
5.877%, due 03/01/19	885,000	992,572
		3,093,395
New Jersey 0.14%		
New Jersey State Turnpike Authority Revenue Bonds, Series F, 7.414%, due 01/01/40	140,000	196,537

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

		Face amount		Value
Bonds (Concluded)				
Municipal bonds (Concluded)				
Tennessee 0.26%				
Metropolitan Government of Nashville & Davidson County Convention Center Authority Revenue Bonds, 6.731%, due 07/01/43	$	300,000	$	356,949
Total municipal bonds (cost $3,409,606)				**3,646,881**
US government obligation 0.15%				
US Treasury Note, 1.250%, due 09/30/15 (cost $202,790)		200,000		203,039
Non-US government obligations 1.40%				
Brazil 1.40%				
Banco Nacional de Desenvolvimento Economico e Social, 3.375%, due 09/26/16[1]		750,000		764,063
Brazilian Government International Bond, 8.250%, due 01/20/34		900,000		1,194,750
Total Non-US government obligations (cost $1,790,512)				**1,958,813**
Total bonds (cost $132,989,760)				**137,461,182**
		Shares		
Common stock 0.06%				
United States 0.06%				
WMI Holdings Corp.* (cost $14,158)		25,741		83,658
Preferred stocks 0.09%				
United States 0.09%				
Ally Financial, Inc., 7.000%, due on 06/02/14[1,6]		42		41,483
JPMorgan Chase & Co., 5.450%, due on 03/01/18*[6]		4,000		86,800
Total preferred stocks (cost $136,713)				**128,283**
Short-term investment 1.07%				
Investment company 1.07%				
UBS Cash Management Prime Relationship Fund[8] (cost $1,498,368)		1,498,368		1,498,368

	Number of contracts		
Options purchased 0.01%			
Put options 0.01%			
3 Year Euro-Dollar Midcurve, strike @ USD 99.6250, expires April 2014	621		3,881
30 Year US Treasury Bonds, strike @ USD 130.0000, expires May 2014	25		11,719
Total options purchased (cost $43,888)			**15,600**
Total investments 99.42% (cost $134,682,887)			**139,187,091**
Cash and other assets, less liabilities 0.58%			813,147
Net assets 100.00%		**$**	**140,000,238**

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

Notes to portfolio of investments

Aggregate cost for federal income tax purposes was substantially the same as for book purposes; and net unrealized appreciation consisted of:

Gross unrealized appreciation	$5,244,489
Gross unrealized depreciation	(740,285)
Net unrealized appreciation of investments	$4,504,204

For a listing of defined portfolio acronyms, counterparty abbreviations and currency abbreviations that are used throughout the Portfolio of investments as well as the tables that follow, please refer to page 16. Portfolio footnotes begin on page 15.

Futures contracts

	Expiration date	Cost/ (proceeds)	Value	Unrealized appreciation/ (depreciation)
US Treasury futures buy contracts:				
US Ultra Bond, 42 contracts (USD)	June 2014	$ 6,015,484	$ 6,067,687	$ 52,203
10 Year US Treasury Notes, 30 contracts (USD)	June 2014	3,724,504	3,705,000	(19,504)
US Treasury futures sell contracts:				
US Long Bond, 147 contracts (USD)	June 2014	(19,418,015)	(19,583,156)	(165,141)
10 Year US Treasury Notes, 122 contracts (USD)	June 2014	(15,135,290)	(15,067,000)	68,290
Interest rate futures sell contracts:				
90 Day Euro-Dollar Time Deposit, 99 contracts (USD)	December 2016	(24,245,991)	(24,174,562)	71,429
Net unrealized appreciation on futures contracts				**$ 7,277**

Credit default swap on credit indices sell protection[9]

Counterparty	Referenced Index[10]	Notional amount	Termination date	Payments received by the Fund[11]	Upfront payments received	Value	Unrealized depreciation	Credit spread[12]
BOA	CMBX.NA.BBB. Series 6 Index	USD 7,000,000	05/11/63	3.000%	$84,465	$(101,518)	$(17,053)	3.201%

Options written

	Expiration date	Premiums received	Value
Call options			
30 Year US Treasury Bonds, 25 contracts, strike @ USD 133.0000	May 2014	$22,221	$(41,406)
Put options			
3 Year Euro-Dollar Midcurve, 621 contracts, strike @ USD 99.5000	April 2014	5,589	(3,881)
Options written on credit default swaps on credit indices[5]			
If option exercised payment from the counterparty will be received upon the occurrence of a failure to pay, obligation acceleration, repudiation or restructuring of the referenced obligation specified in the CDX.NA.HY Series 21 Index and Fund pays quarterly fixed rate of 5.000% per annum. Underlying credit default swap terminating 12/20/18. European style. Counterparty: BOA, Notional Amount USD 7,000,000.	June 2014	31,850	(40,143)

Total options written		$59,660	$(85,430)

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

Written options activity for the period ended March 31, 2014 was as follows:

	Number of contracts	Premiums received
Options outstanding at September 30, 2013		$
Options written	671	54,329
Options terminated in closing purchase transactions	(25)	(26,519)
Options expired prior to exercise		
Options outstanding at March 31, 2014	646	$ 27,810

Written swaptions activity for the period ended March 31, 2014 was as follows:

	Premiums received
Swaptions outstanding at September 30, 2013	$
Swaptions written	31,850
Swaptions terminated in closing purchase transactions	
Swaptions expired prior to exercise	
Swaptions outstanding at March 31, 2014	$ 31,850

The following is a summary of the fair valuations according to the inputs used as of March 31, 2014 in valuing the Fund s investments:

Assets	Unadjusted quoted prices in active markets for identical investments Level 1	Other significant observable inputs Level 2	Unobservable inputs Level 3	Total
Description:				
Corporate bonds	$	$ 110,744,278	$ 450,000	$ 111,194,278
Asset-backed securities		3,895,903	540,375	4,436,278
Commercial mortgage-backed securities		10,894,899		10,894,899
Mortgage & agency debt securities		5,126,994		5,126,994
Municipal bonds		3,646,881		3,646,881
US government obligation		203,039		203,039
Non-US government obligations		1,958,813		1,958,813
Common stock	83,658			83,658
Preferred stocks	86,800	41,483		128,283
Short-term investment		1,498,368		1,498,368
Options purchased	15,600			15,600
Futures contracts	191,922			191,922
Total	**$ 377,980**	**$ 138,010,658**	**$ 990,375**	**$ 139,379,013**

Liabilities	Level 1	Level 2	Level 3	Total
Description:				
Futures contracts	$ (184,645)	$	$	$ (184,645)
Options written	(45,287)	(40,143)		(85,430)
Swap agreement		(101,518)		(101,518)
Total	**$ (229,932)**	**$ (141,661)**	**$**	**$ (371,593)**

At March 31, 2014, there were no transfers between Level 1 and Level 2.

Fort Dearborn Income Securities, Inc.
Portfolio of investments

March 31, 2014 (unaudited)

Level 3 rollforward disclosure

The following is a rollforward of the Fund s investments that were valued using unobservable inputs for the period:

Assets	**Corporate bonds**	**Asset-backed securities**	**Total**
Beginning balance	$	$	$
Purchases	450,000	540,375	990,375
Issuances			
Sales			
Accrued discounts (premiums)			
Total realized gain			
Change in net unrealized appreciation/depreciation			
Transfers into Level 3			
Transfers out of Level 3			
Ending balance	**$ 450,000**	**$ 540,375**	**$990,375**

Portfolio footnotes

* Non-income producing security.

1 Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities are considered liquid, unless noted otherwise, and may be resold in transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2014, the value of these securities amounted to $33,199,453 or 23.71% of net assets.

2 Variable or floating rate security The interest rate shown is the current rate as of March 31, 2014 and changes periodically.

3 Rate shown reflects annualized yield at March 31, 2014 on zero coupon bond.

4 Security is being fair valued by a valuation committee under the direction of the Board of Directors. At March 31, 2014, the value of these securities amounted to $990,375 or 0.71% of net assets.

5 Illiquid investment as of March 31, 2014.

6 Perpetual investment. Date shown reflects the next call date.

7 On September 7, 2008, the Federal Housing Finance Agency placed the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association into conservatorship, and the US Treasury guaranteed the debt issued by those organizations.

8 The table below details the Fund s investment in a fund advised by the same advisor as the Fund. The advisor does not earn a management fee from the affiliated UBS Relationship Fund.

Security description	**Value 09/30/13**	**Purchases during the six months ended 03/31/14**	**Sales during the six months ended 03/31/14**	**Value 03/31/14**	**Income earned from affiliate for the six months ended 03/31/14**
UBS Cash Management Prime Relationship Fund	$3,063,384	$26,621,401	$28,186,417	$1,498,368	$1,480

9 If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap agreement less the recovery value of the underlying securities comprising the referenced index.

10 Payments from/to the counterparty will be received/made upon the occurrence of bankruptcy and/or restructuring event with respect to the referenced index.

11 Payments made or received are based on the notional amount.

Fort Dearborn Income Securities, Inc.

Portfolio of investments

March 31, 2014 (unaudited)

[12] Credit spreads, represented in absolute terms, utilized in determining the market value as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default or other credit event occurring for the credit derivative. The credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. A credit spread identified as Defaulted indicates a credit event has occurred for the referenced entity.

Portfolio acronyms

CLO	Collateralized loan obligations
GO	General Obligation
GS	Goldman Sachs
GSR	Goldman Sachs Residential
IO	Interest only this security entitles the holder to receive interest payments from an underlying pool of mortgages. The risk associated with this security is related to the speed of the principal paydowns. High prepayments would result in a smaller amount of interest being received and cause the yield to decrease. Low prepayments would result in a greater amount of interest being received and cause the yield to increase.
REIT	Real Estate Investment Trust
REMIC	Real Estate Mortgage Investment Conduit
Re-REMIC	Combined Real Estate Mortgage Investment Conduit

Counterparty abbreviation

BOA	Bank of America

Currency abbreviation

USD	United States Dollar

 See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.
Financial statements

Statement of assets and liabilities
March 31, 2014 (unaudited)

Assets:	
Investments in securities of unaffiliated issuers, at value (cost $133,184,519)	$137,688,723
Investment in affiliated issuer, at value (cost $1,498,368)	1,498,368
Total investments, at value (cost $134,682,887)	**$139,187,091**
Interest receivable	1,761,244
Dividends	178
Receivable for investments sold	1,607,585
Variation margin on futures contracts	7,277
Due from broker for futures contracts	254,838
Cash collateral for futures contracts	471,025
Other assets	26,361
Total assets	**143,315,599**
Liabilities:	
Payable for investments purchased	2,903,624
Payable for investment advisory fees	162,960
Outstanding swap agreement, at value[1]	101,518
Options written, at value (premiums received $59,660)	85,430
Due to custodian	15,564
Directors fees payable	8,476
Accrued expenses and other liabilities	37,789
Total liabilities	**3,315,361**
Net assets:	
Capital stock $0.01 par value; 12,000,000 shares authorized; 8,775,665 shares issued and outstanding	$135,116,083
Distributions in excess of net investment income	(356,871)
Accumulated net realized gain	772,368
Net unrealized appreciation	4,468,658
Net assets	**$140,000,238**
Net asset value per share	$15.95

[1] Net upfront payments received by the Fund on outstanding swap agreement amounted to $84,465.

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.
Financial statements

Statement of operations
For the six months ended March 31, 2014 (unaudited)

Investment income:	
Interest income	$ 3,113,634
Dividends	4,219
Affiliated income	1,480
Total income	3,119,333
Expenses:	
Investment advisory fees	329,271
Professional fees	130,247
Reports and notices to shareholders	62,508
Custody and accounting fees	29,161
Transfer agency fees	21,609
Directors fees	16,891
Listing fees	11,842
Insurance expense	6,122
Franchise taxes	5,735
Other expenses	11,454
Total expenses	624,840
Net investment income	2,494,493
Realized and unrealized gains (losses) from investment activities:	
Net realized gain (loss) on:	
Investments	1,076,995
Futures contracts	(336,038)
Options written	15,538
Swap agreements	16,333
Change in net unrealized appreciation/depreciation on:	
Investments	2,968,961
Futures contracts	7,277
Options written	(25,770)
Swap agreements	(17,053)
Net realized and unrealized gain from investment activities	3,706,243
Net increase in net assets resulting from operations	**$ 6,200,736**

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.
Financial statements

Statement of changes in net assets

	For the six months ended March 31, 2014 (unaudited)	For the year ended September 30, 2013
From operations:		
Net investment income	$2,494,493	$5,279,204
Net realized gain	772,828	3,666,282
Change in net unrealized appreciation/depreciation	2,933,415	(12,955,305)
Net increase (decrease) in net assets resulting from operations	6,200,736	(4,009,819)
Dividends and distributions to shareholders from:		
Net investment income	(2,852,091)	(6,142,966)
Net realized gains	(2,764,335)	(7,222,372)
Total dividends and distributions to shareholders	(5,616,426)	(13,365,338)
Net increase (decrease) in net assets	584,310	(17,375,157)
Net assets:		
Beginning of period	**139,415,928**	**156,791,085**
End of period	**$140,000,238**	**$139,415,928**
Accumulated undistributed/(distributions in excess of) net investment income	$(356,871) 1	$727

[1] The actual sources of the Fund s fiscal year 2014 dividends/distributions may be net investment income, net realized capital gains, return of capital or a combination of the foregoing and may be subject to retroactive recharacterization at the end of the Fund s fiscal year based on tax regulations. Shareholders will be informed of the tax characteristics of dividends/distributions after the close of the 2014 fiscal year.

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.
Financial highlights

Selected data for a share of common stock outstanding throughout each period is presented below:

	For the six months ended March 31, 2014 (unaudited)	For the years ended September 30, 2013	2012	2011	2010	2009
Net asset value, beginning of period	**$15.89**	**$17.87**	**$17.29**	**$17.35**	**$16.50**	**$13.81**
Net investment income[1]	0.28	0.60	0.67	0.75	0.81	0.78
Net realized and unrealized gains (losses)	0.43	(1.06)	1.34	0.54	1.23	2.63
Net increase (decrease) from operations	0.71	(0.46)	2.01	1.29	2.04	3.41
Dividends from net investment income[2]	(0.33)	(0.70)	(0.71)	(0.92)	(0.90)	(0.71)
Distributions from net realized gains[2]	(0.32)	(0.82)	(0.72)	(0.43)	(0.29)	(0.01)
Total dividends and distributions	(0.65)	(1.52)	(1.43)	(1.35)	(1.19)	(0.72)
Net asset value, end of period	**$15.95**	**$15.89**	**$17.87**	**$17.29**	**$17.35**	**$16.50**
Market price, end of period	**$14.41**	**$13.96**	**$17.20**	**$16.07**	**$16.15**	**$14.85**
Total net asset value return[3]	**4.61%**	**(2.82)%**	**12.23%**	**8.10%**	**12.98%**	**25.29**
Total market price return[4]	**8.01%**	**(10.77)%**	**16.81%**	**8.59%**	**17.71%**	**21.08**
Ratios to average net assets:						
Expenses	0.89%[5]	0.71%	0.67%	0.70%	0.70%	0.85
Net investment income	3.57%[5]	3.56%	3.89%	4.50%	4.91%	5.35
Supplemental data:						
Net assets, end of period (000 s)	$140,000	$139,416	$156,791	$151,695	$152,241	$144,773
Portfolio turnover rate	27%	133%	175%	154%	101%	117
Number of shares outstanding at end of year (000 s)	8,776	8,776	8,776	8,776	8,776	8,776

[1] Calculated using the average shares method.

[2] The actual sources of the Fund s fiscal year 2014 dividends/distributions may be net investment income, net realized capital gains, return of capital or a combination of the foregoing and may be subject to retroactive recharacterization at the end of the Fund s fiscal year based on tax regulations. Shareholders will be informed of the tax characteristics of dividends/distributions after the close of the 2014 fiscal year.

[3] Total net asset value return is calculated assuming a $10,000 purchase of common stock at the current net asset value on the first day of each period reported and a sale at the current net asset value on the last day of each period reported, and assuming reinvestment of dividends and other distributions at the net asset value on the payable dates. Total net asset value return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/distributions or a sale of Fund shares. Total return based on net asset value is hypothetical as investors cannot purchase or sell Fund shares at the net asset value but only at market prices. Total net asset value return for the period of less than one year has not been annualized.

[4] Total market price return is calculated assuming a $10,000 purchase of common stock at the current market price on the first day of each period reported and a sale at the current market price on the last day of each period reported, and assuming reinvestment of dividends and other distributions at prices obtained under the Fund s Dividend Reinvestment Plan. Total market price return does not reflect brokerage commissions or the deduction of taxes that a shareholder would pay on Fund dividends/distributions or a sale of Fund shares. Total market price return for the period of less than one year has not been annualized.

[5] Annualized.

 See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.

Notes to financial statements March 31, 2014 (unaudited)

Organization and significant accounting policies

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

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

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the exclusive reference of authoritative US generally accepted accounting principles (US GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the US Securities and Exchange Commission (SEC) under authority of federal laws are also sources of authoritative US GAAP for SEC registrants. The Fund s financial statements are prepared in accordance with US GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

Valuation of investments

The Fund calculates its net asset value based on the current market value, where available, for its investments. The Fund normally obtains market values for its investments from independent pricing sources and broker-dealers. Independent pricing sources may use reported last sale prices, official market closing prices, current market quotations or valuations from computerized evaluation systems that derive values based on comparable investments. An evaluation 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 investments. Investments also may be valued based on appraisals derived from information concerning the investment or similar investments received from recognized dealers in those holdings. Investments traded in the over-the-counter (OTC) market and listed on The NASDAQ Stock Market, Inc. (NASDAQ) normally are valued at the NASDAQ Official Closing Price. Other OTC securities are valued at the last bid price on the valuation date available prior to valuation. Investments which are listed on US and foreign stock exchanges normally are valued at the market closing price, the last sale price on the day the securities are valued or, lacking any sales on such day, at the last available bid price. In cases where investments are traded on more than one exchange, the investments are valued on the exchange designated as the primary market by UBS Global Asset Management (Americas) Inc. (UBS Global AM or the Advisor), the investment advisor of the Fund. UBS Global AM is an indirect wholly owned asset management subsidiary of UBS AG, an internationally diversified organization with headquarters in Zurich and Basel, Switzerland and operations in many areas of the financial services industry. If a market value is not readily available from an independent pricing source for a particular investment, that investment is valued at a fair value determined in good faith by or under the direction of the Fund s Board of Directors (the Board(o)r a committee designated by it). Various factors may be reviewed in order to make a good faith determination of an investment s fair value. These factors include, but are not limited to, fundamental analytical data relating to the investment; the nature and duration of restrictions on disposition of the investment; and the evaluation of forces which influence the market in which the investments are purchased and sold. Investments in open-end investment companies are valued at the daily closing net asset value of the respective investment company. Pursuant to the Fund s use of the practical expedient within ASC Topic 820, investments in non-registered investment companies are also valued at the daily net asset value.

Fort Dearborn Income Securities, Inc.

Notes to financial statements March 31, 2014 (unaudited)

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

Futures contracts are generally valued at the settlement price established each day on the exchange on which they are traded. Forward foreign currency contracts are valued daily using forward exchange rates quoted by independent pricing services.

Swaps are marked-to-market daily based upon values from third party vendors or quotations from market makers to the extent available, and the change in value, if any, is recorded as an unrealized gain or loss on the Statement of assets and liabilities. In the event that market quotations are not readily available or deemed unreliable, the swap is valued at fair value as determined in good faith by or under the direction of the Board (or a committee designated by it).

The Board has delegated to the UBS Global Asset Management Global Valuation Committee (GVC) the responsibility for making fair value determinations with respect to the Fund s portfolio holdings. The GVC is comprised of representatives of management, including members of the investment team.

The GVC provides reports to the Board at each quarterly meeting regarding any investments that have been fair valued, valued pursuant to standing instructions approved by the GVC, or where non-vendor pricing sources had been used to make fair value determinations when sufficient information exists during the prior quarter. Fair valuation determinations are subject to review at least monthly by the GVC during scheduled meetings. Pricing decisions, processes, and controls over fair value determinations are subject to internal and external reviews, including annual internal compliance reviews and periodic internal audit reviews.

The types of investments for which such fair value pricing may be necessary include, but are not limited to: foreign investments under some circumstances, as discussed below; securities of an issuer that has entered into a restructuring; investments whose trading has been halted or suspended; fixed income securities that are in default and for which there is no current market value quotation; and investments that are restricted as to transfer or resale. The need to fair value a Fund s investments may also result from low trading volume in foreign markets or thinly traded domestic investments, and when a security that is subject to a trading limit or collar on the exchange or market on which it is primarily traded reaches the limit up or limit down price and no trading has taken place at that price. Various factors may be reviewed in order to make a good faith determination of an investment s fair value. These factors include, but are not limited to, fundamental analytical data relating to the investment; the nature and duration of restrictions on disposition of the investment; and the evaluation of forces which influence the market in which the investment is purchased and sold. Valuing investments at fair value involves greater reliance on judgment than valuing investments that have readily available market quotations. Fair value determinations can also involve reliance on quantitative models employed by a fair value pricing service.

US GAAP requires disclosure surrounding the various inputs that are used in determining the value of the Fund s investments. These inputs are summarized into the three broad levels listed below:

Level 1 Unadjusted quoted prices in active markets for identical investments.

Fort Dearborn Income Securities, Inc.
Notes to financial statements March 31, 2014 (unaudited)

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

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

A fair value hierarchy has been included near the end of the Fund s Portfolio of investments.

The provisions of ASC Topic 815 Derivatives and Hedging (ASC Topic 815) require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk related contingent features in derivative agreements. Since investment companies value their derivatives at fair value and recognize changes in fair value through the Statement of operations, they do not qualify for hedge accounting under ASC Topic 815. Accordingly, even though the Fund s investments in derivatives may represent economic hedges, they are considered to be non-hedge transactions for purposes of disclosure under ASC Topic 815. ASC Topic 815 requires that (1) objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, (2) the fair values of derivative instruments and their gains and losses be disclosed in a tabular format, and (3) information be disclosed about credit-risk contingent features of derivatives contracts. Details of this disclosure can be found below as well as in the Portfolio of investments. Swap agreements, forward foreign currency contracts, swaptions and options written entered into by the Fund may contain credit-risk related contingent features that could be triggered subject to certain circumstances. Such circumstances include agreed upon net asset value thresholds. If triggered, the derivative counterparty could request additional cash margin and/or terminate the derivative contract. The aggregate fair value of the derivative contracts that are in a net liability position that contain these triggers can be found in the Portfolio of investments. The aggregate fair value of assets that are already posted as collateral as of March 31, 2014 is reflected in the Statement of assets and liabilities. If the applicable credit-risk related contingent features were triggered as of March 31, 2014 the Fund would be required to post additional collateral or may be required to terminate the contracts and settle any amounts outstanding. The volume of derivatives that is presented in the Portfolio of investments of the Fund is consistent with the derivative activity during the period ended March 31, 2014. The Fund may be a seller of protection through credit default swap agreements which are by nature credit-risk contingent (the terms of these agreements can be found within the Portfolio of investments, with further discussion in the Notes to financial statements).

Disclosure of derivatives by underlying risk for the Fund as of and for the period ended March 31, 2014 is as follows:

Asset derivatives

	Interest rate risk	Total
Futures contracts[1]	$ 191,922	$ 191,922
Options purchased[2]	15,600	15,600
Total value	$ 207,522	$ 207,522

[1] Includes cumulative appreciation of futures contracts as reported in the futures contracts table in the Portfolio of investments, but only the unpaid variation margin is reported within the Statement of assets and liabilities within Variation margin on futures contracts.
[2] Statement of assets and liabilities location: Options purchased are shown within investments in securities of unaffiliated issuers, at value.

Fort Dearborn Income Securities, Inc.

Notes to financial statements March 31, 2014 (unaudited)

Liability derivatives

	Interest rate risk	Credit risk	Total
Futures contracts[1]	$ (184,645)	$	$ (184,645)
Options written[2]	(45,287)	(40,143)	(85,430)
Swap agreements[2]		(101,518)	(101,518)
Total value	$ (229,932)	$ (141,661)	$ (371,593)

[1] Includes cumulative depreciation of futures contracts as reported in the futures contracts table in the Portfolio of investments, but only the unpaid variation margin is reported within the Statement of assets and liabilities within Variation margin on futures contracts.
[2] Statement of assets and liabilities location: Options written, at value and outstanding swap agreements, at value.

Activities in derivative instruments during the period ended March 31, 2014, were as follows:

	Interest rate risk	Credit risk	Total
Net realized gain (loss)[1]			
Futures contracts	$ (336,038)	$	$ (336,038)
Options purchased[2]	(412,516)		(412,516)
Options written	15,538		15,538
Swap agreements		16,333	16,333
Total net realized gain (loss)	$ (733,016)	$ 16,333	$ (716,683)
Change in net unrealized appreciation/depreciation[3]			
Futures contracts	7,277		7,277
Options purchased[2]	(28,288)		(28,288)
Options written	(17,477)	(8,293)	(25,770)
Swap agreements		(17,053)	(17,053)
Total change in net unrealized appreciation/depreciation	$ (38,488)	$ (25,346)	$ (63,834)

[1] Statement of operations location: Net realized gain (loss) on futures contracts, options written and swap agreements.
[2] Realized and unrealized gain (loss) is included in net realized gain (loss) on investments and change in net unrealized appreciation/depreciation on investments.
[3] Statement of operations location: Change in net unrealized appreciation/depreciation on futures contracts, options written and swap agreements.

Offsetting of Financial and Derivative Assets and Liabilities

In January 2013, Accounting Standards Update 2013-01 (ASU 2013-01), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities , replaced Accounting Standards Update 2011-11 (ASU 2011-11), Disclosures about Offsetting Assets and Liabilities . ASU 2013-01 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. ASU 2011-11 was intended to enhance disclosure requirements on the offsetting of financial assets and liabilities. ASU 2013-01 limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase and reverse repurchase agreements, and securities lending and borrowing transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement.

Liabilities

	Gross amounts presented in the statement of assets & liabilities	Gross amounts not offset in the statement of assets & liabilities: Financial instruments	Collateral pledged	Net amount
Counterparty - BOA	$ (141,661)	$141,661	$	$

Fort Dearborn Income Securities, Inc.
Notes to financial statements March 31, 2014 (unaudited)

Restricted securities
The Fund may invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. Information regarding restricted securities, if any, is included in the Fund s Portfolio of investments footnotes.

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

The Fund invests in Collateralized Mortgage Obligations (CMOs). A CMO is a bond, which is collateralized by a pool of MBS. The Fund may also invest in REMICs (Real Estate Mortgage Investment Conduits) 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 will generally have the most stable cash flows and the lowest prepayment risk. A Graduated Payment Mortgage (GPM) 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 Fund 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.

Interest-only and principal-only securities
Certain classes of CMOs and other mortgage-backed securities are structured in a manner that makes them extremely sensitive to changes in prepayment rates. Interest-only (IO) and principal-only (PO) classes are examples of this. IOs are entitled to receive all or a portion of the interest, but none (or only a nominal amount) of the principal payments, from the underlying mortgage assets. If the mortgage assets underlying an IO experience greater than anticipated principal prepayments, then the total amount of interest payments allocable to the IO class, and therefore the yield to investors, generally will be reduced. In some instances, an investor in an IO may fail to recoup all of its initial investment, even if the security is government issued or guaranteed or is rated AAA or the equivalent. Conversely, PO classes are entitled to receive all or a portion of the principal payments, but none

Fort Dearborn Income Securities, Inc.
Notes to financial statements March 31, 2014 (unaudited)

of the interest, from the underlying mortgage assets. PO classes are purchased at substantial discounts from par, and the yield to investors will be reduced if principal payments are slower than expected. Some IOs and POs, as well as other CMO classes, are structured to have special protections against the effects of prepayments. These structural protections, however, normally are effective only within certain ranges of prepayment rates and thus will not protect investors in all circumstances. Inverse floating rate CMO classes also may be extremely volatile. These classes pay interest at a rate that decreases when a specified index of market rates increases and vice versa. Although the market for IOs and POs is increasingly liquid, certain IOs and POs may not be readily marketable and will be considered illiquid.

Investment transactions and investment income

Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions and foreign exchange transactions are calculated using the identified cost method. Interest income is recorded on an accrual basis. Discounts are accreted and premiums are amortized as adjustments to interest income and the identified cost of investments. Dividend income is recorded on the ex-dividend date.

Foreign currency translation

The Fund uses the foreign currency exchange rates determined as of the close of regular trading on the NYSE. For purposes of calculating the US dollar equivalent value of a non-US dollar denominated obligation, foreign currency amounts are translated into US dollars on the following basis: (1) market value of investment securities and other assets and liabilities at the exchange rates prevailing at the end of the Fund s fiscal period; and (2) purchases and sales of investment securities and income and expenses at the rates of exchange prevailing on the respective dates of such transactions.

Although the net assets and the market value of the Fund s portfolio are presented at the foreign exchange rates at the end of the Fund s fiscal period, the Fund does not generally isolate the effect of fluctuations in foreign exchange rates from the effect of the changes in market prices of securities. However, the Fund does isolate the effect of fluctuations in foreign exchange rates when determining the realized gain or loss upon the sale or maturity of foreign currency-denominated securities pursuant to US federal income tax regulations. Certain foreign exchange gains and losses included in realized and unrealized gains and losses are included in, or are a reduction of, ordinary income in accordance with US federal income tax regulations.

Forward foreign currency contracts

The Fund may enter into forward foreign currency contracts (forward contracts) in connection with planned purchases or sales of securities or to hedge the US dollar value of portfolio securities denominated in a particular currency. The Fund may also use forward contracts in an attempt to enhance income or gains.

The Fund has no specific limitation on the percentage of assets which may be committed to such contracts. The Fund may enter into forward contracts or maintain a net exposure to forward contracts only if (1) the consummation of the contracts would not obligate the Fund to deliver an amount of foreign currency in excess of the value of the position being hedged by such contracts or (2) the Fund identifies cash or liquid securities in an amount not less than the value of its assets committed to the consummation of the forward contracts and not covered as provided in (1) above, as marked-to-market daily.

Risks may arise upon entering into forward contracts from the potential inability of counterparties to meet the terms of their forward contracts and from unanticipated movements in the value of foreign currencies relative to the US dollar.

Fluctuations in the value of forward contracts are recorded for book purposes as unrealized gains or losses by the Fund. Realized gains and losses include net gains and losses recognized by the Fund on contracts which have been sold or matured.

Fort Dearborn Income Securities, Inc.

Notes to financial statements March 31, 2014 (unaudited)

Futures contracts

The Fund may use financial futures contracts for hedging purposes and to adjust exposure to US and foreign fixed income markets in connection with a reallocation of the Fund s assets or to manage the average duration of the Fund. The Fund may also use futures contracts in an attempt to enhance income or gains. However, imperfect correlations between futures contracts and the related securities or markets, or market disruptions, do not normally permit full control of these risks at all times. Using financial futures contracts involves various market risks, including interest rate risk. Risks of entering into futures contracts include the possibility that there may be an illiquid market or that a change in the value of the contract may not correlate with changes in the value of the underlying securities. To the extent that market prices move in an unexpected direction, there is a risk that the Fund will not achieve the anticipated benefits of the futures contract or may realize a loss.

Upon entering into a financial futures contract, the Fund is required to deliver to a broker an amount of cash and/or liquid securities equal to a certain percentage of the contract amount. This amount is known as the   initial margin.   Subsequent payments, known as   variation margin,   are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying financial futures contracts. Such variation margin is recorded for financial statement purposes on a daily basis as an unrealized gain or loss on futures until the futures contract is closed or expires, at which time the net gain or loss is reclassified to realized gain or loss on futures.

Swap agreements

The Fund may engage in swap agreements, including but not limited to interest rate, currency, total return, and credit default swap agreements. The Fund expects to enter into these transactions to preserve a return or spread on a particular investment or to hedge a portion of the portfolio s duration, to protect against any increase in the price of securities the Fund anticipates purchasing at a later date, to gain exposure to certain markets in the most economical way possible or in an attempt to enhance income or gains.

The Fund may enter into interest rate swap agreements with another party to receive or pay interest (e.g., an exchange of fixed rate payments for floating rate payments) to protect itself from interest rate fluctuations. This type of swap is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to a specified interest rate(s) for a specified amount. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In addition, the Fund may enter into interest rate cap and floor transactions which involve an agreement between two parties in which one party agrees to make payments to the other when a designated market interest rate goes above (in the case of a cap) or below (in the case of a floor) a designated level on pre-determined dates or during a specified period. Interest rate swap agreements are subject to general market risk, liquidity risk, counterparty risk and interest rate risk.

The Fund may enter into currency swap agreements with another party to receive or pay amounts based on changes in currency exchange rates in order to protect itself from exchange rate fluctuations. This type of swap is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to a specified currency exchange rate(s) for a specified amount. Currency swap agreements are subject to general market risk, liquidity risk, counterparty risk, foreign exchange risk and interest rate risk.

Credit default swap agreements involve commitments to make or receive payments in the event of a default or other credit event of a referenced security. As a buyer, the Fund would make periodic payments to the counterparty, and the Fund would receive payments only upon the occurrence of a credit event. If no credit event occurs, the Fund will lose its periodic stream of payments over the term of the contract. However, if a credit event does occur, the Fund typically would receive full notional value for a reference obligation that may have little or no value. As a seller, the Fund would receive periodic payments from the counterparty, and the Fund would make

Fort Dearborn Income Securities, Inc.

Notes to financial statements March 31, 2014 (unaudited)

payments only upon the occurrence of a credit event. If no credit event occurs, the Fund will retain the periodic stream of payments it received over the term of the contract. However, if a credit event occurs, the Fund will pay full notional value for a reference obligation that may have little or no value. Credit default swaps may involve greater risks than if the Fund had invested in the reference obligation directly and are subject to general market risk, liquidity risk, counterparty risk and credit risk.

Credit default swap agreements on corporate issues or sovereign issues of an emerging market country involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in delivery of a security with a value other than had been anticipated (such as a party s right to choose the deliverable obligation with the lowest value following a credit event). The Fund may use credit default swaps on corporate issues or sovereign issues of an emerging market country to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Fund owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer s default.

The maximum potential amount of future payments (undiscounted) that the Fund as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. Notional amounts of all credit default swap agreements outstanding as of March 31, 2014 for which the Fund is the seller of protection are disclosed under the section Credit default swaps on credit indices sell protection in the Notes to Portfolio of investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into, if any, by the Fund for the same referenced entity or entities.

Total return swap agreements involve commitments to pay or receive interest in exchange for a market-linked return based on a notional amount. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the Fund will receive a payment from or make a payment to the counterparty, respectively. Total return swaps are marked-to-market daily, and the change, if any, is recorded as unrealized appreciation or depreciation. Total return swap agreements are subject to general market risk, liquidity risk, counterparty risk and the risk that there may be unfavorable changes in the underlying investments or instruments.

Certain clearinghouses currently offer clearing for limited types of derivatives transactions, such as interest and credit derivatives. In a cleared derivative transaction, a Fund typically enters into the transaction with a financial institution counterparty, and performance of the transaction is effectively guaranteed by a central clearinghouse, thereby reducing or eliminating the Fund s exposure to the credit risk of its original counterparty. The Fund will be required to post specified levels of margin with the clearinghouse or at the instruction of the clearinghouse; the margin required by a clearinghouse may be greater than the margin the Fund would be required to post in an uncleared transaction. Only a limited number of transactions are currently eligible for clearing. Centrally cleared swaps, if any, are reported on the Statement of assets and liabilities based on variation margin received or paid, if any.

The use of swap agreements involves investment techniques and risks different from those associated with ordinary portfolio security transactions. If UBS Global AM is incorrect in its forecast of market values, interest rates and other applicable factors, the investment performance of the Fund will be less favorable than it would have been if this

Fort Dearborn Income Securities, Inc.
Notes to financial statements March 31, 2014 (unaudited)

investment technique was never used. Swap agreements do not involve the delivery of securities and are subject to counterparty risk. If the other party to a swap agreement defaults and fails to consummate the transaction, the Fund s risk of loss will consist of the net amount of interest or other payments that the Fund is contractually entitled to receive. Therefore, the Fund would consider the creditworthiness of the counterparty to a swap agreement in evaluating potential credit risk.

The Fund accrues for interim payments on swap agreements on a daily basis, with the net amount recorded within outstanding swap agreements, at value on the Statement of assets and liabilities. Once interim payments are settled in cash, the net amount is recorded as realized gain/loss on swap agreements, in addition to realized gain/loss recorded upon the termination of swap agreements on the Statement of operations. Fluctuations in the value of swap agreements are recorded for financial statement purposes as unrealized appreciation or depreciation on swap agreements.

Option writing

The Fund may write (sell) put and call options on foreign or US securities, indices, foreign currencies and swaps (commonly referred to as swaptions), in order to gain exposure to or protect against changes in the markets. When the Fund writes a call or a put option, an amount equal to the premium received by the Fund is included in the Fund s Statement of assets and liabilities as an asset and as an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. If an option which the Fund has written either expires on its stipulated expiration date or the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of a closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security or derivative instrument, and the liability related to such option is extinguished. If a call option which the Fund has written is exercised, the Fund recognizes a realized gain or loss (long-term or short-term, depending on the holding period of the underlying security) from the sale of the underlying security or derivative instrument and the proceeds from the sale are increased by the premium originally received. If a put option which the Fund has written is exercised, the amount of the premium originally received reduces the cost of the security or derivative instrument which the Fund purchases upon exercise of the option.

In writing an option, the Fund bears the market risk of an unfavorable change in the price of the derivative instrument, security, index or currency underlying the written option. Exercise of an option written by the Fund could result in the Fund selling or buying a derivative instrument, security or currency at a price different from current market value.

Purchased options

The Fund may purchase put and call options on foreign or US securities, indices, foreign currencies and swaps (commonly referred to as swaptions), as well as exchange listed call options on particular market segment indices to achieve temporary exposure to a specific security, currency, industry or geographic region. Purchasing call options tends to increase exposure to the underlying instrument. Purchasing put options tends to decrease exposure to the underlying instrument. The Fund pays a premium which is included in the Statement of assets and liabilities as an investment and subsequently marked-to-market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying futures, security or currency transaction to determine the realized gain or loss.

Fort Dearborn Income Securities, Inc.

Notes to financial statements March 31, 2014 (unaudited)

Dividends and distributions

Dividends and distributions to shareholders are recorded on the ex-dividend date. The amounts of dividends from net investment income and distributions of net realized capital gains and/or return of capital are determined in accordance with income tax regulations, which may differ from US GAAP. These book/tax differences are either considered temporary or permanent in nature. To the extent they are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification.

Concentration of risk

Investing in securities of foreign issuers and currency transactions may involve certain considerations and risks not typically associated with investments in US securities. These risks include revaluation of currencies, adverse fluctuations in foreign currency values and possible adverse political, social and economic developments, including those particular to a specific industry, country or region, which could cause the securities and their markets to be less liquid and prices more volatile than those of comparable US companies and US government securities. These risks are greater with respect to securities of issuers located in emerging market countries in which the Fund invests. As of March 31, 2014, the Fund had less than 10% of net assets invested in emerging market countries. The ability of the issuers of debt securities held by the Fund to meet their obligations may be affected by economic and political developments particular to a specific industry, country, state or region.

High yield bond risk

Investing in high yield bonds involves the risk that the issuer of bonds with ratings of BB (S&P) or Ba (Moody s) or below, or deemed of equivalent quality, will default or otherwise be unable to honor a financial obligation (also known as lower-rated or junk bonds). These securities are considered to be predominately speculative with respect to an issuer s capacity to pay interest and repay principal in accordance with the terms of the obligations. Lower-quality bonds are more likely to be subject to an issuer s default or downgrade than investment grade (higher-quality) bonds.

Capital stock

At March 31, 2014, there were 12,000,000 shares of $0.01 par value capital stock authorized, and 8,775,665 shares issued and outstanding. During the period ended March 31, 2014, no new shares were issued as part of the dividend reinvestment plan.

Investment advisory fees and other transactions with affiliates

Under an agreement between the Fund and UBS Global AM, UBS Global AM manages the Fund s investment portfolio, maintains its accounts and records, and furnishes the services of individuals to perform executive functions for the Fund. In return for these services, the Fund pays UBS Global AM 0.50% per annum of the Fund s average weekly net assets up to $100,000,000 and 0.40% per annum of average weekly net assets in excess of $100,000,000. At March 31, 2014 the Fund owed UBS Global AM $162,960 for investment advisory fees.

Purchases and sales of securities

Purchases and sales (including maturities) of portfolio securities during the period ended March 31, 2014, were as follows: debt securities, excluding short-term securities and US government debt obligations, $35,484,606 and $32,367,396, respectively; and US government debt obligations, $2,239,789 and $5,033,779, respectively.

Fort Dearborn Income Securities, Inc.
Notes to financial statements March 31, 2014 (unaudited)

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

The tax character of distributions paid during the year ended September 30, 2013 was as follows:

Distributions paid from:	**2013**
Ordinary income	$ 8,928,584
Net long-term capital gains	4,436,754
	$ 13,365,338

The tax character of distributions paid and components of accumulated earnings (deficit) on a tax basis for the current fiscal year will be determined after the Fund s fiscal year ending September 30, 2014.

Under the Regulated Investment Company Modernization Act of 2010 (the Act), net capital losses recognized by the Fund after December 22, 2010 may be carried forward indefinitely, and retain their character as short-term and/or long term-losses. The Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At September 30, 2013, the Fund had no pre-enactment or post-enactment capital loss carryforwards for federal income tax purposes available to offset future capital gains.

As of and during the period ended March 31, 2014, the Fund did not have any liabilities for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of operations. During the period, the Fund did not incur any interest or penalties.

Each of the tax years in the four year period ended September 30, 2013, remains subject to examination by the Internal Revenue Service and state taxing authorities.

Fort Dearborn Income Securities, Inc.
General information (unaudited)

The Fund
Fort Dearborn Income Securities, Inc. (the Fund) is a diversified, closed-end management investment company whose shares trade on the New York Stock Exchange and the Chicago Stock Exchange. The primary objective of the Fund is to provide its shareholders with a stable stream of current income consistent with external interest rate conditions and provide a total return over time that is above what they could receive by investing individually in the investment grade and long-term maturity sectors of the bond market. There can be no assurance that the Fund s investment objective will be achieved. The Fund s investment advisor is UBS Global Asset Management (Americas) Inc. (UBS Global AM).

Shareholder information
The Fund s NYSE trading symbol is FDI. Net asset value and market price information as well as other information about the Fund is updated each business day on the Web site of the Fund s advisor at the following internet address: http://globalam-us.ubs.com/corpweb/closedendedfunds.do.

An annual meeting of the shareholders of the Fund was held on December 6, 2013. At the meeting, Adela Cepeda, John J. Murphy, Frank K. Reilly, Edward M. Roob, Abbie J. Smith and J. Mikesell Thomas were elected to serve as directors until the next annual meeting of shareholders, or until their successors are elected and qualified or until they resign or are otherwise removed. The shares were voted as indicated below:

To vote for or withhold authority in the election of:	Shares voted for	Shares withhold authority
Adela Cepeda	5,983,119	494,612
John J. Murphy	5,988,499	489,232
Frank K. Reilly	5,986,952	490,778
Edward M. Roob	5,982,707	495,023
Abbie J. Smith	5,926,709	551,021
J. Mikesell Thomas	5,929,742	547,989

Quarterly Form N-Q portfolio schedule
The Fund will file its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s Web site at http://www.sec.gov. The Fund s Forms N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the SEC s Public Reference Room may be obtained by calling 1-202-551 8090. Additionally, you may obtain copies of Form N-Q from the Fund upon request by calling 1-888-793-8637.

Proxy voting policies, procedures and record
You may obtain a description of the Fund s (1) proxy voting policies (2) proxy voting procedures, and (3) information regarding how the Fund voted any proxies related to portfolio securities during the most recent 12-month period ended June 30 for which an SEC filing has been made, without charge, upon request by contacting the Fund directly at 1-888-793-8637, online on the Fund s Web site: http://www.ubs.com/us/en/asset_management/ individual_investors/closed_end_funds.html or on the EDGAR Database on the SEC s Web site (http://www.sec.gov.)

Fort Dearborn Income Securities, Inc.
General information (unaudited)

Stock repurchase plan

On July 28, 1988, the Board of Directors of the Fund approved a resolution to repurchase up to 700,000 of its common shares. The Fund 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 shareholders best interest. Any repurchases will be made in compliance with applicable requirements of the federal securities law.

Dividend reinvestment plan

The Fund has established a dividend reinvestment plan (the Plan) under which all shareholders whose shares are registered in their own names, or in the name of a participating broker or its nominee, may elect to have all dividends and other distributions automatically reinvested in additional Fund shares. Shareholders who elect to hold their shares in the name of a broker or nominee should contact such broker or nominee to determine whether, or how, they may participate in the Plan. The ability of such shareholders to participate in the Plan may change if their shares are transferred into the name of another broker or nominee. More information regarding the Plan is provided below.

The Plan is applicable in each case where the Fund declares a dividend or other distribution payable in cash and simultaneously gives to its shareholders who are participants under the Plan (Participants) the option to receive such dividend or other distribution in Fund shares.

Commencing seven trading days prior to the date of payment of such dividend or other distribution, but only if the market price plus brokerage commissions at the time of purchase is lower than the net asset value as of the close of business on the eighth trading day prior to such date of payment (Base Net Asset Value), the agent (the Agent), on behalf of the Participants, will purchase shares in the open market(s) available to it. There can be no assurance that shares will be available in such open market(s) at a cost lower than Base Net Asset Value or in sufficient quantities to permit such purchases by the Agent. These purchases may be made on any securities exchange where such shares are traded, in the over-the-counter market or by negotiated transactions and may be subject to such terms of price, delivery, etc., to which the Agent may agree. If the market price for the shares is greater than the net asset value as of the close of business on the eighth trading day prior to the date of payment, then the Fund will issue shares in payment of the dividend.

On the date of payment of such dividend or other distribution, the Agent will elect to have the Fund pay the dividend or other distribution in cash to the extent of the cost, including brokerage commissions, of the shares to be purchased by the Agent, and will elect to have the Fund pay the balance, if any, of the dividend or other distribution in shares. Such payments will be made by the Fund to Computershare Trust Company, N.A. (Computershare) as administrator of the Plan for the Participants. Computershare, in turn, will immediately settle the open market purchases with the Agent. If shares are distributed in payment of a dividend or distribution because market price exceeded net asset value, a Participant will be required to include in gross income an amount equal to the greater of net asset value or 95% of fair market value (average of the high and low sales price on the date of the distribution) of the shares received by the Participant rather than the amount of such dividend. Distributions of shares will be subject to the right of the Fund to take such actions as may be deemed necessary in order to comply with or conform to the requirements of any applicable law or regulation.

The shares credited to the accounts of Participants at Computershare will be determined on the basis of the amount of dividend or distribution to which each Participant is entitled, whether shares are purchased on the open market or issued by the Fund. Each Participant will be furnished with periodic statements.

A Participant will have the right to vote the full shares credited to the Participant s account under the Plan on the record date for a vote. Proxies sent to a Participant by Computershare will include the number of full shares held for the Participant under the Plan.

Fort Dearborn Income Securities, Inc.
General information (unaudited)

The investment of dividends and distributions under the Plan does not relieve the Participant of any income tax which may be payable on such dividends or distributions. Annually, each participant will be provided with information for tax purposes with respect to the dividends and distributions on the shares held for the account of the Participant. The Fund strongly recommends that all Participants retain each year s final statement on their Plan participation as a part of their permanent tax record.

Shareholders who wish to elect to participate in the Plan should contact Computershare for further information. A Participant may terminate participation in the Plan at any time by notice in writing to Computershare.

All correspondence concerning the Plan should be mailed to Computershare at P.O. Box 30170 College Station, TX 77842-3170. Overnight correspondence should be sent to Computershare at 211 Quality Circle, Suite 210, College Station, TX 77845. You may also contact Computershare directly at 1-800-446 2617. In order to be effective on the payment date of any dividend or distribution, notice of such termination must be received by Computershare before the record date for the payment of such dividend or distribution. If a notice to discontinue is received by Computershare on or after the record date for a dividend payment, such notice to discontinue may not become effective until such dividend has been reinvested and the shares purchased are credited to the Participant s account under the Plan. Computershare, in its sole discretion, may either pay such dividend in cash or reinvest it in shares on behalf of the terminating Participant. Computershare may terminate, for whatever reason at any time as it may determine in its sole discretion, an individual s participation in the Plan upon mailing a notice of termination to the Participant at the Participant s address as it appears on Computershare s records.

When an account is terminated, the Participant will receive a certificate for the number of full shares credited to the Participant s account under the Plan, unless the sale of all or part of such shares is requested. Such sale may, but need not, be made by purchase of the shares for the account of other Participants and any such transaction shall be deemed to have been made at the then current market price less any applicable brokerage commissions and any other costs of sale. The terminating Participant s fractional share interest in the Plan will be aggregated with the fractional share interests of other terminating Participants and sold. The net proceeds of such sales will be distributed to the Participants in payment for their fractional share interests.

The Fund may terminate or amend the Plan upon thirty (30) days notice in writing to each Participant, such termination or amendment to be effective as to all dividends and distributions payable to shareholders of record on any date more than thirty (30) days after mailing of such notice.

There is no direct service charge (other than brokerage commissions) by the Agent to Participants in the Plan. All costs of the Plan, except brokerage commissions, will be paid by the Fund. However, the Fund reserves the right to amend the Plan in the future to include a service charge.

Directors

Adela Cepeda
Frank K. Reilly
Abbie J. Smith
Edward M. Roob
J. Mikesell Thomas
John Murphy

Principal Officers

Mark E. Carver
President

Mark F. Kemper
Vice President and Secretary

Thomas Disbrow
Vice President and Treasurer

Investment Advisor

UBS Global Asset Management (Americas) Inc.
1285 Avenue of the Americas
New York, New York 10019-6028

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may purchase shares of its common stock in the open market at market prices.

The financial information included herein is taken from the records of the Fund without examination by independent registered public accountants who do not express an opinion thereon.

This report is sent to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

UBS Global Asset Management (Americas) Inc. is a
subsidiary of UBS AG.
May 2014
www.ubs.com/globalam-us

Item 2. Code of Ethics.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

Item 3. Audit Committee Financial Expert.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

Item 4. Principal Accountant Fees and Services.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

Item 5. Audit Committee of Listed Registrants.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

Item 6. Schedule of Investments.

(a) Included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

There were no purchases made by or on behalf of the registrant or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of shares of the registrant s equity securities made in the period covered by this report.

Item 10. Submission of Matters to a Vote of Security Holders.

The registrant s Board has established a Nominating, Compensation and Governance Committee. The Nominating, Compensation and Governance Committee will consider nominees recommended by Qualifying Fund Shareholders if a vacancy occurs among those board members who are not interested persons as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. A Qualifying Fund Shareholder is a shareholder that: (i) owns of record, or beneficially through a financial intermediary, ½ of 1% or more of the Fund s outstanding shares and (ii) has been a shareholder of at least ½ of 1% of the Fund s total outstanding shares for 12 months or more prior to submitting the recommendation to the Nominating, Compensation and Governance Committee. In order to recommend a nominee, a Qualifying Fund Shareholder should send a letter to the chairperson of the Nominating, Compensation and Governance Committee, Ms. Adela Cepeda, care of Mark Kemper, the Secretary of the Fund, at UBS Global Asset Management (Americas) Inc., One North Wacker Drive, Chicago, Illinois 60606. The Qualifying Fund Shareholder s letter should include: (i) the name and address of the Qualifying Fund Shareholder making the recommendation; (ii) the number of shares of each class and series of shares of the Fund which are owned of record and beneficially by such Qualifying Fund Shareholder and the length of time that such shares have been so owned by the Qualifying Fund Shareholder; (iii) a description of all arrangements and understandings between such Qualifying Fund Shareholder and any other person or persons (naming such person or persons) pursuant to which the recommendation is being made; (iv) the name and address of the nominee; and (v) the nominee s resume or curriculum vitae. The Qualifying Fund Shareholder s letter must be accompanied by a written consent of the individual to stand for election if nominated for the Board and to serve if elected by shareholders. The Nominating, Compensation and Governance Committee may also seek such additional information about the nominee as it considers appropriate, including information relating to such nominee that is required to be disclosed in solicitations or proxies for the election of board members.

Item 11. 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 (as defined in Rule 30a-3(d) under the Investment Company Act of 1940, as amended) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits.

(a) (1) Code of Ethics Form N-CSR disclosure requirement not applicable to this filing of a semiannual report.

(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.

(a) (3) Written solicitation to purchase securities under Rule 23c-1 under the Investment Company Act of 1940 sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons The registrant has not engaged in such a solicitation during the period covered by this report.

(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/ Mark E. Carver
Mark E. Carver
President

Date: June 9th, 2014

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.

Fort Dearborn Income Securities, Inc.

By: /s/ Mark E. Carver
Mark E. Carver
President

Date: June 9, 2014

By: /s/ Thomas Disbrow
Thomas Disbrow
Vice President, Treasurer and Principal Accounting Officer

Date: June 9th, 2014

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rporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)

3.2
Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q ((SEC File No. 000-25349) for the quarter ended August 31, 2006)

4.1
Amended and Restated Articles of Incorporation of the Company (See Exhibit 3.1)

4.2
Amended and Restated Bylaws of the Company (See Exhibit 3.2)

4.3(a)

Credit Agreement, dated April 30, 2003, between Bank of America, N.A., and the Company (filed herewith)

4.3(b)
First Amendment to Credit Agreement, dated as of February 18, 2005, among the Company, the Lenders party thereto, and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ending February 28, 2005)

4.3(c)
Second Amendment to Credit Agreement dated as of February 27, 2008, among the Company and Bank of America, N.A. as lender and agent (incorporated by reference to Exhibit 4.3(c) of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) filed April 16, 2008)

4.3(d)
Third Amendment to Credit Agreement dated as of February 19, 2009, between the Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on February 20, 2009)

4.3(e)
Fourth Amendment to Credit Agreement dated as of August 10, 2009 between the Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on August 13, 2009)

Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments evidencing long-term debt not exceeding 10% of the Company's total assets have been omitted and will be furnished to the Securities and Exchange Commission upon request.

10.1(a)
Form of Executive Life Insurance Agreement dated December 31, 2003, between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)*

10.1(b)(i)
Supplemental Retirement Income Plan effective as of December 1, 2003 (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)*

10.1(b)(ii)
First Amendment to the Supplemental Retirement Income Plan, dated as of May 24, 2007 incorporated by reference to Exhibit 10.1(b)(ii) of Form 10-K (SEC File No. 000-25349) filed on April 16, 2008

10.1(b)(iii)
2008Amendment and Restatement of the Hooker Furniture Corporation Supplemental Retirement Income Plan, effective as of December 31, 2008 incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on November 19, 2008*

10.1(c)
Summary of Director Compensation (filed herewith)*

10.1(d)

Hooker Furniture Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix B of the Company's Definitive Proxy Statement dated March 1, 2005 (SEC File No. 000-25349))*

10.1(e)
Form of Outside Director Restricted Stock Agreement (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed January 17, 2006)*

10.1(f)
Employment Agreement, dated June 15, 2007, between Alan D. Cole and the Company incorporated by reference to Exhibit 10.1(h) of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) filed on April 16, 2008

10.1(g)
Employment Agreement, dated June 3, 2008, between Alan D. Cole and the Company incorporated by reference to Exhibit 10.1(i) of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) filed on June 5, 2008

10.1(h)
Employment Agreement, dated January 22, 2010, between Arthur G. Raymond, Jr. and the Company (filed herewith)*

10.2(a)
Credit Agreement, dated April 30, 2003, between Bank of America, N.A., and the Company (See Exhibit 4.3(a)) (filed herewith)

10.2(b)
First Amendment to Credit Agreement, dated as of February 18, 2005, among the Company, the Lenders party thereto, and Bank of America, N.A., as agent (See Exhibit 4.3(b))

10.2(c)
Second Amendment to Credit Agreement, dated as of February 27, 2008, among the Company and Bank of America, N.A., as lender and agent (See Exhibit 4.3(c))

10.2(d)
Third Amendment to Credit Agreement dated as of February 19, 2009, between Company and Bank of America, N.A. (See Exhibit 4.3(d))

10.2(e)
Fourth Amendment to Credit Agreement, dated as of August 10, 2009, between the Company and Bank of America N.A. (See Exhibit 4.3(e))

21
List of Subsidiaries:

Bradington-Young LLC, a Virginia limited liability company

Sam Moore Furniture LLC, a Virginia limited liability company

23
Consent of Independent Registered Public Accounting Firm (filed herewith)

31.1
Rule 13a-14(a) Certification of the Company's principal executive officer (filed herewith)

31.2
Rule 13a-14(a) Certification of the Company's principal financial officer (filed herewith)

32.1
Rule 13a-14(b) Certification of the Company's principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

*Management contract or compensatory plan

37

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOOKER FURNITURE CORPORATION

Date: April 15, 2010

By: /s/ Paul B. Toms, Jr.
Paul B. Toms, Jr.
Chairman, President and Chief Executive Officer

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

Signature	Title	Date
/s/ Paul B. Toms, Jr. Paul B. Toms, Jr.	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	April 15, 2010
/s/ E. Larry Ryder E. Larry Ryder (Principal Financial Officer)	Executive Vice President - Finance and Administration and Chief Financial Officer	April 15, 2010
/s/ Paul A. Huckfeldt Paul A. Huckfeldt	Chief Accounting Officer (Principal Accounting Officer)	April 15, 2010
/s/ W. Christopher Beeler, Jr. W. Christopher Beeler, Jr.	Director	April 15, 2010
/s/ John L. Gregory, III John L. Gregory, III	Director	April 15, 2010
/s/ Mark F. Schreiber Mark F. Schreiber	Director	April 15, 2010
/s/ David G. Sweet David G. Sweet	Director	April 15, 2010
/s/ Henry G. Williamson, Jr. Henry G. Williamson, Jr.	Director	April 15, 2010

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders of
Hooker Furniture Corporation
Martinsville, Virginia

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of January 31, 2010. The effectiveness of the Company's internal control over financial reporting as of January 31, 2010 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which is included herein.

Paul B. Toms, Jr.
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
April 15, 2010

E. Larry Ryder
Executive Vice President – Finance and Administration
and Chief Financial Officer
(Principal Financial Officer)
April 15, 2010

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hooker Furniture Corporation:

We have audited the accompanying consolidated balance sheets of Hooker Furniture Corporation and subsidiaries as of January 31, 2010 and February 1, 2009, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended January 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hooker Furniture Corporation and subsidiaries as of January 31, 2010 and February 1, 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hooker Furniture Corporation's internal control over financial reporting as of January 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 13, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Charlotte, North Carolina
April 13, 2010

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Hooker Furniture Corporation:

We have audited Hooker Furniture Corporation's internal control over financial reporting as of January 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hooker Furniture Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hooker Furniture Corporation maintained, in all material respects, effective internal control over financial reporting as of January 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hooker Furniture Corporation and subsidiaries as of January 31, 2010 and February 1, 2009, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended January 31, 2010, and our report dated April 13, 2010 expressed an unqualified opinion on those consolidated financial statements.

Charlotte, North Carolina
April 13, 2010

F-4

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

As of	January 31, 2010	February 01, 2009
Assets		
Current assets		
Cash and cash equivalents	$37,995	$11,804
Trade accounts receivable, less allowance for doubtful		
accounts of $1,938 and $2,207 on each date	25,894	30,261
Inventories	36,176	60,248
Prepaid expenses and other current assets	3,468	4,736
Total current assets	103,533	107,049
Property, plant and equipment, net	22,747	24,596
Intangible assets	3,468	4,805
Cash surrender value of life insurance policies	14,810	13,513
Other assets	4,541	3,504
Total assets	$149,099	$153,467
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	$10,425	$8,392
Accrued salaries, wages and benefits	2,184	2,218
Other accrued expenses	1,953	2,279
Accrued dividends	1,077	-
Current maturities of long-term debt	-	2,899
Total current liabilities	15,639	15,788
Long-term debt, excluding current maturities	-	2,319
Deferred compensation	5,868	5,606
Other long-term liabilities	-	44
Total liabilities	21,507	23,757
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized,		
10,775 and 10,772 shares issued and outstanding on each date	17,076	16,995
Retained earnings	110,073	112,450
Accumulated other comprehensive income	443	265
Total shareholders' equity	127,592	129,710
Total liabilities and shareholders' equity	$149,099	$153,467

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

For The	Fifty-Two Weeks Ended January 31, 2010	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Net sales	$203,347	$261,162	$316,801
Cost of sales	154,931	200,878	235,057
Gross profit	48,416	60,284	81,744
Selling and administrative expenses	41,956	45,980	51,738
Restructuring (credits) charges	-	(951)	309
Goodwill and intangible asset impairment charges	1,274	4,914	-
Operating income	5,186	10,341	29,697
Other (expense) income, net	(99)	323	1,472
Income before income taxes	5,087	10,664	31,169
Income taxes	2,079	3,754	11,514
Net income	$3,008	$6,910	$19,655
Earnings per share:			
Basic and diluted	$0.28	$0.62	$1.58
Weighted average shares outstanding:			
Basic	10,753	11,060	12,442
Diluted	10,760	11,066	12,446
Cash dividends declared per share	$0.40	$0.40	$0.40

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

For The	Fifty-Two Weeks Ended January 31, 2010	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Cash flows from operating activities			
Cash received from customers	$207,819	$269,483	$321,189
Cash paid to suppliers and employees	(168,666)	(258,701)	(265,842)
Income taxes paid, net	(1,401)	(7,219)	(12,717)
Interest received (paid), net	(327)	167	1,195
Net cash provided by operating activites	37,425	3,730	43,825
Cash flows from investing activities			
Purchase of property, plant, and equipment	(1,678)	(2,271)	(1,942)
Acquisitions, net of cash required	-	(181)	(15,826)
Proceeds received on notes receivable	30	-	-
Proceeds from the sale of property and equipment	337	28	3,668
Premiums paid on life insurance policies	(1,383)	(1,328)	(1,411)
Proceeds received on life insurance policies	987	-	1,244
Net cash used in investing activities	(1,707)	(3,752)	(14,267)
Cash flows from financing activities			
Purchases and retirement of common stock	-	(14,097)	(36,028)
Proceeds from short-term borrowing	4,859	-	-
Payments on short-term debt	(4,859)	-	-
Cash dividends paid	(4,309)	(4,459)	(5,036)
Payments on long-term debt	(5,218)	(2,694)	(2,503)
Net cash used in financing activities	(9,527)	(21,250)	(43,567)
Net increase (decrease) in cash and cash equivalents	26,191	(21,272)	(14,009)
Cash and cash equivalents at the beginning of the year	11,804	33,076	47,085
Cash and cash equivalents at the end of the year	$37,995	$11,804	$33,076
Reconciliation of net income to net cash provided by operating activities:			
Net income	$3,008	$6,910	$19,655
Depreciation and amortization	3,125	2,912	3,352
Non-cash restricted stock awards	81	74	47
Asset impairment charges	1,274	4,914	-
Restructuring charge / (credit)	-	(951)	309
Loss (gain) on disposal of property	133	154	(100)
Donation of showroom facilities	-	-	1,082
Provision for doubtful accounts	1,361	2,245	1,313
Loss (gain) on life insurance policies	-	95	(788)
Deferred income taxes	239	(2,005)	2,624

Changes in assets and liabilities, net of effect from acquistions:			
Trade accounts receivable	3,007	5,767	2,972
Inventories	24,072	(9,629)	18,757
Prepaid expenses and other current assets	(1,054)	(730)	(186)
Trade accounts payable	2,033	(4,633)	2,063
Accrued salaries, wages, and benefits	(34)	(669)	(3,256)
Accrued income taxes	253	(1,274)	(3,826)
Other accrued expenses	(579)	79	(1,198)
Deferred compensation	322	-	-
Other long-term liabilities	184	471	1,005
Net cash provided b y operating activities	$37,425	$3,730	$43,825

See accompanying Notes to Consolidated Financial Statements

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands, except per share data)

For the Fifty-Three Week Period Ended February 3, 2008; The Fifty-Two Week Period Ended February 1, 2009; and The
Fifty-Two Week Period Ended January 31, 2010

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 28, 2007	13,269	20,840	141,539	(69)	162,310
Net income	-	-	19,655	-	19,655
Unrealized loss on interest rate swap	-	-	-	(122)	(122)
Total comprehensive income					19,533
Cash dividends ($0.40 per share)	-	-	(5,036)	-	(5,036)
Restricted stock grants, net of forfeitures	4	-	-	-	-
Restricted stock compensation cost	-	47	-	-	47
Purchase and retirement of common stock	(1,712)	(2,705)	(33,323)	-	(36,028)
Balance at February 3, 2008	11,561	18,182	122,835	(191)	140,826
Net income	-	-	6,910	-	6,910
Unrealized gain on interest rate swap	-	-	-	49	49
Unrealized gain on deferred compensation	-	-	-	407	407
Total comprehensive income					7,366
Cash dividends ($0.40 per share)	-	-	(4,459)	-	(4,459)
Restricted stock grants, net of forfeitures	10	-	-	-	-
Restricted stock compensation cost	-	74	-	-	74
Purchase and retirement of common stock	(799)	(1,261)	(12,836)	-	(14,097)
Balance at February 1, 2009	10,772	16,995	112,450	265	129,710
Net income	-	-	3,008	-	3,008
Reclassifications due to ineffective swap				142	142
Unrealized gain on deferred compensation	-	-	-	36	36
Total comprehensive income					3,186
Cash dividends paid and accrued ($0.40 per share)	-	-	(5,385)	-	(5,385)
Restricted stock grants, net of forfeitures	3	-	-	-	-
Restricted stock compensation cost	-	81	-	-	81
Balance at January 31, 2010	10,775	$17,076	$110,073	$ 443	$ 127,592

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hooker Furniture Corporation and subsidiaries (the "Company", "we," "us" and "our") design, import, manufacture and market residential household furniture for sale to wholesale and retail merchandisers located principally in North America.

Consolidation

The consolidated financial statements include the accounts of Hooker Furniture Corporation and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

We temporarily invest unused cash balances in a high quality, diversified money market fund that provides for daily liquidity and pays dividends monthly. Cash equivalents are stated at cost plus accrued interest, which approximates the market value.

Trade Accounts Receivable

Substantially all of our trade accounts receivable are due from retailers and dealers that sell residential home furnishings, which consist of a large number of entities with a broad geographical dispersion. We continually perform credit evaluations of our customers and generally do not require collateral. Our upholstered furniture subsidiaries factor substantially all of their receivables on a non-recourse basis. Accounts receivable are reported net of allowance for doubtful accounts.

Fair Value of Financial Instruments

The carrying value for each of our financial instruments (consisting of cash and cash equivalents, trade accounts receivable and payable, and accrued liabilities) approximates fair value because of the short-term nature of those instruments. The fair value of our term loan is estimated based on the quoted market rates for similar debt with a similar remaining maturity. The fair value of our interest rate swap agreement is based on market quotes from a major financial institution, taking into consideration the most recent market activity.

Inventories

All inventories are stated at the lower of cost, using the last-in, first-out (LIFO) method, or the market value.

Table of Contents

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less allowances for depreciation. Provision for depreciation has been computed (generally by the declining balance method) at annual rates that will amortize the cost of the depreciable assets over their estimated useful lives.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of those assets. When any such impairment exists, the related assets are written down to fair value. Long-lived assets to be disposed of by sale are measured at the lower of their carrying amount or fair value less cost to sell, are no longer depreciated, and are reported separately as "assets held for sale" in the consolidated balance sheets.

Intangible Assets

We own certain indefinite-lived intangible assets related to Bradington-Young, Sam Moore and Opus Designs by Hooker. We may acquire additional amortizable assets and/or indefinite lived intangible assets in future asset purchases or business combinations. The principal indefinite-lived intangible assets are trademarks and trade names which are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The fair value of the indefinite-lived intangible assets is determined based on the estimated earnings and cash flow capacity of those assets. The impairment test consists of a comparison of the fair value of the indefinite-lived intangible assets with their carrying amount. If the carrying amount of the indefinite-lived intangible assets exceeds their fair value, an impairment loss is recognized in an amount equal to that excess.

Trade names are tested for impairment annually as of the first day of our fiscal fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. Circumstances that could indicate a potential impairment include:

- a significant adverse change in the economic or business climate either within the furniture industry or the national or global economy;
- significant changes in demand for our products;
- loss of key personnel; or
- the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed of.

The assumptions used to determine the fair value of our intangible assets are highly subjective and judgmental and include long term growth rates, sales volumes, projected revenues, assumed royalty rates and factors used to develop an applied discount rate. If the assumptions that we use in these calculations differ from actual results, we may realize additional impairment on our intangible assets which may have a material, adverse affect on our consolidated statements of operations and consolidated balance sheets.

Cash Surrender Value of Life Insurance Policies

We own life insurance policies on certain executives and other key current and former employees. Proceeds from the policies are used to fund certain employee benefits and for other general corporate purposes. We account for life insurance as a component of employee benefits cost. Consequently the cost of the coverage and any resulting gains or losses related to those insurance policies are recorded as a decrease or increase to operating income.

F-10

Table of Contents

Derivative Instruments and Hedging Activities

We may use interest rate swap agreements to manage variable interest rate exposure on our long-term debt. Our objective for holding these derivatives is to decrease the volatility of future cash flows associated with interest payments on our variable rate debt. We do not issue derivative instruments for trading purposes. Typically, we account for our interest rate swap agreements as cash flow hedges. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in "accumulated other comprehensive income or loss" on the consolidated balance sheets and subsequently reclassified to interest expense when the hedged exposure affects income (i.e. as interest expense accrues on the related outstanding debt). Differences between the amounts paid and amounts received under the swap agreements are recognized in interest expense.

In some cases, such as upon the early repayment of a debt instrument, we may continue to hold an interest rate swap for a period of time after the related principal has been paid rendering the hedge ineffective. In that case, changes in the ineffective portion of the fair value of an interest rate swap are accounted for through interest expense.

Revenue Recognition

Sales revenue is recognized when title and the risk of loss pass to the customer, which occurs at the time of shipment. Sales are recorded net of allowances for trade promotions, estimated product returns, rebate advertising programs and other discounts.

Advertising

We offer advertising programs to qualified dealers under which we may provide signage, catalogs and other marketing support to our customers and may reimburse advertising and other costs incurred by our customers in connection with promoting our products. The cost of these programs does not exceed the fair value of the benefit received. We charge the cost of point-of-purchase materials (including signage and catalogs) to selling and administrative expense as incurred. Advertising costs charged to selling and administrative expense for fiscal years 2010, 2009 and 2008 were $2.9 million, $3.1 million, and $3.0 million, respectively. The costs for other advertising allowance programs is charged against net sales.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect the expected future tax consequences of differences between the book and income tax bases of assets and liabilities using enacted tax rates in effect in the years in which those differences are expected to reverse.

We recognize positions taken or expected to be taken in our tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is more likely than not of being realized upon ultimate settlement. We classify interest and penalties related to uncertain tax positions as income tax expense.

Earnings Per Share

We use the two class method to compute basic earnings per share. Under this method we allocate earnings to common stock and participating securities according to their participation rights in dividends declared and undistributed earnings and divide the income available to each class by the weighted average number of common shares for the period in each class. Unvested restricted stock grants to our non-employee directors are considered participating securities because the shares have the right to receive non-forfeitable dividends. Because the participating shares have no obligation to share in net losses, we do not allocate losses to our common stock in this calculation.

Table of Contents

Diluted earnings per share reflect the potential dilutive effect of securities that could share in our earnings. Restricted shares awarded to non-employee members of the board of directors that have not yet vested are considered when computing diluted earnings per share. We use the treasury stock method to determine the dilutive effect of unvested restricted stock. Shares of unvested stock under a stock-based compensation arrangement are considered options for purposes of computing diluted EPS and are considered outstanding as of the grant date for purposes of computing diluted EPS even though their exercise may be contingent upon vesting. Those stock-based awards are included in the diluted EPS computation even if the non-employee director may be required to forfeit the stock at some future date. Unvested restricted shares are not included in outstanding common stock in computing basic earnings per share.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures regarding contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowance for doubtful accounts; the valuation of derivatives; deferred tax assets; fixed assets, our Supplemental Executive Retirement Plan and stock-based compensation. These estimates and assumptions are based on our best judgments. We evaluate these estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust our estimates and assumptions as facts and circumstances dictate. Illiquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from our estimates.

NOTE 2 – FISCAL YEAR

Our fiscal years end on the Sunday closest to January 31. In some years, generally once every six years, the fourth quarter will be fourteen weeks long and the fiscal year will consist of fifty-three weeks (for example, the fiscal year that ended February 3, 2008 was fifty-three weeks.) Our quarterly periods are based on thirteen-week “reporting periods,” which will end on a Sunday. As a result, each quarterly period generally will be thirteen weeks, or 91 days, long.

In the notes to the consolidated financial statements, references to the:

- § 2010 fiscal year and comparable terminology mean the fiscal year that began February 2, 2009 and ended January 31, 2010.
- § 2009 fiscal year and comparable terminology mean the fiscal year that began February 4, 2008 and ended February 1, 2009; and
- § 2008 fiscal year and comparable terminology mean the fiscal year that began January 29, 2007 and ended February 3, 2008.

NOTE 3 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The activity in the allowance for doubtful accounts was:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008

Balance at beginning of year	$2,207	$1,750	$1,436
Non-cash charges to cost and expenses	1,361	2,070	1,313
Allowance for doubtful accounts acquired in acquisitions	-	-	257
Less uncollectible receivables written off, net of recoveries	(1,630)	(1,613)	(1,256)
Balance at end of year	$1,938	$2,207	$1,750

F-12

Table of Contents

NOTE 4 – ACCOUNTS RECEIVABLE AND SHORT TERM BORROWING

	January 31, 2010	February 1, 2009
Trade accounts receivable	$ 19,400	$ 24,408
Receivable from factor	8,432	8,060
Allowance for doubtful accounts	(1,938)	(2,207)
Accounts receivable	$ 25,894	$ 30,261

"Receivable from factor" represents amounts due with respect to factored accounts receivable. We factor substantially all of our upholstery division accounts receivable without recourse to us.

Under the prior factoring agreement in effect until July 15, 2009, the factor owned the accounts receivable assigned to it for collection. During the second quarter of fiscal 2010, we became aware that the factor was facing liquidity concerns. In response to the risk of delayed payment of collected accounts receivable from the factor, we borrowed $4.5 million from the factor against uncollected receivables, the maximum amount available under the prior factoring arrangement. The underlying receivables were collected in the ordinary course of business, and the debt was retired with the proceeds from the collected accounts receivable. During the third quarter of 2010, we borrowed an additional $327,000 from the factor. During our fiscal 2010 fourth quarter, all amounts related to this loan were repaid. Under our current factoring agreement, entered July 15, 2009, we retain ownership of the accounts receivable that are collected by the factor, thereby substantially reducing liquidity risks associated with the former factoring arrangement.

Under both factoring agreements, invoices for upholstery products are generated and transmitted to our customer with a copy to the factor on a daily basis, as products are shipped to our upholstery customers. The factor collects the amounts due and remits collected funds to us semi-weekly. Under the prior agreement, the factor took ownership of the accounts receivable when it received our invoices. Under the new agreement, we retain ownership of the accounts receivable until the invoices are 90 days past due. At that time, the factor pays us the net invoice amount, less factoring fees and takes ownership of the accounts receivable. The factor is then entitled to collect the invoices on its own behalf and retain any subsequent remittances. Under both agreements, the invoiced amounts are reported as accounts receivable on our consolidated balance sheets when the merchandise is delivered to our customer until payment is received from the factor.

A limited number of accounts receivable are factored with recourse to us. The amounts of these receivables at January 31, 2010 and February 1, 2009 were $205,000 and $234,000, respectively. If the factor is unable to collect the amounts due, invoices are returned to us for collection. We include an estimate for these receivables in our calculation of our reserves for bad debt.

NOTE 5 – INVENTORIES

	January 31, 2010	February 1, 2009
Finished Furniture	$ 40,205	$ 64,865
Furniture in process	798	900
Materials and Supplies	7,258	8,207

Inventories at FIFO		48,261		73,972
Reduction to LIFO basis		12,085		13,724
Inventories	$	36,176	$	60,248

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net income would have been $2.2 million in fiscal 2010, $8.1 million in fiscal 2009, and $19.5 million in fiscal 2008.

As of January 31, 2010, we held $5.9 million in inventory (4.0% of total assets) outside of the United States, in China.

Table of Contents

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives (In years)	January 31, 2010	February 1, 2009
Buildings and land improvements	15 - 30	$23,708	$23,676
Machinery and equipment	10	3,507	3,665
Furniture and fixtures	3 - 8	27,494	26,656
Other	5	4,043	3,886
Total depreciable property at cost		58,752	57,883
Less accumulated depreciation		37,603	35,695
Total depreciable property, net		21,149	22,188
Land		1,357	1,357
Construction in progress		241	1,051
Property, plant and equipment, net		$22,747	$24,596

During fiscal 2010, we transitioned frame production from our Bradington-Young Woodleaf, North Carolina plant (a leased facility) to Bradington-Young's Cherryville, North Carolina facility. On July 17, 2009, we announced our plans to sell the frame production operation, including the associated machinery and equipment, as an on-going business. However, at November 1, 2009 we had not found and did not anticipate finding a buyer for this operation. Consequently, during the 2010 fiscal third quarter, we recorded $132,000 for severance (the majority of which was paid during our fiscal 2010 fourth quarter) and $48,000 in accelerated depreciation on fixed assets utilized at this location. We recorded an additional $32,000 in accelerated depreciation during our fiscal 2010 fourth quarter and have exited this location.

Capitalized Software Costs

Certain costs incurred in connection with developing or obtaining computer software for internal use are capitalized. These costs are amortized over five years or less, and generally over five years. Capitalized software is reported as a component of furniture and fixtures on our balance sheet. The activity in capitalized software costs was:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Balance beginning of year	$2,863	$3,293	$1,847
Software acquired in the acquisition of Sam Moore	-	-	458
Purchases	868	635	2,176
Amortization expense	(1,230)	(1,065)	(1,142)
Disposals	(8)	-	(46)
Balance end of year	$2,493	$2,863	$3,293

Table of Contents

NOTE 7 – INTANGIBLE ASSETS

	Useful Lives (In years)	January 31, 2010	February 1, 2009
Non-amortizable Intangible Assets			
Trademarks and trade names - Bradington-Young		$2,676	$3,289
Trademarks and trade names - Sam Moore		396	396
Trademarks and trade names - Opus Designs		396	1,057
Total trademarks and trade names		3,468	4,742
Amortizable Intangible Assets			
Non-compete agreements	4	-	700
Furniture designs	3	-	100
Total amortizable intangible assets		-	800
Less accumulated amortization		-	737
Net carrying value		-	63
Intangible assets		$3,468	$4,805

We recorded goodwill and certain intangible assets related to the acquisitions of Bradington-Young, Sam Moore and Opus Designs. The goodwill, trademarks and trade names have indefinite useful lives and consequently are not subject to amortization for financial reporting purposes but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. See "Note 1 – Summary of Significant Accounting Policies: Intangible Assets." For tax reporting purposes the goodwill and intangible assets are being amortized over 15 years on a straight line basis.

Goodwill results from business acquisitions and represents the excess of acquisition costs over the fair value of the net assets acquired. Our goodwill was initially recorded in connection with the acquisitions of Bradington-Young and Opus Designs, which occurred when the US economy was much stronger, estimates of revenue, margin and cash flow growth were much greater, and our market capitalization was at higher levels. Our fiscal year 2009 goodwill impairment analysis lead us to conclude that there would be no remaining implied fair value attributable to our goodwill and accordingly, we recorded a non–cash impairment charge of $3.8 million for the year ended February 1, 2009.This impairment charge is included in the "goodwill and intangible asset impairment charges" line of our Consolidated Statements of Operations.

Trade names and trademarks are related to the acquisitions of Bradington-Young, Sam Moore and Opus Designs. The circumstances which impact the valuation of goodwill could also be an indicator of impairment of trade names or trademarks, as could changes in legal circumstances, marketing plans or customer demand. In conjunction with our evaluation of goodwill and the cash flows generated by the reporting units, we evaluated the carrying value of trade names and trademarks using the relief from royalty method, which values the trademark by estimating the savings achieved by ownership of the trade name when compared to licensing the name from an independent owner. Our trade name analyses led us to conclude that the Bradington-Young and Opus Designs trade names were impaired. Consequently, we recorded non-cash impairment charges of $613,000 and $661,000, respectively, for our Bradington-Young and Opus Designs trade names during fiscal 2010 and $1.1 million for our Bradington-Young trade name during our fiscal 2009 year ended February 1, 2009.

These impairment charges are included in the "goodwill and intangible asset impairment charges" line of our Consolidated Statements of Operations.

F-15

Table of Contents

NOTE 8 – SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

	Fifty-Two Weeks Ended January 31, 2010	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Restricted stock grants, net of forfeitures	$81	$74	$47
Donation of showroom facilities	-	-	1,082
Liabilities assumed in connection with acquisition of Sam Moore Furniture	-	-	1,487

NOTE 9 – LONG-TERM DEBT AND INTEREST RATE SWAPS

	January 31, 2010	February 1, 2009
Term loan	$ -	$ 5,218
Less current maturities	-	2,899
Long term debt, less current maturities	$ -	$ 2,319

On August 11, 2009, we amended our credit agreement. The amendment included the following terms:

- upon execution of the amendment, we were required to repay in full the remaining balance of the term loans outstanding under the agreement ($3.8 million, plus accrued interest);
- effective as of July 30, 2009, the funded debt to EBITDA ratio under the credit agreement was changed from 1.25:1.0 to 2.0:1.0; and
- effective as of July 30, 2009, the debt service coverage ratio under the credit agreement was been eliminated.

The other terms of the credit agreement, including our $15.0 million revolving line of credit, were unchanged.

As of January 31, 2010, we had an aggregate $13.1 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of $1.9 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under that facility as of January 31, 2010. There were no additional borrowings outstanding under the revolving credit line on January 31, 2010. Any principal outstanding under the credit line is due March 1, 2011.

We are party to an interest rate swap agreement that provided, in effect, for a fixed interest rate of interest through 2010 on our former term loans. Prior to our fiscal 2010 third quarter, we accounted for our interest rate swap agreement as a cash flow hedge and recognized the fair value of the agreement on the balance sheet in shareholders' equity under the caption "accumulated other comprehensive income." The related gains or losses on this instrument were recorded through comprehensive income and, accordingly, were included in accumulated other comprehensive income on the balance sheet until recognized in net income.

Table of Contents

In 2003, we terminated a similar swap agreement, which, prior to its termination, provided, in effect, a fixed interest rate of approximately 7.4% on our former term loans. We made a $3.0 million payment to terminate that former swap agreement, which through the periods ended August 2, 2009 was being amortized over the remaining repayment period of the loans. Upon the repayment of our terms loans, we wrote-off the remaining $61,000 unamortized balance of this swap termination payment during the fiscal 2010 third quarter.

At January 31, 2010 we were party to one derivative financial instrument, as described in the following table:

Agreement	Notional Amount	Interest Rate	Expiration Date	Fair Value
Interest rate swap	$ 2,318	3.09 %	September 1, 2010	$ (33)

Fair Value Disclosure of Derivative Instruments

The following table provides quantitative fair value disclosures regarding our interest rate swap at January 31, 2010.

	Carrying Value and Balance Sheet Location as of January 31, 2010	Fair Value as of January 31, 2010		
	Other Accrued Expenses	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap	$ 33		$ 33	

	Carrying Value and Balance Sheet Location as of February 1, 2009		Fair Value as of February 1, 2009		
	Other Accrued Expenses	Other Long Term Liabilities	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap	$ 80	$ 29		$ 109	

	Fifty-two Weeks Ended January 31, 2010	February 1, 2009	Fifty-three Weeks February 3, 2008
Interest rate swap:			
Loss recognized in other comprehensive income	$-	$(78)	$(159)
Loss reclassified from accumulated other comprehensive income into interest expense, net	142	128	36
Loss recognized in net income	-	-	-
Loss recognized in net income on change in fair value of derivative financial instrument	5	-	-

Table of Contents

NOTE 10 – OTHER COMPREHENSIVE INCOME (LOSS)

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Net income	$3,008	$6,910	$19,655
(Loss) on interest rate swaps	(26)	(126)	(256)
Less amount of swaps' fair value reclassified to interest expense	118	205	58
Reclassification to income of cumulative balance related to ineffective swap	76		
Reclassification to income of unamortized balance of swap termination payment	61		
Unrealized gain (loss) on interest rate swaps	229	79	(198)
Unrealized accumulated actuarial gain on Supplemental Retirement Income Plan (deferred compensation)	58	653	-
Other comprehensive income (loss) before tax	287	732	(198)
Income tax (benefit)	109	276	(76)
Other comprehensive income (loss), net of tax	178	456	(122)
Comprehensive income	$3,186	$7,366	$19,533

NOTE 11 – EMPLOYEE BENEFIT PLANS

Employee Savings Plans

We sponsor a tax-qualified 401(k) plan covering substantially all employees. This plan assists employees in meeting their savings and retirement planning goals through employee salary deferrals and discretionary matching contributions made by the company. Company contributions to the plan amounted to $593,000 in fiscal 2010, $617,000 in fiscal 2009 and $574,000 in fiscal 2008.

Executive Benefits

Through fiscal 2008 we provided salary continuation and supplemental executive retirement benefits to certain management employees, which consisted of individual contracts with participants to pay amounts as specified in each agreement upon retirement, disability or death. The supplemental executive retirement arrangements also provided for benefit payments to participants upon a change in control of the Company as defined in the agreements. These agreements were unfunded and all benefits were payable solely from the general assets of the Company. We accounted for our obligation to each participant individually on the accrual basis in accordance with the terms of the underlying agreements.

Table of Contents

Effective for fiscal 2009, we replaced these agreements with a new supplemental retirement income plan ("SRIP"). The SRIP provides monthly payments to participants or their designated beneficiaries based on the participant's "final average monthly earnings" and "specified percentage" participation level as defined in the plan, subject to a vesting schedule that may vary for each participant. The benefit is payable for a 15-year period following the participant's termination of employment due to retirement, disability or death. In addition, the monthly retirement benefit for each executive, regardless of age, becomes fully vested and the present value of that benefit is paid to each participant in a lump sum upon a change in control of the Company as defined in the plan. The SRIP is unfunded and all benefits are payable solely from the general assets of the Company.

Summarized plan information as of each fiscal year-end (the measurement date) is as follows:

	Fifty-Two Weeks Ended	
	January 31, 2010	February 1, 2009
Change in benefit obligation:		
Beginning projected benefit obligation	$5,780	5,601
Service cost	632	750
Interest cost	355	350
Benefits paid	(187)	(267)
Actuarial loss (gain)	(276)	(654)
Ending projected benefit obligation (funded status)	$6,304	$5,780
Accumulated benefit obligation	$5,773	$5,421
Amount recognized in the consolidated balance sheet:		
Current liabilities	$436	$393
Non-current liabilities	5,868	5,387
Total	$6,304	$5,780
Other changes recognized in accumulated other comprehensive income		
Net (gain) arising during period	(218)	(653)
Net periodic benefit cost	987	1,100
Total recognized in net periodic benefit cost and accumulated other comprehensive income	$769	$447

	Fifty-Two Weeks Ended	
	January 31, 2010	February 1, 2009
Net periodic benefit cost		
Service cost	$632	$750
Interest cost	355	350
Net periodic benefit cost	$987	$1,100
Assumptions used to determine net periodic benefit cost:		
Discount rate	5.5%	6.25%
Increase in future compensation levels	4.0%	4.0%

Estimated Future Benefit Payments:	
Fiscal 2011	$436
Fiscal 2012	460
Fiscal 2013	539
Fiscal 2014	741
Fiscal 2015	716
Fiscal 2016 through Fiscal 2020	3,786

We also provide a life insurance program for certain executives. The life insurance program provides death benefit protection for these executives during employment. Coverage under the program automatically terminates when the executive attains age 65 or terminates employment with Hooker Furniture Corporation for any reason, other than death, whichever occurs first. The life insurance policies funding this program are owned by the Company with a specified portion of the death benefits payable under those policies endorsed to the insured executives' designated beneficiaries.

Table of Contents

Performance Grants

On April 30, 2008, the Compensation Committee of our board of directors awarded two performance grants to certain senior executives under the 2005 Stock Incentive Plan. Payments under each fixed dollar grant will be based on our cumulative earnings per share (“EPS”) and average annual return on equity (“ROE”) for the grant’s designated performance and service period. The respective performance periods for the two grants are the fiscal two-year period ended January 31, 2010 and the fiscal three-year period ending January 30, 2011. The payout targets for the fiscal two-year period ended January 31, 2010 were not met. Consequently, no payment will be made for this performance period. Payments, if any, for performance grants for the three-year period ending January 30, 2011, will be paid in cash, shares of our common stock or a combination of both, at the discretion of the Compensation Committee.

These performance grants are classified as liabilities since the (i) settlement amount for each grant is not known until after the applicable performance period is completed and (ii) settlement of the grants may be made in common stock, cash or a combination of both. The estimated cost of each grant is recorded as compensation expense over the respective performance periods when it becomes probable that the EPS and ROE performance targets will be achieved. The expected cost of the grants is revalued each reporting period. As assumptions change regarding the expected achievement of target performance levels, a cumulative adjustment is recorded and future compensation expense will increase or decrease based on the currently projected performance levels. If we determine that it is not probable that the minimum EPS and ROE performance thresholds for the grants will be met, no further compensation cost will be recognized and any previously recognized compensation cost will be reversed. A maximum of $1.1 million could be paid under the remaining grant.

As of January 31, 2010, no compensation expense has been recorded for the remaining performance grant for the fiscal three-year period ending January 30, 2011.

NOTE 12 – SHARE-BASED COMPENSATION

The Hooker Furniture Corporation 2005 Stock Incentive Plan (“Stock Plan”) permits incentive awards of restricted stock, restricted stock units, stock appreciation rights and performance grants to key employees and non-employee directors. A maximum of 750,000 shares of the Company’s common stock was approved for issuance under the Stock Plan. We expect to issue restricted stock or other forms of stock-based compensation awards to eligible directors and employees under the plan. We have issued restricted stock awards to each non-employee member of the board of directors each January since 2006. These shares will vest if the director remains on the board through a 36-month service period or may vest earlier in accordance with terms specified in the Stock Plan. During fiscal 2009, the remaining 3,920 of these shares vested. The grant-date fair value of stock awards issued during the fiscal 2010 fourth quarter was $12.51 per share, and $8.12 per share issued during the fiscal 2009 fourth quarter, and $19.61 per share for stock awards issued during the fiscal 2008 fourth quarter.

We account for these awards as “non-vested equity shares.” The awards outstanding as of January 31, 2010 had an aggregate grant-date fair value of $205,000, after taking vested and forfeited shares into account. As of January 31, 2010, we have recognized non-cash compensation expense of approximately $92,000 related to these non-vested awards and $136,000 for shares that have vested. The remaining $113,000 of grant-date fair value will be recognized over the remaining months of the vesting periods for these awards.

For each restricted common stock issuance, the following table summarizes the actual number of shares that have been issued/vested/forfeited, the weighted average issue price of those shares on the grant date, the fair value of each grant on the grant date, compensation expense recognized for the non-vested shares of each grant and the remaining fair value of the non-vested shares of each grant as of January 31, 2010:

F-20

Table of Contents

	Whole Number of Shares	Grant-Date Fair Value Per Share	Aggregate Grant-Date Fair Value	Compensation Expense Recognized	Grant-Date Fair Value Unrecognized At January 31, 2010
Awards outstanding balance at January 31, 2007	-		-	136	
Shares Issued on January 15, 2008					
Issued	4,335	$19.61	85	59	$ 26
Shares Issued on January 15, 2009					
Issued	10,474	$8.12	85	31	54
Shares Issued on January 15, 2010					
Issued	2,831	$12.51	35	2	33
Awards outstanding at January 31, 2010:	17,640		$205	$ 228	$ 113

The Stock Plan expired on March 30, 2010, and no further awards may be granted under that plan. Our Board of Directors has approved an amendment and restatement of the Stock Plan and directed that it be submitted to our shareholders for approval at our annual meeting to be held on June 8, 2010. If approved by our shareholders, the amendment and restatement of the Stock Plan would amend certain terms of the plan and would allow us to continue to grant equity incentive awards in accordance with our overall compensation philosophy and objectives.

NOTE 13 – EARNINGS PER SHARE

Since 2006, we have issued restricted stock awards to non-employee members of the board of directors under the Stock Plan each January, and expect to continue to grant these awards to non-employee board members in the future. As of January 31, 2010, February 1, 2009, and February 3, 2008 there were 17,640, 19,684, and 13,130, shares, respectively, of restricted stock outstanding, net of forfeitures and vested shares on each date. Restricted shares awarded that have not yet vested are considered when computing diluted earnings per share.

The following table sets forth the computation of basic and diluted earnings per share:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Net income	$3,008	$6,910	$19,655
Less: Dividends on unvested restricted shares			
Net earnings allocated to unvested restricted stock	6	-	-
Earnings available for common shareholders	$3,002	$6,910	$19,655
Weighted average shares outstanding for basic earnings per share	10,753	11,060	12,442

Dilutive effect of restricted stock awards	7	6	4
Weighted average shares outstanding for diluted earnings per share	10,760	11,066	12,446
Basic earnings per share	$0.28	$0.62	$1.58
Diluted earnings per share	$0.28	$0.62	$1.58

Table of Contents

NOTE 14 – INCOME TAXES

The provision for income taxes:

	Fifty-Two Weeks Ended January 31, 2010	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Current expense			
Federal	$ 1,746	$ 5,660	$ 7,937
State	224	99	953
Total current expense	1,970	5,759	8,890
Deferred taxes			
Federal	(110)	(2,237)	2,609
State	219	232	15
Total deferred taxes	109	(2,005)	2,624
Income tax expense	$ 2,079	$ 3,754	$ 11,514

The effective income tax rate differed from the federal statutory tax rate as follows:

	Fifty-Two Weeks Ended January 31, 2010	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Income taxes at statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) in tax rate resulting from:			
State taxes, net of federal benefit	2.5	1.9	2.0
Non-cash charitable contribution of appreciated inventory	(2.2)	(1.1)	(0.3)
Employee stock ownership plan	-	-	(0.7)
Captive insurance assessments	-	-	0.3
Officer's life insurance	(3.8)	(0.9)	(0.9)
Subpart F Income	3.1	-	-
Valuation allowance against state income tax NOL's	2.7	-	-
Penalty (FIN 48)	2.0	-	-
Other	1.6	0.3	1.5
Effective income tax rate	40.9 %	35.2 %	36.9 %

Table of Contents

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities were:

	January 31, 2010	February 3, 2009
Assets		
Deferred compensation	$2,377	$2,179
Interest rate swaps	21	79
Allowance for bad debts	649	832
State income taxes	290	510
Restructuring	14	17
Property, plant and equipment	90	298
Intangible assets	927	669
Charitable contribution carryforward	445	-
Other	171	172
Total deferred tax assets	4,984	4,756
Valuation allowance	(139)	-
	4,845	4,756
Liabilities		
Inventories	527	70
Employee benefits	360	379
Other	6	7
Total deferred tax liabilities	893	456
Net deferred tax asset	$3,952	$4,300

As of January 31, 2010, $3.3 million of deferred income taxes was classified as “other long-term assets” and $701,000 was classified as “other current assets” in the consolidated balance sheets. At February 1, 2009, $3.5 million of deferred income taxes was classified as “other long-term assets” and $835,000 was classified as “other current assets” in the consolidated balance sheets. A valuation allowance of $139,000 was established during the fiscal year ending January 31, 2010 against certain state net operating losses being carried forward. We expect to fully utilize the remaining deferred tax assets in future periods when the amounts become deductible.

During the fiscal year ending January 31, 2010, we sold $163,000 of state income tax credits that we were not able to use or carryforward. At January 31, 2010 and February 1, 2009, we had state income tax credit carry forwards of $141,000 and $340,000, respectively. The state loss and credit carryovers begin to expire in 2021 and 2012, respectively.

Table of Contents

During fiscal 2010, the term loans associated with our current and former interest rate swaps was repaid, making the swaps ineffective as a cash flow hedge. Therefore the classification of the deferred tax impact of the swaps was removed from "accumulated other comprehensive income" in the fiscal 2010 consolidated balance sheet. The related income taxes amounted to deferred expense of $87,000 in fiscal 2010, deferred expense of $276,000 in fiscal 2009 and deferred benefit of $76,000 in fiscal 2008.

On January 29, 2007, we adopted guidance that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also addresses de-recognition, classification, interest and penalties, accounting in interim periods and disclosures.

A reconciliation of beginning and ending unrecognized tax benefits is as follows:

Balance at January 29, 2007	$845,000
Increases due to positions taken during prior periods	45,000
Settlements	(890,000)
Balance at February 3, 2008	$-

We had no material unrecognized tax benefits at January 31, 2010 or February 1, 2009, and there were no material increases or decreases in unrecognized tax benefits during fiscal 2010 or fiscal 2009.

We have elected to classify interest and penalties recognized with respect to unrecognized tax benefits as income tax expense. During fiscal 2010 the Internal Revenue Service assessed a late payment penalty of $100,000. Based on the facts, we feel that our appeal will be accepted, and the penalty will ultimately be waived; but since we have not yet received confirmation of abatement, we have included the penalty as a federal tax expense. Interest and penalties charged to tax expense during 2008 were $24,000. No interest or penalties were accrued as of February 1, 2009 or February 3, 2008.

Tax years beginning December 1, 2005, through February 1, 2009 remain subject to examination by federal and state taxing authorities.

NOTE 15 –SUPPLIER COMMITMENTS

From May 2007 through September 2009, we advanced payments to, and provided financing guarantees for, one of our finished goods suppliers to facilitate the supplier's purchase of raw materials and other related items in order to help ensure timely delivery of finished goods to us. The balance of the advances and other miscellaneous amounts to this supplier at January 31, 2010 was $124,000. In order for the supplier to obtain additional bank financing, we issued a standby letter of credit on July 14, 2008 as security in the amount of $600,000. In conjunction with the issuance of the letter of credit, we entered into a security agreement with the supplier and the supplier's shareholders, which provides us with a security interest in certain assets of the supplier and its shareholders. During September 2009, prior to the expiration of the letter of credit, the supplier ceased operations, and defaulted on its bank notes, and its lender drew on our $600,000 letter of credit. Subsequently, we reimbursed our letter of credit provider for the $600,000. Due to the location and nature of the pledged collateral, we may incur substantial costs to obtain and foreclose on it. Consequently, we recorded:

- a charge of $300,000 during the third quarter of fiscal 2010 to write down the value of the pledged collateral to our estimate of its net realizable value ($300,000); and
-

charges totaling $124,000 during the our third and fourth quarters of fiscal 2010 to reserve against the potential uncollectability of the outstanding advances and other miscellaneous amounts due from the supplier.

The estimated net realizable amount for the pledged collateral of $300,000 as of January 31, 2010 is recorded in our consolidated balance sheets in “other assets.” Based on a recent appraisal, we believe that the net realizable value of the $300,000 is reasonable and approximates the collateral’s fair value. We are currently working with the supplier and its shareholders to have the pledged collateral conveyed to us.

Table of Contents

NOTE 16 – RESTRUCTURING CHARGES AND ASSETS HELD FOR SALE

We have incurred significant restructuring and asset impairment charges since 2000 in connection with the closing of our domestic wood furniture manufacturing facilities. These charges included severance and related benefits for terminated employees, asset impairment charges to write down real and personal property to fair market value (as determined based on market prices for similar assets in similar condition) less selling costs, and factory disassembly and other related costs to prepare each facility for sale.

We did not record restructuring and asset impairment charges in fiscal 2010.

Pretax restructuring and asset impairment charges and credits increased operating income by 0.4% of net sales in fiscal 2009 and decreased operating income by 0.1% of net sales in fiscal 2008.

During fiscal 2009 we recorded aggregate restructuring credits of $951,000 ($592,000 after tax, or $0.05 per share) principally for:

§ previously accrued health care benefits principally for the Martinsville and Roanoke, Va. facilities which are not expected to be paid ($834,000), and

§ previously accrued environmental monitoring costs at the Kernersville, N.C. and Martinsville, Va. facilities, which are not expected to be paid ($117,000).

During fiscal 2008 we recorded aggregate restructuring and asset impairment charges of $309,000 ($190,000 after tax, or $0.02 per share) principally for:

§ additional asset impairment, disassembly and exit costs associated with the March 2007 closing of the Martinsville, Va. domestic wood manufacturing facility ($553,000); net of

  § a restructuring credit of $244,000, principally for previously accrued health care benefits for the Pleasant Garden, N.C., Martinsville, Va. and Roanoke, Va. facilities, which are not expected to be paid.

The following table sets forth the significant components of and activity related to the accrued restructuring and asset impairment charges for fiscal years 2008, 2009 and 2010:

	Severance and Related Benefits	Asset Impairment	Other	Pretax Amount	After-tax Amount
Accrued balance at January 28, 2007	2,983	-	200	3,183	
Restructuring charges accrued during fiscal 2008	(244)	25	528	309	$190
Non-cash charges	-	(25)	-	(25)	
Cash payments	(1,910)	-	(535)	(2,445)	
Accrued balance at February 3, 2008	829	-	193	1,022	
Restructuring credits accrued during fiscal 2009	(834)	-	(117)	(951)	$(592)

Cash payments	5	-	(31)	(26)
Accrued balance at February 1, 2009	-	-	45	45
Restructuring charges accrued during fiscal 2010				
Non-cash charges	-	-	-	-
Cash payments	-	-	(7)	(7)
Accrued balance at January 31, 2010	$-	$-	$38	$38

Accrued restructuring charges are included in "accrued salaries, wages and benefits," "other accrued expenses" and "other long-term liabilities" in the consolidated balance sheets. The expenses are included in "restructuring (credits) charges" in the consolidated statements of operations.

Table of Contents

NOTE 17 – SEGMENT INFORMATION

We are organized and report our results of operations in one operating segment that designs, imports, manufactures and markets residential furniture products, principally in North America. The nature of the products, production processes, distribution methods, types of customers and regulatory environment are similar for substantially all of our products.

NOTE 18 – COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS

We lease warehousing facilities, showroom space, and office and computer equipment under leases expiring over the next five years. Rent expense was $2.2 million in fiscal 2010, $2.5 million in fiscal 2009, and $2.2 million in fiscal 2008. Future minimum annual commitments under leases and operating agreements amount to $2.2 million in fiscal 2011, $1.4 million in fiscal 2012, $869,000 in fiscal 2013, $830,000 in fiscal 2014, and $268,000 in fiscal 2015.

We had letters of credit outstanding totaling $1.9 million on January 31, 2010. We utilize letters of credit to collateralize certain imported inventory purchases and certain insurance arrangements.

In the ordinary course of its business, we may become involved in legal proceedings involving contractual and employment relationships, product liability claims, intellectual property rights and a variety of other matters. We do not believe that any pending legal proceedings will have a material impact on our financial position or results of operations.

NOTE 19 – CONCENTRATIONS OF SOURCING RISK

We source imported products through over 36 different vendors, from 39 separate factories, located in seven countries. Because of the large number and diverse nature of the foreign factories from which we can source our imported products, we have some flexibility in the placement of products in any particular factory or country.

Factories located in China have become an important resource for Hooker Furniture. In fiscal year 2010, imported products sourced from China accounted for approximately 94% of import purchases, and the factory in China from which we directly source the most product accounted for approximately 42% of our worldwide purchases of imported product. A sudden disruption in our supply chain from this factory, or from China in general, could significantly impact our ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, we believe that we would have sufficient inventory to adequately meet demand for approximately four months. Also, with the broad spectrum of product we offer, we believe that, in some cases, buyers could be offered similar product available from alternative sources. We believe that we could, most likely at higher cost, source most of the products currently sourced in China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for approximately six months. If we were to be unsuccessful in obtaining those products from other sources, or at comparable cost, then a sudden disruption in the supply chain from our largest import furniture supplier, or from China in general, could have a short-term material adverse effect on our results of operations. Given the capacity available in China and other low-cost producing countries, we believe the risks from these potential supply disruptions are manageable.

Table of Contents

NOTE 20 – QUARTERLY DATA (Unaudited)

	Fiscal Quarter			
	First	Second	Third	Fourth
2010				
Net sales	$52,063	$45,978	$52,605	$52,701
Cost of sales	40,836	36,283	39,928	37,884
Gross profit	11,227	9,695	12,677	14,817
Selling and administrative expenses	11,181	10,254	10,894	9,627
Intangible asset impairment charges (credits)	673	(60)		661
Net (loss) income	(456)	(463)	957	2,970
Basic and diluted earnings per share	$(0.04)	$(0.04)	$0.09	$0.28
2009				
Net sales	$71,027	$64,628	$68,996	$56,511
Cost of sales	54,291	50,501	53,319	42,767
Gross profit	16,736	14,127	15,677	13,744
Selling and adminstrative expenses	12,786	11,264	11,530	10,400
Intangible asset impairment charges (credits)	-	-	-	4,914
Restructuring (credits)	-	(258)	(561)	(132)
Net income (loss)	2,605	2,074	2,950	(719)
Basic and diluted earnings per share	$0.23	$0.18	$0.27	$(0.07)

During the fourth quarter of fiscal 2010, we recorded an approximate $700,000 favorable adjustment to our worker's compensation accrual due to the exit from our captive insurance arrangement. During fiscal 2009, we recorded $4.9 million ($3.1 million after tax, or $0.28 per share) in goodwill and intangible asset impairment charges.

Earnings per share for each fiscal quarter is derived using the weighted average number of shares outstanding during that quarter. Earnings per share for the fiscal year is derived using the weighted average number of shares outstanding on an annual basis. Consequently, the sum of earnings per share for the quarters may not equal earnings per share for the full fiscal year.

NOTE 21 – SUBSEQUENT EVENTS

We have evaluated events that occurred subsequent to January 31, 2010 through the financial statement issuance date.

Dividend

At its April 13, 2010 meeting, our board of directors declared a quarterly cash dividend of $0.10 per share, payable on May 28, 2010 to shareholders of record at May 14, 2010.

Casualty Loss

On March 10, 2010, we experienced a small fire at one of our warehouse facilities in Martinsville, Va. The fire was contained to an area of approximately 2,000 square feet within a 580,000 square foot facility. Based on current estimates, we believe that the costs associated with the fire will exceed our insurance deductible of $500,000. We expect that amounts in excess of our deductible will be fully covered by the insurance policy in force at the time of the fire.

F-27