BERKSHIRE INCOME REALTY INC
Form 10-Q
August 16, 2010

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, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File number 001-31659
Berkshire Income Realty, Inc.

Maryland (State or other jurisdiction of incorporation or organization)	32-0024337 (I. R. S. Employer Identification No.)
One Beacon Street, Boston, Massachusetts (Address of principal executive offices)	02108 (Zip Code)

(617) 523-7722
(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 o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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 o	Accelerated Filer o
Non-accelerated Filer x(Do not check if a smaller reporting company)	Smaller Reporting Company o

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

There were 1,406,196 shares of Class B common stock outstanding as of August 13, 2010.

BERKSHIRE INCOME REALTY, INC.

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Part I FINANCIAL INFORMATION
Item 1. CONSOLIDATED FINANCIAL STATEMENTS

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Multifamily apartment communities, net of accumulated depreciation of $184,762,420 and $168,718,977, respectively	$429,424,933	$441,983,721
Cash and cash equivalents	14,975,843	17,956,617
Cash restricted for tenant security deposits	1,602,741	1,875,771
Cash restricted other	-	12,621,014
Replacement reserve escrow	4,375,190	3,938,646
Prepaid expenses and other assets	9,123,155	10,092,883
Investment in Multifamily Venture Limited Partnership	8,513,193	11,201,249
Acquired in place leases and tenant relationships, net of accumulated amortization of $1,184,531 and $1,108,269 respectively	85,548	161,810
Deferred expenses, net of accumulated amortization of $1,989,487 and $1,880,816, respectively	3,737,393	3,413,587
Total assets	$471,837,996	$503,245,298
LIABILITIES AND DEFICIT		
Liabilities:		
Mortgage notes payable	$478,119,828	$474,830,728
Note payable, affiliate	-	15,720,000
Due to affiliates, net	1,506,928	2,149,628
Dividend and distributions payable	837,607	837,607
Accrued expenses and other liabilities	10,208,797	11,086,062
Tenant security deposits	1,854,414	1,838,501
Total liabilities	492,527,574	506,462,526
Commitments and contingencies (Note 9)	-	-
Deficit:		
Noncontrolling interest in properties	(48,103)	416,382
Noncontrolling interest in Operating Partnership	(50,852,875)	(34,251,501)
Series A 9% Cumulative Redeemable Preferred Stock, no par value, $25 stated value, 5,000,000 shares authorized, 2,978,110 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	70,210,830	70,210,830
Class A common stock, $.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	-	-
Class B common stock, $.01 par value, 5,000,000 shares authorized, 1,406,196 issued and outstanding at June 30, 2010 and December 31, 2009, respectively	14,062	14,062
Excess stock, $.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	-	-

Accumulated deficit	(40,013,492)	(39,607,001)
Total deficit	(20,689,578)	(3,217,228)
Total liabilities and deficit	$471,837,996	$503,245,298

The accompanying notes are an integral part of these financial statements.

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenue:				
Rental	$ 18,732,479	$18,600,158	$37,366,200	$36,174,362
Interest	2,797	34,077	7,880	81,671
Utility reimbursement	434,370	401,362	848,576	4,960,000

80,000	Goldman Sachs Group, Inc., 6.200%	1,975,200
12,840,000	HSBC Capital Funding LP, 9.547% (Channel Islands) (c)(d)	14,587,280
7,042,000	HSBC Capital Funding LP, 10.176% (Channel Islands) (c)(d)	9,890,595
100,000	HSBC Holdings PLC, Series A, 6.200% (United Kingdom)	2,323,000
140,500	Lehman Brothers Holdings, Inc., Series F, 6.500%	3,568,700
2,000,000	Lloyds TSB Bank PLC, 6.900% (United Kingdom)	1,970,000
80,000	LTC Properties, Inc., Series F, 8.000%	2,020,000
50,000	MetLife, Inc., Series B, 6.500%	1,255,000
21,000	Novastar Financial, Inc., Series C, 8.900%	506,100
245,000	Odyssey Re Holdings Corp., Series A, 8.125%	6,132,669
13,354,000	Old Mutual Capital	13,905,520

	Funding, 8.000%	
400,000	OMEGA Healthcare, Series D, 8.375%	10,280,000
31,000,000	Prudential PLC, 6.500% (United Kingdom)	29,983,696
400,000	Quanta Capital Holdings, 10.250% (Bermuda)	8,940,000
6,400,000	RBS Capital Trust B, 6.800%	6,314,016
5,750,000	Royal Bank Of Scotland Group PLC, 7.648% (United Kingdom) (d)	6,414,016
12,000,000	Royal Bank Of Scotland Group PLC, Series 1, 9.118% (United Kingdom)	13,377,072
600,000	Scottish Re Group Ltd., 7.250% (Cayman Islands) (d)	15,054,000
16,775,000	UBS Preferred Funding Trust I, 8.622% (d)	18,636,237
		276,909,919
	Utilities 0.5%	
80,000	Alabama Power Co., 5.300%	$ 1,920,000
120,000	PPL Electric Utilities Corp., 6.250%	3,030,000
		4,950,000
	Total Preferred Stocks (Cost $331,984,100)	324,038,419
	Convertible Preferred Stocks 4.7%	

	Financials 4.7%	
505	Fannie Mae, 5.375%	
	(Cost $49,831,000)	48,210,774
	Investment Companies 1.8%	
116,000	Cohen & Steers REIT and Preferred Income Fund, Inc.	3,137,800
271,200	Evergreen Income Advantage Fund	3,842,904
222,600	Hyperion Total Return Fund	1,903,230
215,000	Nuveen Preferred and Convertible Income Fund II	2,601,500
186,200	Nuveen Quality Preferred Income Fund II	2,539,768
272,200	Pioneer High Income Trust	4,564,794
6,400	Salomon Brothers Worldwide Income Fund, Inc.	83,584
	Total Investment Companies	
	(Cost $20,260,588)	18,673,580

See notes to financial statements.

DCS | Dreman/Claymore Dividend & Income Fund | **Portfolio of Investments** (unaudited) continued

Principal Amount		Value
	Corporate Bonds 0.8%	
	Financials 0.8%	
$2,000,000	Preferred Term Securities XI Ltd., NR Zero Coupon, 9/24/33 (c)	$ 1,632,500
3,000,000	Preferred Term Securities XIX Ltd., NR Zero Coupon, 12/22/35 (c)	2,712,600
2,000,000	Preferred Term Securities XX Ltd., NR Zero Coupon, 3/22/38 (c)	1,980,000
2,000,000	Preferred Term Securities XXI Ltd., NR Zero Coupon, 3/22/38	2,000,000
	Total Corporate Bonds (Cost $8,912,217)	8,325,100
	Master Limited Partnership 0.4%	
	Energy 0.4%	
4,000,000	Kodiak Funding, LP (e) (Cost $4,000,000)	3,985,771
	Total Long-Term Investments 139.8% (Cost $1,312,244,109)	1,435,478,532
	Short-Term Investments 1.1%	
	Money Market Fund 1.1%	
11,282,297	JP Morgan Prime Money Market Fund (Cost $11,282,297)	$ 11,282,297
	Total Investments 140.9% (Cost $1,323,526,406)	1,446,760,829
	Other Assets in Excess of Liabilities 0.5%	4,980,493
	Preferred Shares, at Liquidation Value (-41.4% of Net Assets Applicable to Common Shares or -29.4% of Total Investments)	(425,000,000)
	Net Assets Applicable to Common Shares 100.0%	**$ 1,026,741,322**

LP Limited Partnership

PLC Public Limited Company

REIT Real Estate Investment Trust

(a) All or a portion of these securities have been physically segregated in connection with open futures contracts.
(b) Non-income producing security.
(c) Securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At April 30, 2006, these securities amounted to 4.5% of net assets applicable to common shares.
(d) Floating or variable rate security.

(e) Security is valued in accordance with Fair Valuation procedures established in good faith by the Board of Trustees. The total market value of such securities is $3,985,771 which represents 0.4% of net assets applicable to common shares.

Ratings shown are per Standard & Poor s; securities classified NR are not rated by Standard & Poor s.

All percentages shown in the Portfolio of Investments are based on Net Assets Applicable to Common Shares unless otherwise noted.

See notes to financial statements.

DCS | Dreman/Claymore Dividend & Income Fund

Statement of **Assets and Liabilities | For the six months ended April 30,2006** (unaudited)

Assets	
Investments in securities, at value (cost $1,323,526,406)	$ 1,446,760,829
Dividends and interest receivable	5,000,323
Unrealized appreciation on interest rate swaps	4,090,639
Other assets	68,891
Total assets	1,455,920,682
Liabilities	
Payable for securities purchased	2,032,610
Advisory fee payable	997,553
Due to custodian	478,441
Dividends payable preferred shares	402,278
Administrative fee payable	18,635
Accrued expenses and other liabilities	249,843
Total liabilities	4,179,360
Preferred Shares, at redemption value	
$.01 par value per share; 17,000 Auction Market Preferred Shares authorized, issued and outstanding at $25,000 per share liquidation preference	425,000,000
Net Assets Applicable to Common Shareholders	$ 1,026,741,322
Composition of Net Assets Applicable to Common Shareholders	
Common stock, $.01 par value per share; unlimited number of shares authorized, 45,399,424 shares issued and outstanding	$ 453,994
Additional paid-in capital	859,670,266
Accumulated net unrealized appreciation on investments, futures and swap transactions	138,492,376
Accumulated undistributed net investment income	(8,882,344)
Accumulated net realized gain on investments, futures and swap transactions	37,007,030
Net Assets Applicable to Common Shareholders	$ 1,026,741,322
Net Asset Value Applicable to Common Shareholders (based on 45,399,424 common shares outstanding)	$ 22.62

See notes to financial statements.

DCS| Dreman/Claymore Dividend & Income Fund

Statement of **Operations | For the six months ended April 30,2006** (unaudited)

Investment Income		
Dividends (net of foreign withholding taxes of $274,935)	$ 30,863,247	
Interest (net of foreign withholding taxes of $247,669)	6,537,179	
Total income		$ 37,400,426
Expenses		
Advisory fee	5,906,528	
Auction agent fee-preferred shares	547,402	
Professional fees	123,888	
Fund accounting	116,683	
Administrative fee	116,623	
Transfer agent fee	88,192	
Trustees fees and expenses	84,938	
Custodian fee	79,594	
Printing expenses	66,172	
Insurance expense	37,118	
NYSE listing	18,535	
Miscellaneous	12,328	
Rating agency fee	6,878	
Total expenses		7,204,879
Net investment income		30,195,547
Realized and Unrealized Gain (Loss) on Investments, Futures and Swap Transactions		
Net realized gain (loss) on:		
Investments		30,274,211
Futures		19,022,938
Swaps		42,243
Net change in unrealized appreciation on:		
Investments		53,261,884
Futures		(5,061,470)
Swaps		1,722,377
Net gain on investments, futures and swap transactions		99,262,183
Distributions to Preferred Shares from		
Net investment income		(9,217,136)
Net Increase in Net Assets Applicable to Common Shareholders Resulting from Operations		$ 120,240,594

See notes to financial statements.

DCS | Dreman/Claymore Dividend & Income Fund

Statements of **Changes in Net Assets Applicable to Common Shareholders** |

	For the Six Months Ended April 30, 2006 (unaudited)	For the Year Ended October 31, 2005
Increase in Net Assets Applicable to Common Shareholders Resulting from Operations		
Net investment income	$ 30,195,547	$ 54,306,098
Net realized gain (loss) on investments, futures and swap transactions	49,339,392	(2,944,329)
Net change in unrealized appreciation (depreciation) on investments, futures and swap transactions	49,922,791	98,977,299
Distributions to Preferred Shares from		
Net investment income	(9,217,136)	(12,721,489)
Net increase in net assets applicable to Common Shareholders resulting from operations	120,240,594	137,617,579
Distributions to Common Shareholders		
From and in excess of net investment income	(29,509,626)	(58,895,935)
Return of Capital		(123,316)
Total distributions to Common Shareholders	(29,509,626)	(59,019,251)
Capital Share Transactions		
Net proceeds from the issuance of Common Shares		
Reinvestment of dividends		
Common and preferred share offering expenses charged to paid-in-capital		23,768
Net increase from capital share transactions		23,768
Total increase in net assets applicable to Common Shareholders	90,730,968	78,622,096
Net Assets		
Beginning of period	936,010,354	857,388,258
End of period (including accumulated undistributed net investment income of ($8,882,344) and ($351,129), respectively.)	$ 1,026,741,322	$ 936,010,354

See notes to financial statements.

DCS | Dreman/Claymore Dividend & Income Fund

Financial **Highlights** | (unaudited)

	For the Six Months Ended April 30, 2006 (unaudited)	For the Year Ended October 31, 2005	For the Period January 27, 2004[a] through October 31, 2004
Per share operating performance for a share of common stock outstanding throughout the period			
Net asset value, beginning of period	$ 20.62	$ 18.89	$ 19.10[b]
Income from investment operations			
Net investment income[a]	0.67	1.20	0.86
Net realized and unrealized gain (loss) on investments, futures and swap transactions	2.18	2.11	(0.18)
Distributions to preferred shares from net investment income and return of capital (common share equivalent basis)	(0.20)	(0.28)	(0.09)
Total from investment operations	2.65	3.03	0.59
Distributions to Common Shareholders			
From and in excess of net investment income	(0.65)	(1.30)	(0.65)
Return of capital		(0.00)[f]	
Total distributions to Common Shareholders	(0.65)	(1.30)	(0.65)
Common and preferred shares offering expenses charged to paid-in-capital			(0.15)
Net asset value, end of period	$ 22.62	$ 20.62	$ 18.89
Market value, end of period	$ 19.12	$ 18.20	$ 17.88
Total investment return[c]			
Net asset value	13.12%	16.24%	2.47%
Market value	8.73%	8.97%	(7.33)%
Ratios and supplemental data			
Net assets, applicable to Common Shareholders, end of period (thousands)	$ 1,026,741	$ 936,010	$ 857,388
Preferred Shares, at liquidation value ($25,000 per share liquidation preference) (thousands)	$ 425,000	$ 425,000	$ 425,000
Preferred Shares asset coverage per share	$ 85,397	$ 80,059	$ 75,435
Ratios to Average Net Assets applicable to Common Shares:			
Total expenses, including interest expense	1.49%[d]	1.50%	1.53%[d]
Interest expense	[d]		0.07%[d]
Net investment income, prior to effect of dividends to preferred shares	6.25%[d]	5.82%	6.20%[d]
Net investment income, after effect of dividends to preferred shares	4.34%[d]	4.45%	5.57%[d]
Ratios to Average Managed Assets:[e]			
Total expenses, including interest expense	1.04%[d]	1.03%	1.05%[d]
Interest expense			0.05%[d]
Net investment income, prior to effect of dividends to preferred shares	4.35%[d]	4.00%	4.28%[d]
Portfolio turnover	10%	17%	6%

* Commencement of operations.

(a) Based on average shares outstanding during the period.

(b) Before deduction of offering expenses charged to capital.

(c) Total investment return is calculated assuming a purchase of a common share at the beginning of the period and a sale on the last day of the period reported either at net asset value (NAV) or market price per share.Dividends and distributions are assumed to be reinvested at NAV for NAV returns or the prices obtained under the Fund s Dividend Reinvestment Plan for market value returns. Total investment return does not reflect brokerage commissions. A return calculated for a period of less than one year is not annualized.

(d) Annualized.

(e) Managed assets is equal to net assets applicable to Common Shareholders plus outstanding leverage, such as the liquidation value of preferred shares.

(f) Amount is less than $.01.

See notes to financial statements.

DCS | Dreman/Claymore Dividend & Income Fund

Notes to **Financial Statements | For the six months ended April 30, 2006** (unaudited)

Note 1 **Organization:**

Dreman/Claymore Dividend & Income Fund (the Fund) was organized as a Delaware statutory trust on October 20, 2003. The Fund is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended.

The Fund s primary investment objective is to provide a high level of current income, with a secondary objective of capital appreciation. The Fund will pursue its investment objectives by investing its assets primarily in dividend-paying common and preferred stocks. There can be no assurance that the Fund will achieve its investment objectives. The Fund s investment objectives are considered fundamental and may not be changed without shareholder approval.

Note 2 **Accounting Policies:**

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

The following is a summary of significant accounting policies consistently followed by the Fund.

(a) Valuation of Investments

Equity securities listed on an exchange are valued at the last reported sale price on the primary exchange on which they are traded. Equity securities traded on an exchange for which there are no transactions on a given day are valued at the mean of the closing bid and asked prices. Securities traded on NASDAQ are valued at the NASDAQ Official Closing Price. Equity securities not listed on a securities exchange or NASDAQ are valued at the mean of the closing bid and asked prices. Debt securities are valued by independent pricing services or dealers using the mean of the closing bid and asked prices for such securities or, if such prices are not available, at prices for securities of comparable maturity, quality and type. For those securities where quotations or prices are not available, valuations are determined in accordance with procedures established in good faith by the Board of Trustees. Futures contracts are valued using the settlement price established each day on the exchange on which they are traded. Short-term securities with maturities of 60 days or less at time of purchase are valued at amortized cost, which approximates market value.

(b) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on the identified cost basis. Dividend income is recorded net of applicable withholding taxes on the ex-dividend date and interest income is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized to interest income over the lives of the respective securities using the effective interest method.

(c) Swaps

A swap is an agreement to exchange the return generated by one instrument for the return generated by another instrument. The Fund may enter into swap agreements to manage its exposure to interest rates or to manage the duration of its portfolio. The swaps are valued at current market value and any unrealized gain or loss is included in the Statement of Operations. The Fund accrues for the interim payments on swap contracts on daily basis, with the net amount recorded within unrealized appreciation/depreciation of swap contracts on the Statement of Assets and Liabilities. Once the interim payments are settled in cash, the net amount is recorded as realized gain/loss on swaps, in addition to realized gain/loss recorded upon the termination of swap contracts on the Statement of Operations. During the period that the swap agreement is open, the Fund may be subject to risk from the potential inability of the counterparty to meet the terms of the agreement. The swaps involve elements of both market and credit risk in excess of the amounts reflected on the Statement of Assets and Liabilities.

The Fund entered into interest rate swap agreements during the period ended April 30, 2006 in order to partially hedge its exposure to short-term interest rates paid to its auction market preferred shareholders. Details of the swap agreements outstanding as of April 30, 2006 were as follows:

Counterparty	Termination Date	Notional Amount (000)	Fixed Rate	Floating Rate	Unrealized Appreciation
Merrill Lynch & Co., Inc.	09/21/2009	$ 150,000,000	4.34%	1 Month LIBOR	$ 4,090,639

For the swap noted, the Fund pays the fixed rate and receives the floating rate.

(d) Futures

A futures contract is an agreement to buy or sell a financial instrument at a particular price on a stipulated future date. Upon entering into a futures contract, the Fund is required to make an initial margin deposit established by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Such receipt or payment is known as the variation margin and is recorded by the Fund as unrealized appreciation or depreciation. The Fund bears the market risk that arises from the change in the value of these financial instruments.

During the period ended April 30, 2006, the Fund sold futures contracts on U.S. Treasury securities in an effort to hedge a portion of the fixed-income component of its portfolio against rising interest rates.

At April 30, 2006, the following futures contracts were outstanding:

Short Contracts	Number of Contracts	Expiration Date	Original Value	Value at April 30, 2006	Unrealized Appreciation
US Treasury Bonds (CBT)	2,889	June-06	$ 319,838,908	$ 308,671,594	$ 11,167,314

(e) Distributions

The Fund intends to declare quarterly dividends to common shareholders at a fixed rate per common share based on its projected performance, which rate may be adjusted from time to time. Accordingly, for U.S. generally accepted accounting principles, the Fund may declare and pay dividends in excess of its net investment income on the Statement of Operations. However, the ultimate amount and timing of distributions are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles.

Note 3 **Investment Advisory Agreement, Sub-Advisory Agreement and Other Agreements:**

Pursuant to an Investment Advisory Agreement (the Agreement) between the Fund and Claymore Advisors, LLC (the Advisor), the Advisor will furnish offices, necessary facilities and equipment, provide administrative services, oversee the activities of Dreman Value Management, LLC (the Investment Manager), provide personnel including certain officers required for the Fund s administrative management and compensate all officers and trustees of the Fund who are its affiliates. As compensation for these services, the Fund will pay the Investment Advisor a fee, payable monthly, in an amount equal to 0.85% of the Fund s average managed assets (net assets applicable to common shareholders plus any assets attributable to financial leverage).

The Advisor has entered into a Sub-Advisory Agreement with the Investment Manager. Pursuant to the terms of this agreement, the Investment Manager, under the supervision of the Fund s Board of Trustees and the Advisor, will provide a continuous investment program for the Fund s portfolio; provide investment research and make and execute recommendations for the purchase and sale of securities; and provide certain facilities and personnel,

DCS | Dreman/Claymore Dividend & Income Fund | **Notes to Financial Statements** (unaudited) continued

including officers required for the Fund s administrative management, and compensation of all officers and trustees of the Fund who are its affiliate. For these services, the Advisor has agreed to pay the Investment Manager an aggregate amount equal to 60% of the investment advisory fees paid to the Advisor by the Fund, net of any additional compensation payments to underwriters of the common share offering.

Under a separate Fund Administration agreement, the Advisor provides fund administration services to the Fund. For the six months ended April 30, 2006, the Fund recognized expenses of approximately $116,600 for these services.

The Bank of New York (BNY) acts as the Fund s custodian and transfer agent. As custodian, BNY is responsible for the custody of the Fund s assets. As transfer agent, BNY is responsible for performing transfer agency services for the Fund.

Note 4 **Federal Income Taxes:**

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required. In addition, by distributing substantially all of its ordinary income and long-term capital gains, if any, during each calendar year, the Fund intends not to be subject to U.S. federal excise tax.

Information on the components of investments as of April 30, 2006 is as follows:

Cost of Investments	**Gross Unrealized Appreciation**	**Gross Unrealized Depreciation**	**Net Unrealized Appreciation on Investments**
$ 1,319,663,565	$ 189,696,613	$ (62,599,349)	$ 127,097,264

For the year ended October 31, 2005, the tax character of distributions paid to common and preferred shareholders as reflected in the statement of changes in net assets was as follows:

Distributions paid from:	**2005**
Capital gain common shares	$ 10,125,024
Capital gain preferred shares	2,187,000
Ordinary income common shares	48,770,911
Ordinary income preferred shares	10,534,489
Return of capital common shares	123,316
	$ 71,740,740

Note 5 **Investments in Securities:**

For the period ended April 30, 2006, the cost of purchases and proceeds from sales of investments, other than short-term securities, were $141,608,960 and $138,537,528, respectively.

Note 6 **Capital:**

Common Shares

The Fund has an unlimited amount of common shares, $0.01 par value, authorized and 45,399,424 issued and outstanding. In connection with the Fund s dividend reinvestment plan, the Fund did not issue any shares during the period ended April 30, 2006 and the year ended October 31, 2005.

Preferred Shares

On March 23, 2004, the Fund issued 3,400 shares of Preferred Shares Series M7, 3,400 shares of Preferred Shares Series T28, 3,400 shares of Preferred Shares Series W7, 3,400 shares of Preferred Shares Series TH28 and 3,400 shares of Preferred Shares Series F7 each with a net asset and liquidation value of $25,000 per share plus accrued dividends. Dividends are accumulated daily at an annual rate set through auction procedures.

For the period ended April 30, 2006, the annualized dividend rates ranged from:

	High	Low	At April 30, 2006
Series M7	4.72%	3.90%	4.60%
Series T28	4.89%	3.80%	4.89%
Series W7	4.78%	3.72%	4.70%
Series TH28	4.79%	4.05%	4.79%
Series F7	4.75%	3.75%	4.75%

The Fund is subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Fund from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation value.

Preferred Shares, which are entitled to one vote per share, generally vote with the common stock but vote separately as a class to elect Class I Trustees and on any matters affecting the rights of the Preferred Shares.

Note 7 **Indemnifications:**

In the normal course of business, the Fund enters into contracts that contain a variety of representations, which provide general indemnifications. The Fund s maximum exposure under these arrangements is unknown, as this would require future claims that may be made against the Fund that have not yet occurred. However, the Fund expects the risk of loss to be remote.

Note 8 **Subsequent Event:**

On May 1, 2006, the Board of Trustees declared a quarterly dividend of $0.325 per common share. This dividend was payable on May 31, 2006 to shareholders of record on May 15, 2006.

DCS | Dreman/Claymore Dividend & Income Fund |

Supplemental **Information** | (unaudited)

Trustees

The Trustees of the Dreman/Claymore Dividend & Income Fund and their principal occupations during the past five years:

Name, Address*, Year of Birth and Position(s) held with Registrant	Term of Office** and Length of Time Served	Principal Occupation During the Past Five Years and Other Affiliations	Number of Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees:				
Richard L. Crandall Year of Birth: 1944 Trustee	Since 2004	Managing Partner of Aspen Partners, LLC since 2003, Founding Co-Partner of Arbor Venture Partners, LLC since 2000, and Chairman of Enterprise Software Roundtable since 1994. Formerly, Director and Special Advisor of GIGA Information Group (1995-2003) and Chairman of GIGA Information Group (2002-2003), Founder and ex-Chairman and CEO of Comshare, Inc. (1966-1994)	1	Director, Novell, Inc., Diebold, Inc., Pelstar, LLC and iTRACS Corp.
Roman Friedrich III Year of Birth: 1946 Trustee	Since 2004	Founder of Roman Friedrich & Company, which specializes in the provision of financial advisory services to corporations in the resource sector. Previously, Managing Director at TD Securities. Managing Director Lancaster Financial Ltd.;Wood Gundy; Burns Fry Ltd.; President, Chase Manhattan Bank (Canada) Ltd.	1	Director, Strategic Minerals Corp.; Brazilian Emeralds, Inc., StrataGold Corp.; Gateway Gold Corp. and GFM Resources Ltd.Trustee of five Canadian investment companies in the Claymore Canadian fund complex
Ronald A. Nyberg Year of birth: 1953 Trustee	Since 2004	Principal of Ronald A. Nyberg, Ltd., a law firm specializing in corporate law, estate planning and business transactions from 2000-present. Formerly, Executive Vice President, General Counsel and Corporate Secretary of Van Kampen Investments (1982-1999).	16	None
Ronald E.Toupin, Jr. Year of birth: 1958 Trustee	Since 2004	Formerly,Vice President, Manager and Portfolio Manager of Nuveen Asset Management (1998-1999),Vice President of Nuveen Investment Advisory Corp. (1992-1999),Vice President and Manager of	14	None

		Nuveen Unit Investment Trusts (1991-1999), and Assistant Vice President and Portfolio Manager of Nuveen Unit Investment Trusts (1988-1999), each of John Nuveen & Company, Inc. (1982-1999).		
Interested Trustees:				
Nicholas Dalmaso Year of birth: 1965 Trustee and Chief Legal and Executive Officer	Since 2004	Senior Managing Director and General Counsel of Claymore Advisors, LLC and Claymore Securities, Inc. (2001-present). Formerly, Assistant General Counsel, John Nuveen and Co., Inc. (1999-2000). Former Vice President and Associate General Counsel of Van Kampen Investments, Inc. (1992-1999).	16	None
David N. Dreman Harborside Financial Center Plaza 10, Suite 800 Jersey City, NJ 07311-4037 Year of birth: 1936 Trustee	Since 2004	Founder, Chairman and Chief Investment Officer of Dreman Value Management, LLC, an invest- ment advisory firm with $13.7 billion under management, in various mutual funds including several branded under the Scudder-Dreman name; annuity products; institutional accounts, including pension, foundation and endowment funds; and SMAs for high net-worth individ- uals. Author of several books including Contrarian Investment Strategies:The Next Generation and Psychology and the Stock Market. Forbes columnist for 25 years and co-editor of the academic journal,The Journal of Behavioral Finance.	1	Trustee,The Institute of Behavioral Finance, Jazz Aspen, and University of Manitoba.

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* Address for all Trustees unless otherwise noted: 2455 Corporate West Drive, Lisle, IL 60532

** After a Trustee s initial term, each Trustee is expected to serve a three-year term concurrent with the class of Trustees for which he serves:
Messrs. Crandall and Dalmaso, as Class I Trustees, are expected to stand for re-election at the Fund s 2008 annual meeting of shareholders.
Messrs. Friedrich and Nyberg, as Class II Trustees, are expected to stand for re-election at the Fund s 2006 annual meeting of the shareholders.
Messrs. Dreman and Toupin, as Class III Trustees, are expected to stand for re-election at the Fund s 2007 annual meeting of the shareholders.

*** The Claymore Fund Complex consists of U.S. registered investment companies advised or serviced by Claymore Advisors, LLC or Claymore Securities, Inc.
Mr. Dalmaso is an interested person (as defined in section 2(a)(19) of the 1940 Act) of the Fund because of his position as an officer of Claymore Advisors, LLC, the Fund s Investment Advisor.
Mr. Dreman is an interested person (as defined in section 2(a)(19) of the 1940 Act) of the Fund because of his position as an officer of Dreman Value Management, LLC, the Fund s Investment Manager.

DCS| Dreman/Claymore Dividend & Income Fund | Supplemental Information (unaudited) continued

Officers

The officers of the Dreman/Claymore Dividend & Income Fund and their principal occupations during the past five years:

Name, Address*, Year of Birth and Position(s) held with Registrant	Term of Office** and Length of Time Served	Principal Occupation During the Past Five Years and Other Affiliations
Officers:		
Steven M. Hill Year of birth: 1964 Chief Accounting Officer, Chief Financial Officer and Treasurer	Since 2004	Senior Managing Director and Chief Financial Officer of Claymore Advisors, LLC and Claymore Securities, Inc. (2005-present). Managing Director of Claymore Advisors, LLC and Claymore Securities, Inc. (2003-2005). Previously,Treasurer of Henderson Global Funds and Operations Manager for Henderson Global Investors (NA) Inc., from 2002-2003; Managing Director, FrontPoint Partners LLC (2001-2002);Vice President, Nuveen Investments (1999-2001); Chief Financial Officer, Skyline Asset Management LP, (1999);Vice President,Van Kampen Investments and Assistant Treasurer,Van Kampen mutual funds (1989-1999).
Thomas Williams Littauer Year of birth: 1955 Vice President	Since 2004	President, Dreman Value Management, LLC since 2002. Previously, Managing Director of Scudder Kemper Investments, Inc. and Head of Asia Pacific and Americas (ex-U.S.) Global Mutual Fund Group. Chairman of the Board of Scudder Global Opportunities Funds.
Nelson Woodard Year of birth: 1956 Vice President	Since 2004	Managing Director and Portfolio Manager for Dreman Value Management, LLC.Vice President of Asset Allocation and Quantitative Analysis at Prudential Investments from 2000-2001. Prior to 2000, Managing Director of Dreman Value Management, LLC.

* Address for all Officers: 2455 Corporate West Drive, Lisle, IL 60532

** Officers serve at the pleasure of the Board of Trustees and until his or her successor is appointed and qualified or until his or her earlier resignation or removal.

DCS| Dreman/Claymore Dividend & Income Fund

Dividend Reinvestment **Plan** | (unaudited)

Unless the registered owner of common shares elects to receive cash by contacting the Plan Administrator, all dividends declared on common shares of the Fund will be automatically reinvested by the Bank of New York (the Plan Administrator), Administrator for shareholders in the Fund s Dividend Reinvestment Plan (the Plan), in additional common shares of the Fund. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Some brokers may automatically elect to receive cash on your behalf and may re-invest that cash in additional common shares of the Fund for you. If you wish for all dividends declared on your common shares of the Fund to be automatically reinvested pursuant to the Plan, please contact your broker.

The Plan Administrator will open an account for each common shareholder under the Plan in the same name in which such common shareholder s common shares are registered. Whenever the Fund declares a dividend or other distribution (together, a Dividend) payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in common shares. The common shares will be acquired by the Plan Administrator for the participants accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund (Newly Issued Common Shares) or (ii) by purchase of outstanding common shares on the open market (Open-Market Purchases) on the New York Stock Exchange or elsewhere. If, on the payment date for any Dividend, the closing market price plus estimated brokerage commission per common share is equal to or greater than the net asset value per common share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant s account will be determined by dividing the dollar amount of the Dividend by the net asset value per common share on the payment date; provided that, if the net asset value is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per common share on the payment date. If, on the payment date for any Dividend, the net asset value per common share is greater than the closing market value plus estimated brokerage commission, the Plan Administrator will invest the Dividend amount in common shares acquired on behalf of the participants in Open-Market Purchases.

If, before the Plan Administrator has completed its Open-Market Purchases, the market price per common share exceeds the net asset value per common share, the average per common share purchase price paid by the Plan Administrator may exceed the net asset value of the common shares, resulting in the acquisition of fewer common shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at net asset value per common share at the close of business on the Last Purchase Date provided that, if the net asset value is less than or equal to 95% of the then current market price per common share; the dollar amount of the Dividend will be divided by 95% of the market price on the payment date.

The Plan Administrator maintains all shareholders accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common shares in the account of each Plan participant will be held by the Plan Administrator on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instruction of the participants.

There will be no brokerage charges with respect to common shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commission incurred in connection with Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any Federal, state or local income tax that may be payable (or required to be withheld) on such Dividends.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Plan should be directed to the Plan Administrator, The Bank of New York, P.O. Box 463, East Syracuse, New York 13057-0463; Attention: Shareholder Services Department, Phone Number: (800) 433-8191.

Report of **Independent Trustees in Connection with the Annual Review of the Investment Advisory Agreement and Subadvisory Agreement**

On November 23 and 30, 2005, the Independent Trustees (those trustees who are not interested persons as defined by the Investment Company Act of 1940) of the Board of Trustees of the Dreman/Claymore Dividend and Income Fund (the Fund) met independently of Fund management and of the interested trustees of the Board of Trustees to consider the renewal of: (1) the investment advisory agreement (Investment Advisory Agreement) between the Fund and Claymore Advisors, LLC (Adviser) and (2) the subadvisory agreement (Subadvisory Agreement) among the Adviser, the Fund and Dreman Value Management, L.L.C. (Sub-Adviser). (The Investment Advisory Agreement and the Subadvisory Agreement are together referred to as the Advisory Agreements.) As part of their review process, the Independent Trustees were represented by independent legal counsel. The Independent Trustees reviewed materials received from the Adviser, the Sub-Adviser and independent legal counsel. The Board also had previously received information throughout the year regarding performance and operating results of the Fund.

In preparation for their review, the Independent Trustees communicated with independent legal counsel regarding the nature of information to be provided, and independent legal counsel, on behalf of the Independent Trustees, sent a formal request for information. The Adviser and the Sub-Adviser provided extensive information in response to the request. Among other information, the Adviser and Sub-Adviser provided general information to assist the Independent Trustees in assessing the nature and quality of services provided by the Adviser and Sub-Adviser and, information comparing the investment performance, advisory fees and total expenses of the Fund to other funds, information about the profitability from the Advisory Agreements to each of the Adviser and the Sub-Adviser and the compliance policies and procedures adopted by each of the Adviser and the Sub-Adviser.

Based upon its review, the Independent Trustees concluded that it was in the best interest of the Fund to renew each of the Advisory Agreements and, accordingly, recommend to the Board of Trustees the renewal of each Advisory Agreement. In reaching this conclusion for the Fund, no single factor was determinative in the Independent Trustees analysis, but rather the Independent Trustees considered a variety of factors.

Investment Advisory Agreement

With respect to the nature, extent and quality of services provided by the Adviser, the Independent Trustees noted that the Adviser had delegated responsibility for the investment and reinvestment of the Fund s assets to the Sub-Adviser. The Board considered the Adviser s responsibility to oversee the Sub-Adviser and that the Adviser has similar oversight responsibilities for other registered funds for which it serves as investment adviser. The Independent Trustees reviewed financial information regarding the Adviser and its parent company and considered the parent company s guaranty of the Adviser s obligations under the Investment

Advisory Agreement. The Independent Trustees also considered the Adviser s collaboration with the Sub-Adviser on the Fund s use of leverage and determination of qualified dividend income. The Independent Trustees considered the experience and qualifications of the Adviser s personnel relating to compliance oversight, as well as its capabilities concerning its monitoring of the Subadviser s portfolio management team, and concluded that the Adviser and its personnel were qualified to serve the Fund in such capacity.

The Independent Trustees considered the Fund s investment performance by reviewing the Fund s total return on a net asset value and market price basis for the twelve months ended September 30, 2005 and since inception (January 27, 2004 through September 30, 2005) and compared it to the total return performance of a peer group of closed-end funds, commencing operations around the same period of time as the Fund, that invest a majority of assets in dividend paying equity securities and may have the goal of paying qualified dividend income (peer group of funds) for the same time periods. The Independent Trustees noted that the Fund s investment results were consistent with the Fund s investment objective and met expectations. The Independent Trustees also considered that the Adviser does not directly control investment performance but had delegated such duties to the Sub-Adviser. The Independent Trustees concluded that the Adviser had appropriately reviewed and monitored the Sub-Adviser s investment performance and efforts to seek the Fund s investment objective, and that the Adviser s performance was satisfactory.

The Independent Trustees compared the Fund s advisory fee (which includes the subadvisory fee paid to the Sub-Adviser) and expense ratio to the peer group of funds and to the advisory fee that the Adviser charged to other closed-end funds for which it serves as adviser. The Independent Trustees also reviewed the mean and median advisory fees and expense ratios of a subset of the peer group of funds that only included funds that used leverage, given the greater services required to manage and the higher expenses of a fund employing leverage. The Independent Trustees concluded that the Fund s advisory fee was reasonable.

With respect to the costs of services to be provided and profits realized by the Adviser from its relationship to the Fund, the Independent Trustees reviewed information regarding the revenues the Adviser received under the Investment Advisory Agreement as well as the direct and estimated indirect costs the Adviser incurs in providing the services described in the Investment Advisory Agreement and concluded that the profitability was not unreasonable.

The Independent Trustees considered the extent to which economies of scale could be realized with respect to the management of the Fund as the Fund grows and whether fee levels reflect a reasonable sharing of such economies of scale for the benefit of Fund investors. Because of the nature of closed-end funds, the Independent Trustees do not expect the Fund to grow significantly in the next twelve months. It was also noted that the advisory fee was structured based upon the anticipated size of the Trust when the fee was originally proposed. Therefore, the Independent Trustees concluded that the Fund is unlikely to realize any significant economies of scale with respect to the advisory services to justify a breakpoint at this time.

The Independent Trustees considered other benefits available to the Adviser because of its relationship to the Fund and noted that the administrative services fees to be received by the Adviser from serving as administrator would provide it with additional revenue but concluded that the advisory fee was reasonable taking into account any benefits from such administration agreement. In reaching the conclusion that the advisory fee was reasonable, the Independent Trustees also considered the Adviser s statement that it benefited from its association with the Sub-Adviser because of the Fund, which had opened up some other business opportunities to the Adviser with the Sub-Adviser.

Subadvisory Agreement

With respect to the nature, extent and quality of services provided by the Sub-Adviser, the Independent Trustees considered the qualifications, experience, good reputation and skills of the Sub-Adviser s portfolio management and other key personnel. The Independent Trustees also considered the Sub-Adviser s implementation of its strategy regarding the use of financial leverage by the Fund to increase performance and the use of hedging to reduce risk. The Independent Trustees considered the Sub-Adviser s success in achieving the Fund s investment objective of providing a high level of income with a secondary objective of capital appreciation through the Fund s distribution of a dividend of 6.5% of income and outperformance of the Standard & Poor s 500 Index since inception and for the twelve months ended September 30, 2005 based on net asset value. The Independent Trustees concluded that the Sub-Adviser was qualified to provide the services under the Subadvisory Agreement.

In considering investment performance, the Independent Trustees considered that the Fund s investment performance on a net asset value basis had outperformed the Lehman Long-Term Corporate Bond Index over relevant time periods along with the Sub-Adviser s success in meeting the Fund s objective. They concluded that the Sub-Adviser s investment performance met expectations. With respect to the market price performance, the Independent Trustees noted that the Fund s shares were trading at a discount but not inconsistent with its peer group, and that over the relevant time periods, the market price on a total return basis had been positive. The Independent Trustees concluded that investment performance had not negatively affected market performance.

The Independent Trustees reviewed the subadvisory fee paid by the Adviser to the Sub-Adviser and compared it to the fees charged by the Sub-Adviser to a non-fund client and other investment company clients for which the Sub-Adviser serves as subadviser that have a large cap value strategy similar to the Fund s.The Independent Trustees considered that the Fund s subadvisory fee was higher than some of the other clients fees but determined that the Fund s subadvisory fee was within an acceptable range of the other subadvisory fees charged by the Manger to other clients in the large cap value strategy. The Independent Trustees also considered the Sub-Adviser s representation that the Fund was more complicated to manage than other clients assets because of the Fund s unique investment objective and strategies, including its leverage and hedging strategy, and concluded that the subadvisory fee was reasonable.

With respect to the costs of services to be provided and profits realized by the Sub-Adviser from its relationship to the Fund, the Independent Trustees reviewed information regarding the revenues the Sub-Adviser received under the Subadvisory Agreement and estimated allocated expenses of the Sub-Adviser in providing services under the Subadvisory Agreement for the twelve months ended September 30, 2005 and since inception on a pre-tax basis and concluded that the profitability was not unreasonable.

The Independent Trustees reviewed the extent to which economies of scale with respect to the subadvisory services provided to the Fund would be realized as the Fund grows and whether fee levels reflect a reasonable sharing of such economies of scale for the benefit of Fund investors. The Independent Trustees considered the Sub-Adviser s statement that the Fund was more complicated to manage than other assets managed by the firm and thus required more work than other clients, and also noted that the size of the closed-end Fund was relatively fixed and unlikely to grow significantly in the next twelve months. Given these factors, the Independent Trustees concluded that the Fund is unlikely to realize any significant economies of scale with respect to the subadvisory services to justify a breakpoint at this time.

The Independent Trustees considered other benefits derived by the Sub-Adviser from its relationship with the Fund, including the Sub-Adviser s use of soft dollars and the Sub-Adviser s other business relationships with the Adviser. The Independent Trustees noted the Sub-Adviser s statement that it receives indirect benefits in the form of soft dollar arrangements which may or may not be used for the benefit of the Fund and may be used for the benefit of other clients of the Sub-Adviser. The Independent Trustees concluded that the sub-advisory fees were reasonable, taking into account these benefits.

Overall Conclusions

Based upon all of the information considered and the conclusions reached, the Independent Trustees determined that the terms of each Advisory Agreement continue to be fair and reasonable and that the continuation of each Advisory Agreement is in the best interests of the Fund.

DCS | Dreman/Claymore Dividend & Income Fund

Fund Information |

Officers

Nicholas Dalmaso

Chief Executive and Legal Officer

Steven M. Hill

Chief Financial Officer and Treasurer

Thomas W. Littauer

Vice President

Nelson P.Woodard

Vice President

Investment Manager

Dreman Value Management, LLC

Jersey City, New Jersey

Investment Advisor and Administrator

Claymore Advisors, LLC

Lisle, Illinois

Custodian and Transfer Agent

The Bank of New York

New York, New York

Preferred Stock Dividend Paying Agent

The Bank of New York

New York, New York

Legal Counsel

Skadden, Arps, Slate, Meagher & Flom LLP

Chicago, Illinois

Independent Registered Public Accounting Firm

Ernst & Young LLP

Chicago, Illinois

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* Trustee is an interested person of the Fund as defined in the Investment Company Act of 1940, as amended.

Privacy Principles of Dreman/Claymore Dividend & Income Fund for Shareholders

The Fund is committed to maintaining the privacy of its shareholders and to safeguarding its non-public personal information.The following information is provided to help you understand what personal information the Fund collects, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, the Fund does not receive any non-public personal information relating to its shareholders, although certain non-public personal information of its shareholders may become available to the Fund. The Fund does not disclose any non-public personal information about its shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

The Fund restricts access to non-public personal information about the shareholders to Claymore Advisors, LLC employees with a legitimate business need for the information. The Fund maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its shareholders.

Questions concerning your shares of Dreman/Claymore Dividend & Income Fund?

If your shares are held in a Brokerage Account, contact your Broker.

If you have physical possession of your shares in certificate form, contact the Fund s Administrator, Custodian and Transfer Agent:
The Bank of New York, 111 Sanders Creek Parkway, East Syracuse, New York 13057 (800) 701-8178

This report is sent to shareholders of Dreman/Claymore Dividend & Income 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.

A description of the Fund s proxy voting policies and procedures related to portfolio securities is available without charge, upon request, by calling the Fund at (800) 345-7999 or on the Securities and Exchange Commission s website at http://www.sec.gov.

Information regarding how the Fund voted proxies for portfolio securities, if applicable, during the most recent 12-month period ended June 30, is also available, without charge and upon request by calling the Fund at (800) 345-7999 or by accessing the Fund s Form N-PX on the Commission s website at http://www.sec.gov.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q.The Fund s Form N-Q is available on the SEC website at http://www. sec. gov. The Fund s Form N-Q may also be viewed and copied at the Commission s Public Reference Room in Washington, DC; information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330 or by visiting the Fund s website at www.dremanclaymore.com.

In October 2005, the Fund submitted a CEO annual certification to the New York Stock Exchange (NYSE) in which the Fund s principal executive officer certified that he was not aware, as of the date of the certification, of any violation by the Fund of the NYSE s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission (SEC) rules, the Fund s principal executive and principal financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund s disclosure controls and procedures and internal control over financial reporting.

About the **Fund Managers** |

Dreman Value Management, LLC

Dreman Value Management, LLC is an independently-owned investment management firm that was founded by David N. Dreman in 1997, and its predecessor firms date back to 1977.As of April 30, 2006, the firm had over $17.4 billion in assets under management, primarily across institutional accounts and various investment companies. Independently owned, the firm is a value-oriented contrarian equity manager and places its primary emphasis on common stocks with growing dividends and avoiding concept stocks without justifiable valuations.

Investment Philosophy

Dreman Value Management is one of the pioneers of contrarian value investing. Our investment philosophy is based on a disciplined, low P/E approach to stock selection.

We invest in undervalued companies that exhibit strong fundamentals, above-market dividend yields and historic earnings growth, which our analysis indicates will persist.

Our strategy is to own strong, fundamentally sound companies and to avoid speculative stocks or potential bankruptcies.

We believe that the markets are not perfectly efficient and that, in particular, behavioral finance plays a considerable role in investor actions and over-reactions and subsequently in stock price movements.

Investment Process

Our research studies, numerous academic papers and our long-term performance record show that out-of-favor stocks (those with low P/E ratios) consistently and predictably outperform the market.

Screen for stocks with below market P/E ratios.

Further refine candidates by applying additional value screens.

Fundamental analysis is applied to remaining candidates.

Stocks that pass all the screens and analysis are recommended to the Investment Committee for approval.

Item 2. Code of Ethics.

Not applicable for a semi-annual reporting period.

Item 3. Audit Committee Financial Expert.

Not applicable for a semi-annual reporting period.

Item 4. Principal Accountant Fees and Services.

Not applicable for a semi-annual reporting period.

Item 5. Audit Committee of Listed Registrants.

Not applicable for a semi-annual reporting period.

Item 6. Schedule of Investments.

The Schedule of Investments is included as part of Item 1.

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

Not applicable for a semi-annual reporting period.

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

Not applicable for a semi-annual reporting period.

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

None.

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

The registrant has not made any material changes to the procedures by which shareholders may recommend nominees to the registrant s Board of Trustees.

Item 11. Controls and Procedures.

(a) The registrant s principal executive officer and principal financial officer have evaluated the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of this filing and have concluded based on such evaluation, that the registrant s disclosure controls and procedures were effective as of that date in ensuring that information required to be disclosed by the registrant in this Form N-CSR was recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

(b) There were 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) that occurred during the registrant s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits.

(a)(1) Not Applicable

(a)(2) Certifications of principal executive officer and principal financial officer pursuant to Rule30a-2 of the Investment Company Act of 1940.

(b) Certifications of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

(Registrant) Dreman/Claymore Dividend & Income Fund

By: /s/ Nicholas Dalmaso
Name: Nicholas Dalmaso
Title: Chief Legal and Executive Officer
Date: July 6, 2006

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

By: /s/ Nicholas Dalmaso
Name: Nicholas Dalmaso
Title: Chief Legal and Executive Officer
Date: July 6, 2006

By: /s/ Steven M. Hill
Name: Steven M. Hill
Title: Treasurer and Chief Financial Officer
Date: July 6, 2006