UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2011

Commission File Number: 001-32739

HealthSpring, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1821898**
(State or Other Jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization)	**Identification No.)**
9009 Carothers Parkway	
Suite 501	
Franklin, Tennessee	**37067**
(Address of Principal Executive Offices)	**(Zip Code)**

(615) 291-7000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated Filer	x	Accelerated Filer	¨
Non-accelerated Filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

	Outstanding at August 1, 2011
Common Stock, Par Value $0.01 Per Share	**67,900,492 Shares**

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

HEALTHSPRING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 260,977	$ 191,459
Accounts receivable, net	356,260	168,893
Funds due for the benefit of members		83,429
Deferred income taxes	18,757	15,459
Prepaid expenses and other assets	13,510	17,481
Total current assets	649,504	476,721
Investment securities available for sale	572,656	551,207
Property and equipment, net	66,504	60,017
Goodwill	839,001	839,001
Intangible assets, net	345,980	365,884
Restricted investments	28,698	29,136
Risk corridor receivable from CMS	51,174	
Other assets	54,756	26,637
Total assets	$ 2,608,273	$ 2,348,603
Liabilities and Stockholders Equity		
Current liabilities:		
Medical claims liability	$ 447,118	$ 350,217
Accounts payable, accrued expenses and other	68,970	101,915
Book overdraft		19,629
Risk corridor payable to CMS	6,570	7,780
Funds held for the benefit of members	30,458	
Current portion of long-term debt	37,350	61,226
Total current liabilities	590,466	540,767
Deferred income taxes	104,621	104,301
Long-term debt, less current portion	307,436	565,649
Other long-term liabilities	6,951	5,755
Total liabilities	1,009,474	1,216,472
Stockholders equity:		
	720	619

Common stock, $.01 par value, 180,000,000 shares authorized, 71,995,822 issued and 67,901,158 outstanding at June 30, 2011, and 61,905,457 issued and 57,850,709 outstanding at December 31, 2010		
Additional paid-in capital	904,946	569,024
Retained earnings	751,130	622,988
Accumulated other comprehensive income, net	5,363	1,495
Treasury stock, at cost, 4,094,664 shares at June 30, 2011, and 4,054,748 shares at December 31, 2010	(63,360)	(61,995)
Total stockholders equity	1,598,799	1,132,131
Total liabilities and stockholders equity	$ 2,608,273	$ 2,348,603

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPRING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

(unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue:				
Premium revenue	$ 1,362,733	$ 756,342	$ 2,748,869	$ 1,505,720
Management and other fees	15,236	10,590	27,665	20,778
Investment income	3,382	1,547	6,706	2,423
Total revenue	1,381,351	768,479	2,783,240	1,528,921
Operating expenses:				
Medical expense	1,106,962	604,933	2,277,375	1,217,452
Selling, general and administrative	120,765	66,216	256,950	142,746
Depreciation and amortization	15,854	7,510	30,616	15,297
Interest expense	5,978	2,254	16,254	12,225
Total operating expenses	1,249,559	680,913	2,581,195	1,387,720
Income before income taxes	131,792	87,566	202,045	141,201
Income tax expense	(47,870)	(31,791)	(73,903)	(51,625)
Net income	$ 83,922	$ 55,775	$ 128,142	$ 89,576
Net income per common share:				
Basic	$ 1.25	$ 0.98	$ 2.05	$ 1.57
Diluted	$ 1.23	$ 0.98	$ 2.01	$ 1.56
Weighted average common shares outstanding:				
Basic	66,993,009	56,917,219	62,420,033	57,069,994
Diluted	68,157,850	57,049,980	63,637,734	57,302,567

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPRING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 128,142	$ 89,576
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	30,616	15,297
Share-based compensation	4,974	4,777
Amortization of deferred financing cost	4,469	958
Amortization on bond investments	4,724	1,088
Equity in earnings of unconsolidated affiliate	(206)	(228)
Deferred tax benefit	(5,255)	(5,501)
Write-off of deferred financing fees		5,079
Increase (decrease) in cash due to:		
Accounts receivable	(219,715)	(121,229)
Prepaid expenses and other assets	3,894	(13,850)
Medical claims liability	96,901	14,222
Accounts payable, accrued expenses, and other current liabilities	(33,890)	(7,042)
Risk corridor payable to/receivable from CMS	(52,384)	(25,539)
Other	1,349	1,598
Net cash used in operating activities	(36,381)	(40,794)
Cash flows from investing activities:		
Additional consideration paid on acquisition		(610)
Purchases of property and equipment	(17,774)	(5,544)
Purchases of investment securities	(91,299)	(327,257)
Maturities of investment securities	45,436	50,075
Sales of investment securities	25,863	51,666
Purchases of restricted investments	(11,572)	(32,522)
Maturities of restricted investments	11,982	28,025
Other	85	87
Net cash used in investing activities	(37,279)	(236,080)
Cash flows from financing activities:		
Funds received for the benefit of the members	1,027,785	416,917
Funds withdrawn for the benefit of members	(913,898)	(388,385)
Proceeds from the issuance of common stock, net	301,464	
Proceeds received on issuance of debt		200,000
Payments on long-term debt	(282,089)	(266,347)
Excess tax benefit from stock options exercised	6,660	124
Proceeds from stock options exercised	22,926	477
Change in book overdraft	(19,629)	
Purchase of treasury stock		(14,304)

Payment of debt issue costs	(41)	(7,334)
Net cash provided by (used in) financing activities	143,178	(58,852)
Net increase (decrease) in cash and cash equivalents	69,518	(335,726)
Cash and cash equivalents at beginning of period	191,459	439,423
Cash and cash equivalents at end of period	$ 260,977	$ 103,697
Supplemental disclosures:		
Cash paid for interest	$ 13,085	$ 6,050
Cash paid for taxes	$ 86,905	$ 55,628

See accompanying notes to condensed consolidated financial statements.

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HEALTHSPRING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Organization and Basis of Presentation

HealthSpring, Inc., a Delaware corporation (the Company), was organized in October 2004 and began operations in March 2005 in connection with a recapitalization transaction accounted for as a purchase. The Company is a managed care organization whose primary focus is on Medicare, the federal government sponsored health insurance program primarily for persons aged 65 and older, qualifying disabled persons, and persons suffering from end-stage renal disease. Through its health maintenance organization (HMO) and regulated insurance subsidiaries, the Company operates Medicare Advantage health plans in the states of Alabama, Delaware, Florida, Georgia, Illinois, Maryland, Mississippi, New Jersey, Pennsylvania, Tennessee, Texas, and the District of Columbia and also offers both national and regional stand-alone Medicare Part D prescription drug plans (PDPs). The Company also provides management services to physician practices.

The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements and notes thereto of HealthSpring, Inc. as of and for the year ended December 31, 2010, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission (the SEC) on February 25, 2011 (the 2010 Form 10-K).

The accompanying unaudited condensed consolidated financial statements reflect the Company s financial position as of June 30, 2011 and the Company s results of operations for the three and six months ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the Exchange Act). Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations applicable to interim financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normally recurring accruals) necessary to present fairly the Company s financial position at June 30, 2011, its results of operations for the three and six months ended June 30, 2011 and 2010, and its cash flows for the six months ended June 30, 2011 and 2010.

The results of operations for the 2011 interim periods are not necessarily indicative of the operating results that may be expected for the full year ending December 31, 2011.

The preparation of the condensed consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. The most significant item subject to estimates and assumptions is the actuarial calculation for obligations related to medical claims. Other significant items subject to estimates and assumptions include the Company s estimated risk adjustment payments receivable from the Centers for Medicare & Medicaid Services (CMS), the valuation of goodwill and intangible assets, the useful life of definite-lived intangible assets, the valuation of debt securities carried at fair value, and certain amounts recorded related to the Company s Part D operations, including risk corridor adjustments and rebates. Actual results could differ significantly from those estimates and assumptions.

The accompanying unaudited condensed consolidated financial statements also include the accounts of variable interest entities (VIEs) of which the Company is the primary beneficiary. As of November 30, 2010, in connection with the acquisition of Bravo Health, Inc. (Bravo Health), the Company holds interest in certain physician practices that are considered VIEs because the physician practices may not have sufficient capital to finance their activities separate from the revenue received from the Company. The Company is deemed to be the primary beneficiary and, under the VIE accounting rules, is deemed to control the physician entities, which have been

HEALTHSPRING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

consolidated. Revenues and net loss from VIEs were $4.3 million and $128,000, respectively, for the three months ended June 30, 2011 and $8.5 million and $362,000, respectively, for the six months ended June 30, 2011. Total assets of VIEs were $3.3 million as of June 30, 2011. The Company held no variable interests requiring consolidation prior to November 30, 2010.

The Company s regulated insurance subsidiaries are restricted from making distributions without appropriate regulatory notifications and approvals or to the extent such distributions would cause non-compliance with statutory capital requirements. At June 30, 2011, $690.8 million of the Company s $862.3 million of cash, cash equivalents, investment securities, and restricted investments were held by the Company s regulated insurance subsidiaries and subject to these restrictions.

(2) Recently Adopted Accounting Pronouncements

Effective January 1, 2010, the Company adopted the Financial Accounting Standards Board s (FASB s) updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, effective January 1, 2011, the Company adopted FASB s updated guidance requiring a reporting entity to disclose separately Level 3 information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. The updated guidance also requires an entity to should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The guidance was effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements, which were effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the updated guidance for fair value measurements did not have an impact on the Company s consolidated results of operations or financial condition.

In December 2010, FASB provided additional guidance on disclosure of supplementary pro forma information for business combinations. The guidance provided by FASB resolves uncertainty related to pro forma disclosures by indicating that revenue and earnings of the combined entity should be presented as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. These rules are effective on or after the beginning of the first annual reporting period beginning on or after December 15, 2010; with early adoption permitted. As these rules pertain to disclosure items only, the adoption of such rules will not have an impact on the Company s consolidated results of operations or financial condition.

(3) Acquisition of Bravo Health, Inc.

On November 30, 2010, the Company acquired all the of the outstanding stock of Bravo Health, Inc., an operator of Medicare Advantage coordinated care plans in Pennsylvania, the Mid-Atlantic region, and Texas, and a Medicare Part D stand-alone prescription drug plan in 43 states and the District of Columbia. The Company acquired Bravo Health for approximately $545.0 million in cash, subject to a post-closing positive or negative adjustment (not to exceed $10.0 million). The estimated fair value of the contingent consideration resulting from such post-closing adjustment was $10.0 million as of December 31, 2010. As a result of finalizing the post-closing adjustment for $7.0 million, the Company recorded income of $3.0 million during the three months ended June 30, 2011. Such amount is included in management and other fee revenue on the Company s condensed consolidated statements of income. The Company expects the final post-closing adjustment of $7.0 million to be paid to sellers during the three months ended September 30, 2011.

The Company s acquisition of Bravo Health was funded by borrowings of approximately $480.0 million under a new credit facility and the use of cash on hand. The Company s new credit facility is described in Note 14 Debt . The results of operations for Bravo Health are included in the Company s consolidated financial statements beginning December 1, 2010.

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HEALTHSPRING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Purchase Price Allocation

The total preliminary purchase price and the fair value of contingent consideration were allocated to the net tangible and intangible assets based upon their fair values as of November 30, 2010. The excess of the preliminary purchase price over the net tangible and intangible assets was recorded as goodwill. The areas of the preliminary purchase price allocation that are not yet finalized relate to both current and non-current deferred taxes which are subject to change, pending the finalization of certain tax returns.

Unaudited Pro Forma Information

The following summary of unaudited pro forma financial information presents revenue, net income and per share data of the Company, as if the acquisition of Bravo Health had occurred at the beginning of the period presented:

(dollars in thousands, except per share data)	Three Months ended June 30, 2010	Six Months ended June 30, 2010
Revenue	$ 1,192,518	$ 2,363,273
Net income available to common stockholders	63,259	95,069
Pro forma earnings per share:		
Basic	$ 1.11	$ 1.67
Diluted	$ 1.11	$ 1.66

The unaudited pro forma information includes the results of operations for Bravo Health for the period prior to the acquisition, with adjustments to give effect to pro forma events that are directly attributable to the acquisition and have a continuing impact, but excludes the impact of pro forma events that are directly attributable to the acquisition and are one-time occurrences. The pro forma information includes adjustments for interest expense on long-term debt and reduced investment income related to the cash used to fund the acquisition, additional depreciation and amortization associated with the purchase, and the related income tax effects. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma financial information is presented for informational purposes only and may not be indicative of the results of operations had Bravo Health been owned by the Company for the period presented, nor is it necessarily indicative of future results of operations.

(4) Accounts Receivable

Accounts receivable at June 30, 2011 and December 31, 2010 consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Medicare premium receivables	$ 180,350	$ 59,030
Rebates	140,383	90,148
Due from providers	35,414	19,126
Other	9,736	5,106
	365,883	173,410
Allowance for doubtful accounts	(9,623)	(4,517)

	$ 356,260	$ 168,893

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Medicare premium receivables at June 30, 2011 and December 31, 2010 include $171.5 million and $52.2 million, respectively, of receivables from CMS related to the accrual of retroactive risk adjustment payments. Such balance at June 30, 2011 will be collected from CMS in the 2011 third quarter. Additionally, as of June 30, 2011 $32.3 million of receivables from CMS related to the accrual of retroactive risk adjustment payments is classified as non-current and included in other assets on the Company s condensed consolidated balance sheet. Accounts receivable relating to unpaid health plan enrollee premiums are recorded during the period the Company is obligated to provide services to enrollees and do not bear interest. The Company does not have any off-balance sheet credit exposure related to its health plan enrollees.

Rebates for drug costs represent estimated rebates owed to the Company from prescription drug companies. The Company has entered into contracts with certain drug manufacturers which provide for rebates to the Company based on the utilization of specific prescription drugs by the Company s members. Due from providers primarily includes management fees receivable as well as amounts owed to the Company for the refund of certain medical expenses paid by the Company under risk sharing agreements.

(5) Investment Securities

Investment securities, which consist primarily of debt securities, have been categorized as available for sale. The Company holds no held to maturity or trading securities. Investment securities are classified as non-current assets based on the Company s intention to reinvest such assets upon sale or maturity and to not use such assets in current operations.

Available for sale securities are recorded at fair value. Unrealized gains and losses (net of applicable deferred taxes) on available for sale securities are included as a component of stockholders equity and comprehensive income until realized from a sale or other than temporary impairment. Realized gains and losses from the sale of securities are determined on a specific identification basis. Purchases and sales of investments are recorded on their trade dates. Dividend and interest income are recognized when earned.

Available for sale securities at June 30, 2011 and December 31, 2010 were as follows (in thousands):

	June 30, 2011			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Government obligations	$ 32,772	319		33,091
Agency obligations	19,972	106	(40)	20,038
Corporate debt securities	201,482	3,187	(144)	204,525
Mortgage-backed securities (Residential)	178,039	2,651	(489)	180,201
Mortgage-backed securities (Commercial)	1,513		(4)	1,509
Other structured securities	14,023	395		14,418
Municipal bonds	116,448	2,430	(4)	118,874
	$ 564,249	9,088	(681)	572,656

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HEALTHSPRING, INC. AND SUBSIDIARIES

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(unaudited)

	December 31, 2010			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Government obligations	$ 28,228	123	(53)	28,298
Agency obligations	33,712	77	(251)	33,538
Corporate debt securities	196,109	1,726	(741)	197,094
Mortgage-backed securities (Residential)	154,612	1,243	(653)	155,202
Mortgage-backed securities (Commercial)	6,374	76	(150)	6,300
Other structured securities	14,138	228	(38)	14,328
Municipal bonds	115,758	1,158	(469)	116,447
	$ 548,931	4,631	(2,355)	551,207

Realized gains or losses related to investment securities for the three and six months ended June 30, 2011 and 2010 were immaterial.

Maturities of investments at June 30, 2011 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$ 37,631	37,826
Due after one year through five years	301,314	306,196
Due after five years through ten years	30,890	31,664
Due after ten years	839	842
Mortgage and asset-backed securities	193,575	196,128
	$ 564,249	572,656

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2011, were as follows (in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Agency obligations	$ (40)	2,987			(40)	2,987
Corporate debt securities	(144)	29,643			(144)	29,643
Mortgage-backed securities (Residential)	(489)	47,155			(489)	47,155
Mortgage-backed securities (Commercial)	(4)	1,355			(4)	1,355
Municipal bonds	(4)	1,371			(4)	1,371

	$ (681)	82,511	(681)	82,511

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010, were as follows (in thousands):

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HEALTHSPRING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Government obligations	$ (53)	12,924			(53)	12,924
Agency obligations	(251)	25,930			(251)	25,930
Corporate debt securities	(741)	91,908			(741)	91,908
Mortgage-backed securities (Residential)	(653)	78,537			(653)	78,537
Mortgage-backed securities (Commercial)	(150)	5,840			(150)	5,840
Other structured securities	(38)					
6.750%, due 02/01/40	325,000	404,504				
Southern California Edison Co.,						
4.050%, due 03/15/42	175,000	182,517				
6.650%, due 04/01/29	320,000	420,082				
Southern Copper Corp.,						
6.750%, due 04/16/40	250,000	264,740				
Southern Natural Gas Co.,						
8.000%, due 03/01/32	430,000	557,692				

Sprint Capital Corp.,		
6.875%, due 11/15/28	200,000	161,000
SunTrust Bank,		
7.250%, due 03/15/18	495,000	572,861
Swiss Re Solutions Holding Corp.,		
7.000%, due 02/15/26	295,000	346,636
Target Corp.,		
6.350%, due 11/01/32	315,000	417,974
6.500%, due 10/15/37	185,000	246,406
7.000%, due 01/15/38	105,000	147,496
Time Warner Cable, Inc.,		
7.300%, due 07/01/38	600,000	770,599
8.750%, due 02/14/19	410,000	545,125
Time Warner, Inc.,		
7.625%, due 04/15/31	710,000	917,065
Tupperware Brands Corp.,		
4.750%, due 06/01/21	355,000	367,767
Union Pacific Corp.,		
5.780%, due 07/15/40	180,000	223,933
United Technologies Corp.,		
4.500%, due 06/01/42	250,000	274,601
5.700%, due 04/15/40	290,000	367,799
6.700%, due 08/01/28	160,000	210,241
UnitedHealth Group, Inc.,		
5.800%, due 03/15/36	50,000	61,697
6.875%, due 02/15/38	300,000	417,036
Valero Energy Corp.,		
6.625%, due 06/15/37	150,000	168,193
7.500%, due 04/15/32	465,000	538,726
Verizon New York, Inc.,		
Series B, 7.375%, due 04/01/32	1,085,000	1,343,531
Viacom, Inc.,		
4.500%, due 02/27/42	300,000	294,823
Virginia Electric & Power Co.,		
6.350%, due 11/30/37	165,000	224,630
Vornado Realty LP, REIT,		
4.250%, due 04/01/15	880,000	928,056
Wal-Mart Stores, Inc.,		
6.500%, due 08/15/37	600,000	846,252
Washington Mutual Bank,		
5.500%, due 01/15/13[3,4]	750,000	75
Wells Fargo & Co.,		
2.100%, due 05/08/17	300,000	300,671
Wells Fargo Bank N.A.,		
5.950%, due 08/26/36	450,000	530,877
Wells Fargo Capital X,		
5.950%, due 12/15/36	475,000	476,781
Williams Cos., Inc.,		
8.750%, due 03/15/32	177,000	240,193
Williams Partners LP,		
6.300%, due 04/15/40	275,000	325,685
Wisconsin Power & Light Co.,		
7.600%, due 10/01/38	175,000	278,471
WM Wrigley Jr. Co.,		
3.700%, due 06/30/14[1]	465,000	480,445
Xcel Energy, Inc.,		
4.800%, due 09/15/41	475,000	531,533
Xerox Corp.,		
6.350%, due 05/15/18	540,000	629,565

Total United States corporate bonds	76,721,288
Total corporate bonds (cost $83,771,622)	92,440,001

Asset-backed securities 0.60%		
United States 0.60%		
Ameriquest Mortgage Securities, Inc.,		
Series 2005-R6, Class A2,		
0.445%, due 08/25/35[2]	72,305	69,605
Citibank Credit Card Issuance Trust,		
Series 2007-A3, Class A3,		
6.150%, due 06/15/39	390,000	528,328
Continental Airlines, Inc.,		
Series 2009-2, Class A,		
7.250%, due 11/10/19	270,524	305,015
Total asset-backed securities		
(cost $714,972)		902,948
Commercial mortgage-backed securities 0.66%		
United States 0.66%		
Banc of America Commercial Mortgage, Inc.,		
Series 2007-2, Class AM,		
5.644%, due 04/10/49[2]	475,000	482,171
JP Morgan Chase Commercial Mortgage Securities Corp.,		
Series 2007-LD11, Class A4,		
5.815%, due 06/15/49[2]	475,000	521,457
Total commercial mortgage-backed securities		
(cost $883,908)		1,003,628
Mortgage & agency debt securities 9.14%		
United States 9.14%		
Federal Home Loan Mortgage Corp.,[5]		
5.000%, due 01/30/14	30,000	32,198
Federal Home Loan Mortgage Corp. Gold Pools,[5]		
#E01127, 6.500%, due 02/01/17	37,037	39,894
Federal National Mortgage Association Pools,[5]		
#AE1568, 4.000%, due 09/01/40	746,337	795,584
#AI7381, 4.000%, due 09/01/41	1,942,636	2,071,429
#AL0160, 4.500%, due 05/01/41	1,086,001	1,168,814
#688066, 5.500%, due 03/01/33	163,690	181,851
#793666, 5.500%, due 09/01/34	698,260	770,708
#802481, 5.500%, due 11/01/34	141,694	156,396
#596124, 6.000%, due 11/01/28	110,205	122,789
#253824, 7.000%, due 03/01/31	62,441	73,753
Federal National Mortgage Association Re-REMIC,[5]		
Series 1993-106, Class Z,		
7.000%, due 06/25/13	6,638	6,795
Government National Mortgage Association Pools,		
#4696, 4.500%, due 05/20/40	6,283,758	6,943,182
#781029, 6.500%, due 05/15/29	34,142	40,211
GSR Mortgage Loan Trust,		
Series 2006-2F, Class 3A4,		
6.000%, due 02/25/36	1,219,190	1,117,009
Wells Fargo Mortgage Backed Securities Trust,		
Series 2003-18, Class A2,		
5.250%, due 12/25/33	296,058	308,184
Total mortgage & agency debt securities		
(cost $13,637,790)		13,828,797

Municipal bonds 6.96%		
California 1.07%		
Los Angeles Unified School District,		
6.758%, due 07/01/34	150,000	194,469
State of California, GO,		
7.300%, due 10/01/39	570,000	712,067
7.550%, due 04/01/39	365,000	472,850
University of California Revenue Bonds,		
Series 2009, 5.770%, due 05/15/43	195,000	237,970
		1,617,356
Georgia 0.12%		
Municipal Electric Authority of Georgia Revenue Bonds,		
6.637%, due 04/01/57	150,000	174,922
Illinois 1.47%		
Illinois State Taxable Pension,		
Series 2003, 5.100%, due 06/01/33	2,350,000	2,218,494
Massachusetts 0.10%		
Commonwealth of Massachusetts, GO,		
5.456%, due 12/01/39	125,000	156,780
New Jersey 3.30%		
New Jersey Economic Development		
Authority Revenue Bonds,		
Series B, 4.851%, due 02/15/18[6]	5,000,000	4,126,300
New Jersey State Turnpike Authority Revenue Bonds,		
Series F, 7.414%, due 01/01/40	140,000	204,873
New Jersey Transportation Trust Fund		
Authority Revenue Bonds,		
6.561%, due 12/15/40	500,000	671,395
		5,002,568
New York 0.39%		
Metropolitan Transportation Authority Revenue Bonds,		
6.668%, due 11/15/39	200,000	261,002
New York State Urban Development Corp. Revenue Bonds,		
5.770%, due 03/15/39	265,000	328,179
		589,181
Pennsylvania 0.22%		
Commonwealth of Pennsylvania, GO,		
5.350%, due 05/01/30	300,000	332,970
Tennessee 0.22%		
Metropolitan Government of Nashville &		
Davidson County Convention Center		
Authority Revenue Bonds,		
6.731%, due 07/01/43	300,000	339,021
Texas 0.07%		
Texas Transportation Commission Revenue Bonds,		
Series B, 5.178%, due 04/01/30	90,000	109,841

Total municipal bonds		
(cost $9,089,180)		10,541,133
US government obligations 17.01%		
US Treasury Bonds,		
3.125%, due 11/15/41	4,305,000	4,627,875
3.125%, due 02/15/42	8,125,000	8,726,754
US Treasury Notes,		
0.250%, due 05/31/14	45,000	44,944
0.625%, due 05/31/17	1,540,000	1,532,902
0.875%, due 04/30/17	2,890,000	2,911,900
1.750%, due 05/15/22	1,845,000	1,859,991
2.000%, due 02/15/22	5,840,000	6,036,644
Total US government obligations		
(cost $25,030,735)		25,741,010

Non-US government obligations 2.62%		
Brazil 1.64%		
Brazilian Government International Bond,		
8.250%, due 01/20/34	900,000	1,410,750
8.875%, due 04/15/24	700,000	1,081,500
		2,492,250
Mexico 0.98%		
United Mexican States,		
4.750%, due 03/08/44	225,000	241,313
8.300%, due 08/15/31	800,000	1,238,000
		1,479,313
Total Non-US government obligations		
(cost $3,077,296)		3,971,563
Supranational bond 0.17%		
Inter-American Development Bank,		
7.000%, due 06/15/25		
(cost $244,539)	175,000	250,515
Total bonds		
(cost $136,450,042)		148,679,595
	Shares	
Common stocks 0.01%		
United States 0.01%		
Washington Mutual Funding Tranche III[*3,7]	1,300	13
WMI Holdings Corp.[*]	25,741	12,870
Total common stocks		
(cost $14,157)		12,883
Preferred stock 0.02%		
United States 0.02%		
Ally Financial, Inc.,		
7.000%[1,8]		
(cost $34,713)	42	37,418
Short-term investment 0.89%		
Investment company 0.89%		
UBS Cash Management Prime Relationship Fund[9]		
(cost $1,340,456)	1,340,456	1,340,456
Total investments[10] 99.15%		
(cost $137,839,368)		150,070,352
Cash and other assets, less liabilities 0.85%		1,289,594
Net assets 100.00%		$ 151,359,946

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	$ 14,587,977
Gross unrealized depreciation	(2,356,993)
Net unrealized appreciation of investments	$ 12,230,984

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 the end of this report.

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 securities or instruments 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, periodic internal audit reviews and annual review of securities valuations by the Fund s independent auditors.

The types of securities or instruments for which such fair value pricing may be necessary include, but are not limited to: foreign securities and instruments under some circumstances, as discussed below, securities of an issuer that has entered into a restructuring; securities or instruments 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 securities or instruments that are restricted as to transfer or resale. The need to fair value a Fund s portfolio securities and other instruments may also result from low trading volume in foreign markets or thinly traded domestic securities or instruments, and when a security 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 a security s or instrument s fair value. These factors include, but are not limited to, fundamental analytical data relating to the investment; the nature and duration of restrictions on disposition of the securities or instruments; and the evaluation of forces which influence the market in which the securities or instruments are purchased and sold. Valuing securities and other instruments at fair value involves greater reliance on judgment than valuing securities and other instruments that have readily available market quotations. Fair value determinations can also involve reliance on quantitative models employed by a fair value pricing service.

US generally accepted accounting principles (GAAP) requires disclosure regarding the various inputs that are used in determining the value of the Fund s investments. These inputs are summarized into the three broad levels listed below:

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

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 value of investments.

In May 2011, FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (IFRS) (ASU 2011-04). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between US GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04 and its impact on the financial statements.

The following is a summary of the fair valuations according to the inputs used as of June 30, 2012 in valuing the Fund s investments:

Description	**Unadjusted quoted prices in active markets for identical investments (Level 1)**	**Other significant observable inputs (Level 2)**	**Unobservable inputs (Level 3)**	**Total**
Corporate bonds	$	$ 92,439,926	$ 75	$ 92,440,001
Asset-backed securities		902,948		902,948

Commercial mortgage-backed securities		1,003,628		1,003,628
Mortgage & agency debt securities		13,828,797		13,828,797
Municipal bonds		10,541,133		10,541,133
US government obligations		25,741,010		25,741,010
Non-US government obligations		3,971,563		3,971,563
Supranational bonds		250,515		250,515
Common stocks	12,870		13	12,883
Preferred stock		37,418		37,418
Short-term investment		1,340,456		1,340,456
Total	$ 12,870	$ 150,057,394	$ 88	$ 150,070,352

Level 3 rollforward disclosure

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

	Corporate bonds	Common stock	Total
Assets			
Beginning balance	$ 19,500	$	$ 19,500
Purchases			
Issuances		0	0
Sales	(14,157)		(14,157)
Settlements			
Accrued discounts (premiums)	5,799		5,799
Total realized gain (loss)	(1,288,995)		(1,288,995)
Change in net unrealized appreciation/depreciation	1,277,853	13	1,277,866
Transfers into Level 3[11]	75		75
Transfers out of Level 3			
Ending balance	**$ 75**	**$ 13**	**$ 88**

The change in net unrealized appreciation/depreciation relating to the Level 3 investments held at June 30, 2012 was $(609,021).

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 June 30, 2012, the value of these securities amounted to $5,913,585 or 3.91% of net assets.

[2] Variable or floating rate security The interest rate shown is the current rate as of June 30, 2012 and changes periodically.

[3] Security is being fair valued by a valuation committee under the direction of the Board of Trustees. At June 30, 2012, the value of these securities amounted to $88 or 0.00% of net assets.

[4] Security is in default.

[5] 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.

[6] Rate shown reflects annualized yield at June 30, 2012 on zero coupon bond.

[7] Security is illiquid. At June 30, 2012, the value of this security amounted to $13 or 0.00% of net assets.

[8] This security is subject to a perpetual call and may be called in full or partially on or anytime after August 1, 2012.

[9] The table below details the Fund s investment in a fund that is 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 09/30/11**	**Purchases during the nine months ended 06/30/12**	**Sales during the nine months ended 06/30/12**	**Value 06/30/12**	**Net income earned from affiliate for the nine months ended 06/30/12**
UBS Cash Management Prime Relationship Fund	$1,913,431	$57,332,732	$57,905,707	$1,340,456	$3,607

[10] The Fund calculates its net asset value based on the current market value, where available, for its portfolio securities. The Fund normally obtains market values for its securities and other instruments 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 securities or instruments. 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 portfolio securities or instruments. Securities and other instruments also may be valued based on appraisals derived from information concerning the security or instrument or similar securities or instruments received from recognized dealers in those holdings. Securities and instruments 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. Securities and instruments 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 securities or instruments are traded on more than one exchange, the securities or instruments 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. If a market value is not readily available from an independent pricing source for a particular security or instrument, that security or instrument is valued at fair value as determined in good faith by or under the direction of the Fund s Board of Directors (the Board). Various factors may be reviewed in order to make a good faith determination of a security s or instrument s fair value. These factors include, but are not limited to, fundamental analytical data relating to the investment; the nature and duration of restrictions on disposition of the securities or instruments; and the evaluation of forces which influence the market in which the securities or instruments are purchased and sold. Foreign currency exchange rates are generally determined as of the close of the New York Stock Exchange (NYSE). Certain securities or instruments 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 securities or instruments, the Fund may adjust the previous closing prices to reflect what the Board believes to be the fair value of these securities or instruments as of 4:00 p.m. Eastern Time. The amortized cost method of valuation, which approximates market value, generally is used to value short-term debt instruments with 60 days or less remaining to maturity, unless the Board determines that this does not represent fair value. 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. All investments quoted in foreign currencies will be valued daily in US dollars on the basis of the foreign currency exchange rates prevailing at the time such valuation is determined by the Fund s custodian.

[11] Transfers into Level 3 represent the value at the end of the period. At June 30, 2012, a security was transfered from Level 2 to Level 3 as the valuation is based on unobservable inputs.

Portfolio acronyms

GO	General Obligation
GSR	Goldman Sachs Residential
REIT	Real estate investment trust
Re-REMIC	Combined Real Estate Mortgage Investment Conduit

For more information regarding the Fund s other significant accounting policies, please refer to the Fund s semiannual report to shareholders dated March 31, 2012.

Item 2. Controls and Procedures.

(a) The registrant s principal executive officer and principal financial officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (Investment Company Act)) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) The registrant s principal executive officer and principal financial officer are aware of no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act) that occurred during the registrant s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 3. Exhibits.

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

SIGNATURES

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

Fort Dearborn Income Securities, Inc.

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

Date: August 29, 2012

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

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

Date: August 29, 2012

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

Date: August 29, 2012