Flaherty & Crumrine/CLAYMORE PREFERRED SECURITIES INCOME FUND INC
Form N-Q
October 23, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21129

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720
Pasadena, CA 91101
(Address of principal executive offices) (Zip code)

Donald F. Crumrine
Flaherty & Crumrine Incorporated
301 E. Colorado Boulevard, Suite 720
Pasadena, CA 91101
(Name and address of agent for service)

Registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: August 31, 2007

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (Sections 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

ITEM 1. SCHEDULE OF INVESTMENTS.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND

To the Shareholders of the Flaherty & Crumrine/Claymore Preferred Securities Income Fund ("FFC"):

Beginning with issues arising in the subprime mortgage loan market, a well-publicized series of events has roiled financial markets over the past several months. The preferred stock market and closed-end funds have been particularly impacted, and, consequently, for the Fund's third fiscal quarter ended August 31, 2007, the Fund had a total return of -6.0% on the net asset value (NAV) of its Common Stock.

As we've discussed in prior letters, problems in the subprime mortgage loan market first bubbled up in January of this year. Throughout this year, the Fund has had no direct exposure to subprime loans, and we avoided investing in companies that had meaningful risks associated with the product. Our research team closely monitors the loan quality and underwriting standards of each financial company in the portfolio, and we invest only in companies that meet our quality thresholds. We're not perfect, but we believe that the Fund's portfolio is comprised of holdings in fundamentally sound companies.

In isolation, the impact of this weakness in the subprime loan market should have been limited to direct participants in this market; unfortunately, given the complexity of the financial system, few things happen in isolation. When the subprime problems became more pronounced several months ago, the fallout from this subprime weakness has been widespread and severe.

Fueled by low interest rates and relatively relaxed financing terms, a great deal more leverage had become built into the system than even just a few years ago. As investments directly associated with subprime mortgages declined significantly in value during the quarter, they became very illiquid. Highly-leveraged investors then were forced to sell other more liquid types of assets like investment-grade preferred and debt securities to meet redemptions or margin calls. Risk and liquidity premiums surged, indiscriminately taking yields on all credit instruments with them. In short, excess leverage created the financial powder keg and subprime loan problems provided the spark.

With yields on preferred securities rising more than yields on more senior debt securities, the prices of the securities in our portfolio fell as the supply of preferred securities exceeded demand. The rearview mirror is still a bit foggy, but it appears that much of the selling pressure came from hedge funds. Hedge funds had become the 800-pound gorilla in the credit markets recently, and although they've been forced to slim down, they can still have a big impact.

Hedge funds were not the only investors selling, but since they aren't required to disclose their preferred securities holdings, no one knows how extensive their selling pressure was. As a result, prospective buyers were extremely cautious because they feared additional selling would further depress prices. Wall Street brokers and dealers normally stand ready to provide liquidity to sellers, but they appeared reluctant to buy. Long-term investors like the Fund, as well as individual investors, insurance companies and pension funds, also stayed on the sidelines for the most part. During the quarter, and since it ended, we have added some positions at attractive levels, but we are continuing to take a go-slow approach.

Subprime fallout also extended to the market for short-term, or money-market, securities such as commercial paper and auction-rate securities. This market was in a state of disarray throughout August and into early September. Investors in money-market securities don't like risk, and, at the slightest hint of trouble, they pull their money out and invest in short-term government securities. While the perception of risk is real for a small segment of borrowers, the reaction seems to be disproportionate.

These disruptions in the short-term market impacted the Fund in two meaningful ways. First, they contributed to price weakness in many of the Fund's investments, particularly in financial companies. While banks can fulfill their short-term financing needs with customer deposits and through the Federal Reserve, finance companies like broker-dealers need to rely on the short-term securities market to run their day-to-day operations. This market is like oxygen to most financial companies, and restricting their borrowing makes it more expensive for them to operate. We continue to believe that none of the financial companies in our portfolio face significant risks of default as a result of this increased cost of borrowing, but it has clearly impacted their earnings outlooks and the prices of their preferred securities.

Second, the rates paid by the Fund on its own auction-rate Preferred Stock have risen significantly as a direct result of liquidity problems in the financial markets. The frustrating irony is that the Fund's own Preferred Stock is of very high quality with a rating of AAA and logic would dictate that rates should fall as investors seek out higher quality investments. This high quality is a function of the Investment Company Act (which governs the Fund) and the guidelines imposed by the rating agencies. As Kevin Conery, Merrill Lynch's Preferred Stock Strategist, recently observed about the Investment Company Act, "while some have criticized it for being too conservative for its 200% asset coverage test, at times like these in the market, we respect this discipline." While we are beginning to see some improvement in the auction rates of our Preferred Stock, and the recent interest rate cut by the Federal Reserve should help over the coming months, we haven't yet returned to more normalized auction rates.

The higher cost of our auction-rate Preferred Stock comes directly out of money available for distribution as the monthly Common Stock dividend. On the plus side, higher yields on preferred stock mean that we have been able to increase the income earned on the portfolio. It will take some time to see how these two offsetting factors affect income; in the meantime we are doing our best to manage both. We are comfortable with the current dividend, but we strive to pay out a rate that is sustainable and will make adjustments as conditions warrant.

We have been through periods of fear and volatility before, and we remain optimistic about long-term prospects for the Fund. Such periods create opportunities to buy securities of sound companies at discounted prices, as many shorter-term investors exit the market by selling both good and bad investments. We expect both more rational pricing and reduced risk of early redemption of our portfolio securities as markets settle down - both of which should benefit future returns for long-term investors. In addition, our Preferred Stock auction rates are likely to normalize in due course, as the market begins to better recognize the credit quality of our Preferred Stock. While we cannot say with certainty when, or if, these things will happen, as managers we are doing our best to position the Fund to ride out the current storm and prepare for better days ahead.

In volatile market conditions like these, we may provide more frequent updates about the preferred securities market and the Fund's portfolio. We did so this past quarter by adding special Questions and Answers regarding the market price of the Fund's shares to the Fund's website at WWW.FCCLAYMORE.COM. We encourage you to stay informed as shareholders by periodically visiting the website for additional information about your Fund.

Sincerely,

/s/ Donald F. Crumrine   /s/ Robert M. Ettinger

Donald F. Crumrine	Robert M. Ettinger
Chairman of the Board	President

October 17, 2007

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OVERVIEW
AUGUST 31, 2007 (UNAUDITED)

FUND STATISTICS ON 08/31/07	
Net Asset Value	$ 20.87
Market Price	$ 18.59
Discount	10.92%
Yield on Market Price	8.23%
Common Stock Shares Outstanding	42,601,719

MOODY'S RATINGS	% OF PORTFOLIO
AAA	0.2%
AA	6.9%
A	19.4%
BBB	54.1%
BB	12.8%
Not Rated	4.3%
Below Investment Grade*	12.8%

* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND S&P.

[THE FOLLOWING TABLE WAS REPRESENTED BY A PIE CHART IN THE PRINTED MATERIAL.]

INDUSTRY CATEGORIES	% OF PORTFOLIO
Banking	33%
Utilities	27%
Insurance	20%
Financial Services	10%
Energy	5%
REITs	3%
Other	2%

TOP 10 HOLDINGS BY ISSUER	% OF PORTFOLIO
Midamerican Energy	4.5%
Banco Santander	4.4%
Wachovia Corp	3.7%
Liberty Mutual Group	3.3%
ACE Ltd	3.0%
HBOS Plc	2.8%
Dominion Resources	2.3%
Wisconsin Energy	2.3%
Enterprise Products Partners	2.3%
AON Corp	2.3%

% OF PORTFOLIO**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	28%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	14%

** THIS DOES NOT REFLECT YEAR-END RESULTS OR ACTUAL TAX CATEGORIZATION OF FUND DISTRIBUTIONS. THESE PERCENTAGES CAN, AND DO, CHANGE, PERHAPS SIGNIFICANTLY, DEPENDING ON MARKET CONDITIONS. INVESTORS SHOULD CONSULT THEIR TAX ADVISOR REGARDING THEIR PERSONAL SITUATION.

3

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR	
PREFERRED SECURITIES -- 85.5%	
	BANKING -- 32.6%
$ 19,000,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B ....
34,450	BAC Capital Trust I, 7.00% Pfd. 12/15/31 ....
1,000	BAC Capital Trust II, 7.00% Pfd. 02/01/32 ....
	Banco Santander:
1,646,000	6.50% Pfd., 144A**** ....
1,141,600	6.80% Pfd., 144A**** ....
1,800	Bank of New York Capital IV, 6.875% Pfd., Series E ....
77,900	Bank One Capital Trust VI, 7.20% Pfd. ....
$ 1,500,000	BB&T Capital Trust IV, 6.82% 06/12/57 ....
$ 30,834,000	Capital One Capital III, 7.686% 08/15/36 ....
$ 27,600,000	CBG Florida REIT Corporation, 7.114%, 144A**** ....
112,000	Citizens Funding Trust I, 7.50% Pfd. 09/15/66 ....
105,000	Cobank, ACB, 7.00% Pfd., 144A**** ....
$ 23,740,000	Comerica Capital Trust II, 6.576% 02/20/37 ....
$ 800,000	CoreStates Capital Trust I, 8.00% 12/15/26, 144A**** ....
28,800	FBOP Corporation, Adj. Rate Pfd., 144A**** ....
$ 2,635,000	First Midwest Capital Trust I, 6.95% 12/01/33 ....
	First Republic Bank:
400,000	6.25% Pfd. ....
30,000	7.25% Pfd. ....
7,850	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** ....
110,200	Fleet Capital Trust VIII, 7.20% Pfd. 03/15/32 ....
6	FT Real Estate Securities Company, 9.50% Pfd., 144A**** ....
	HBOS PLC:
$ 10,500,000	6.413%, 144A**** ....
$ 28,000,000	6.657%, 144A**** ....
$ 6,950,000	6.85% ....
7,500	HSBC Series II, Variable Inverse Pfd., Pvt. ....
	ING Groep NV:
36,000	7.05% Pfd. ....
139,700	7.20% Pfd. ....

$ 2,000,000	JPMorgan Chase Capital XXI, Adj. Rate 02/02/37, Series U ....
$ 6,400,000	JPMorgan Chase Capital XXIII, Adj. Rate 05/15/47 ....
23,800	Keycorp Capital V, 5.875% Pfd., Series A ....
20,000	Keycorp Capital VIII, 7.00% Pfd. 06/15/66 ....
617,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66 ....
$ 2,000,000	Lloyds TSB Group PLC, 6.267%, 144A**** ....
85,285	National City Capital Trust II, 6.625% Pfd. 11/15/36 ....
295,000	PFGI Capital Corporation, 7.75% Pfd. ....

4

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR	
PREFERRED SECURITIES -- (CONTINUED)	
	BANKING -- (CONTINUED)
$ 3,300,000	Regions Financing Trust II, 6.625% 05/15/47 ....
$ 7,200,000	Republic New York Capital I, 7.75% 11/15/26 ....
$ 4,992,000	Republic New York Capital II, 7.53% 12/04/26 ....
	Roslyn Real Estate:
40	8.95% Pfd., Series C, 144A**** ....
135	Adj. Rate Pfd., Series D, 144A**** ....
63,700	Sovereign Bancorp, 7.30% Pfd., Series C ....
248,100	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 ....
$ 13,500,000	Sovereign Capital Trust VI, 7.908% 06/13/36 ....
60	Union Planters Preferred Funding, 7.75% Pfd., Series 144A**** ....
	U.S Bancorp, Auction Pass-Through Trust, Cl. B:
65	Series 2006-5, Variable Rate Pfd., 144A**** ....
65	Series 2006-6, Variable Rate Pfd., 144A**** ....
127,600	USB Capital VIII, 6.35% Pfd. 12/29/65 ....
64,600	USB Capital X, 6.50% Pfd. 04/12/66 ....
21,150	VNB Capital Trust I, 7.75% Pfd. ....
5,550	Wachovia Capital Trust IX, 6.375% Pfd. ....
2,010,800	Wachovia Preferred Funding, 7.25% Pfd., Series A ....
$ 10,050,000	Washington Mutual Preferred Funding, 6.534%, 144A**** ....
$ 7,400,000	Webster Capital Trust IV, 7.65% 06/15/37 ....
100,000	Wells Fargo Capital Trust IV, 7.00% Pfd. 09/01/31 ....
	FINANCIAL SERVICES -- 6.8%
	CIT Group, Inc.:
$ 18,800,000	6.10% ....
203,712	6.35% Pfd., Series A ....
749,995	Countrywide Capital IV, 6.75% Pfd. ....
26,305	Countrywide Capital V, 7.00% Pfd., 11/01/36 ....
380,000	Deutsche Bank Contingent Capital Trust II, 6.55% Pfd. ....
	Goldman Sachs:

	80,000	Adj. Rate Pfd., Series A ....
	202,500	Cabco Trust Capital I, Adj. Rate Pfd. 02/15/34 ....
	3,600	STRIPES Custodial Receipts, Pvt. ....
$	7,000,000	Gulf Stream-Compass 2005 Composite Notes, 144A**** ....
	143,920	Merrill Lynch Preferred Capital, Adj. Rate Pfd., Series G ....
	27,000	Merrill Lynch Cap Trust I, 6.45% Pfd., 12/15/66, Series K ....
		Merrill Lynch:
	172,000	Adj. Rate Pfd., Series 5 ....

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR

PREFERRED SECURITIES -- (CONTINUED)
FINANCIAL SERVICES -- (CONTINUED)

	76,000	Fixed Income Pass-through 2007-A, Cl.B, Adj. Rate Pfd., 144A**** ....
	4,000	Series II STRIPES Custodial Receipts, Pvt. ....
	82,367	Merrill Lynch Preferred Capital Trust IV, 7.12% Pfd. ....
	9,000	Morgan Stanley Capital Trust V, 5.75% Pfd. ....
	336,100	Morgan Stanley Capital Trust VI, 6.60% Pfd. ....
$	10,000,000	RACERS(R) Series 2005 AMMC V Trust, 144A**** ....
		SLM Corporation:
	160,000	6.97% Pfd., Series A ....
	17,000	Adj. Rate Pfd., Series B ....

INSURANCE -- 17.8%

	1,703,580	ACE Ltd., 7.80% Pfd., Series C ....
$	2,500,000	AMBAC Financial Group Inc., 6.15% 02/15/37 ....
		AON:
$	25,570,000	Capital Trust A, 8.205% 01/01/27 ....
	106,000	Corts-Capital, 8.205% Pfd. ....
	94,900	Saturns-2003-3, 8.00% Pfd., Series AON Corp. ....
		Arch Capital Group Ltd.:
	167,650	7.875% Pfd., Series B ....
	99,321	8.00% Pfd. ....
		AXA SA:
$	11,300,000	6.379%, 144A**** ....
$	9,500,000	6.463%, 144A**** ....
		Axis Capital Holdings:
	273,800	7.25% Pfd., Series A ....
	231,805	7.50% Pfd., Series B ....
	322,600	Berkley W.R. Capital Trust II, 6.75% Pfd. 07/26/45 ....
	500,000	Delphi Financial Group, 7.376% Pfd. 05/15/37 ....
	49,150	Everest Re Capital Trust II, 6.20% Pfd., Series B ....
$	7,000,000	Everest Re Holdings, 6.60% 05/15/37 ....

$	26,200,000	Liberty Mutual Group, 7.80% 03/15/37, 144A**** ....
		Provident Financing Trust I:
$	714,000	7.405% 03/15/38 ....
	37,000	Corts-Unum, 8.50% Pfd. ....
		Renaissancere Holdings Ltd.:
	77,800	6.08% Pfd., Series C ....
	204,800	6.60% Pfd., Series D ....
	283,935	7.30% Pfd., Series B ....

6

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR		
PREFERRED SECURITIES -- (CONTINUED)		
		INSURANCE -- (CONTINUED)
	407,200	Scottish Re Group Ltd., 7.25% Pfd. ....
	36,600	Torchmark Capital Trust III, 7.10% Pfd. ....
$	7,425,000	USF&G Capital, 8.312% 07/01/46, 144A**** ....
$	13,000,000	USF&G Capital I, 8.50% 12/15/45, 144A**** ....
		XL Capital Ltd.:
$	10,100,000	6.50% Series E ....
$	10,000,000	Mangrove Bay Passthru Trust, 6.102% 07/15/33, 144A**** ....
	5,000	7.625% Pfd., Series B ....
$	6,400,000	ZFS Finance USA Trust V, 6.50% 05/09/37, 144A**** ....
		UTILITIES -- 21.4%
		Baltimore Gas & Electric Company:
	10,000	6.70% Pfd., Series 1993 ....
	50,000	7.125% Pfd., Series 1993 ....
	1,355,359	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27 ....
	35,000	Central Maine Power, 5.25% Pfd., Pvt. ....
$	2,600,000	COMED Financing II, 8.50% 01/15/27, Series B ....
$	17,645,000	COMED Financing III, 6.35% 03/15/33 ....
$	25,175,000	Dominion Resources Capital Trust I, 7.83% 12/01/27 ....
$	6,000,000	Dominion Resources, Inc., 7.50% ....
		Entergy Arkansas, Inc.:
	10,240	4.56% Pfd., Series 1965 ....
	625,000	6.45% Pfd. ....
	85,000	Entergy Louisiana, Inc., 6.95% Pfd. ....
	169,000	FPC Capital I, 7.10% Pfd., Series A ....
	52,150	FPL Group Capital Trust I, 5.875% Pfd. 03/15/44 ....
		FPL Group Capital, Inc.:
$	3,400,000	6.35% 10/01/66 ....
	349,137	6.60% Pfd. 10/01/66, Series A ....
$	4,100,000	6.65% 06/15/67 ....

	12,442	Great Plains Energy, Inc., 4.20% Pfd. ....
	5,000	Indiana Michigan Power, 4.56% Pfd. ....
	119,805	Indianapolis Power & Light Company, 5.65% Pfd. ....
		Interstate Power & Light Company:
	110,000	7.10% Pfd., Series C ....
	11,000	8.375% Pfd., Series B ....
	32,300	Laclede Capital Trust I, 7.70% Pfd. ....

7

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR

PREFERRED SECURITIES -- (CONTINUED)

UTILITIES -- (CONTINUED)

		Pacific Enterprises:
	4,550	$4.40 Pfd. ....
	4,510	$4.50 Pfd. ....
$	2,386,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D ....
$	27,000,000	PECO Energy Capital Trust IV, 5.75% 06/15/33 ....
	358,950	PSEG Funding Trust II, 8.75% Pfd. ....
$	5,000,000	Puget Sound Energy, Inc., 6.974% 06/01/67 ....
	200,000	San Diego Gas & Electric Company, $1.70 Pfd. ....
		Southern California Edison:
	115,750	6.00% Pfd. ....
	17,910	6.125% Pfd. ....
		Southern Union Company:
$	5,100,000	7.20% 11/01/66 ....
	228,700	7.55% Pfd. ....
$	4,200,000	Union Electric Company, 7.69% 12/15/36, Series A ....
		Virginia Electric & Power Company:
	14,985	$4.12 Pfd. ....
	21,684	$4.80 Pfd. ....
	35,000	$6.98 Pfd. ....
	342,500	Virginia Power Capital Trust, 7.375% Pfd. 07/30/42 ....
$	27,125,000	Wisconsin Energy Corporation, 6.25% 05/15/67 ....
		Xcel Energy, Inc.:
	7,110	$4.10 Pfd., Series C ....
	10,210	$4.11 Pfd., Series D ....

ENERGY -- 3.5%

		Enterprise Products Partners:
$	22,000,000	7.034% 01/15/68 ....
$	12,500,000	8.375% 08/01/66 ....
	13,200	EOG Resources, Inc., 7.195% Pfd., Series B ....
$	3,650,000	KN Capital Trust III, 7.63% 04/15/28 ....

REAL ESTATE INVESTMENT TRUST (REIT) -- 2.5%

41,400	BRE Properties, Inc., 6.75% Pfd., Series C ....
51,000	Equity Residential Properties, 8.29% Pfd., Series K ....
4,980	Prologis Trust, 8.54% Pfd., Series C ....

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR	
PREFERRED SECURITIES -- (CONTINUED)	
	REAL ESTATE INVESTMENT TRUST (REIT) -- (CONTINUED)
	PS Business Parks, Inc.:
45,500	6.70% Pfd., Series P ....
6,100	7.00% Pfd., Series H ....
56,200	7.20% Pfd., Series M ....
18,700	7.375% Pfd., Series O ....
178,000	7.60% Pfd., Series L ....
60,000	7.95% Pfd., Series K ....
	Public Storage, Inc.:
186,070	6.45% Pfd., Series F ....
310,400	6.625% Pfd., Series M ....
30,000	6.85% Pfd., Series Y ....
388,200	7.25% Pfd., Series K ....
70,000	Realty Income Corp., 6.75% Pfd., Series E ....
	MISCELLANEOUS INDUSTRIES -- 0.9%
2,245	Centaur Funding Corporation, 9.08% Pfd. 04/21/20, 144A**** ....
112,750	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** ....
	TOTAL PREFERRED SECURITIES (Cost $1,268,616,161) ....
CORPORATE DEBT SECURITIES -- 13.2%	
	FINANCIAL SERVICES -- 3.0%
200,000	Ford Motor Credit Company, 7.375% 10/15/31 ....
$ 25,000,000	General Motors Acceptance Corporation, 8.00% 11/01/31, Senior Bonds ....
80,000	HSBC Finance Corporation, 6.875% 01/30/33 ....
$ 4,822,339	Lehman Brothers, Guaranteed Note, Variable Rate, 12/16/16, 144A**** ....

$ 11,100,000	Lehman Brothers Holdings, 6.875% 07/17/37, Sub. Note ....

INSURANCE -- 2.4%

239,000	Delphi Financial, 8.00% 05/15/33, Senior Notes ....
$ 4,000,000	Farmers Exchange Capital, 7.20% 07/15/48, 144A**** ....
$ 24,921,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** ....
$ 1,000,000	UnumProvident Corporation, 7.25% 03/15/28, Senior Notes ....

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR

CORPORATE DEBT SECURITIES -- (CONTINUED)
UTILITIES -- 5.3%

	Duke Capital Corporation:
$ 6,179,000	6.75% 02/15/32, Senior Notes ....
$ 6,315,000	8.00% 10/01/19, Senior Notes ....
$ 5,000,000	Entergy Gulf States, Inc., 6.20% 07/01/33, 1st Mortgage ....
	Entergy Louisiana LLC:
$ 14,458,000	6.30% 09/01/35, 1st Mortgage ....
9,400	7.60% 04/01/32, 1st Mortgage ....
16,500	Entergy Mississippi, Inc., 7.25%, 1st Mortgage ....
	Oncor Electric Delivery Company:
$ 2,000,000	7.00% 09/01/22 ....
$ 7,070,000	7.25% 01/15/33 ....
137,900	PPL Capital Funding, Inc., 6.85% 07/01/47 ....
$ 8,268,000	PSEG Power LLC, 8.625% 04/15/31 ....
	Southern Union Company:
$ 5,300,000	7.60% 02/01/24, Senior Notes ....
$ 6,047,000	8.25% 11/15/29, Senior Notes ....
50,000	Strats-Dominion-2005-6, Adjustable Rate Pfd., 06/15/35, Series D ....
$ 6,020,000	Wisconsin Electric Power Company, 6.875% 12/01/95 ....

ENERGY -- 1.7%

$ 10,350,000	KN Energy, Inc., 7.45% 03/01/98 ....
296,911	Nexen, Inc., 7.35% Subordinated Notes ....
$ 8,500,000	Noble Energy, Inc., 7.25% 08/01/97 ....

		REAL ESTATE INVESTMENT TRUST (REIT) -- 0.2%
$	3,500,000	Realty Income Corporation, 5.875% 03/15/35 ....

		MISCELLANEOUS INDUSTRIES -- 0.6%
$	390,000	BellSouth Telecommunication, 7.00% 12/01/95 ....
	30,000	CBS Corporation, 6.75% 03/27/56 ....
		Comcast Corp.:
	11,500	6.625%, 05/15/56 ....
	68,500	7.00% 09/15/55, Series B ....
	20,000	Corp-Backed Trust Certificates, 7.00% 11/15/28, Series Sprint ....

10

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR		
CORPORATE DEBT SECURITIES -- (CONTINUED)		
		MISCELLANEOUS INDUSTRIES -- (CONTINUED)
		Pulte Homes, Inc.:
	58,240	7.375% 06/01/46 ....
$	3,550,000	7.875% 06/15/32 ....
		TOTAL CORPORATE DEBT SECURITIES
		(Cost $195,302,031) ....
OPTION CONTRACTS -- 0.0%		
	2,930	December Put Options on December U.S. Treasury Bond Futures, Expiring 11/20/
	7,370	October Put Options on December U.S. Treasury Bond Futures, Expiring 09/21/0
		TOTAL OPTION CONTRACTS
		(Cost $1,250,022) ....

11

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (CONTINUED)
AUGUST 31, 2007 (UNAUDITED)

SHARES/$ PAR		
MONEY MARKET FUND -- 0.2%		
2,818,397	BlackRock Provident Institutional, TempFund	
	TOTAL MONEY MARKET FUND (Cost $2,818,397)	
SECURITIES LENDING COLLATERAL -- 0.3%		
4,258,100	Institutional Money Market Trust	
	TOTAL SECURITIES LENDING COLLATERAL (Cost $4,258,100)	
TOTAL INVESTMENTS (Cost $1,472,244,711***)		99.2%
OTHER ASSETS AND LIABILITIES (Net)		0.8%
TOTAL NET ASSETS AVAILABLE TO COMMON STOCK AND PREFERRED STOCK		100.0%++
AUCTION MARKET PREFERRED STOCK (AMPS) REDEMPTION VALUE		
TOTAL NET ASSETS AVAILABLE TO COMMON STOCK		

----

* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

** Securities distributing Qualified Dividend Income only.

*** Aggregate cost of securities held.

**** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

(1) Foreign Issuer.

(2) Security on loan.

\+ Non-income producing.

++ The percentage shown for each investment category is the total value of that category as a percentage of net assets available to Common and Preferred Stock.

ABBREVIATIONS:

PFD. -- Preferred Securities

PVT. -- Private Placement Securities

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)
FOR THE PERIOD FROM DECEMBER 1, 2006 THROUGH AUGUST 31, 2007 (UNAUDITED)

OPERATIONS:	
Net investment income	$ 7
Net realized gain/(loss) on investments sold during the period	(
Change in net unrealized appreciation/depreciation of investments held during the period	(10
Distributions to AMPS* Shareholders from net investment income, including changes in accumulated undeclared distributions	(2
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	(6
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders(2)	(4
TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS	(4
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE TRANSACTIONS	
NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	$(11

NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	$ 99
Net decrease in net assets during the period	(11
End of period	$ 88

----

* Auction Market Preferred Stock.

(1) These tables summarize the nine months ended August 31, 2007 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2006.

(2) May include income earned, but not paid out, in prior fiscal year.

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated

FINANCIAL HIGHLIGHTS(1)
FOR THE PERIOD FROM DECEMBER 1, 2006 THROUGH AUGUST 31, 2007 (UNAUDITED)
FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT THE PERIOD.

PER SHARE OPERATING PERFORMANCE:	
Net asset value, beginning of period	$
INVESTMENT OPERATIONS:	
Net investment income	
Net realized and unrealized gain/(loss) on investments	
DISTRIBUTIONS TO AMPS* SHAREHOLDERS:	
From net investment income	
From net realized capital gains	
Total from investment operations	
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:	
From net investment income	
From net realized capital gains	
Total distributions to Common Stock Shareholders	
Net asset value, end of period	$
Market value, end of period	$
Common Stock shares outstanding, end of period	4
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:	
Net investment income+	
Operating expenses	
SUPPLEMENTAL DATA:++	
Portfolio turnover rate	
Total net assets available to Common and Preferred Stock, end of period (in 000's)	$
Ratio of operating expenses to total average net assets available to Common and Preferred Stock	

(1) These tables summarize the nine months ended August 31, 2007 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2006.

* Auction Market Preferred Stock.

** Annualized.

*** Not annualized.

\+ The net investment income ratios reflect income net of operating expenses and payments to AMPS* Shareholders.

++ Information presented under heading Supplemental Data includes AMPS*.

14

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated

FINANCIAL HIGHLIGHTS (CONTINUED)
PER SHARE OF COMMON STOCK (UNAUDITED)

	TOTAL DIVIDENDS PAID	NET ASSET VALUE	NYSE CLOSING PRICE	DIVIDEND REINVESTMENT PRICE (1)
December 31, 2006	$0.1275	$23.15	$21.41	$21.54
January 31, 2007	0.1275	23.13	21.75	21.87
February 28, 2007	0.1275	23.44	21.81	21.96
March 31, 2007	0.1275	22.95	22.30	22.43
April 30, 2007	0.1275	23.05	22.05	22.12
May 31, 2007	0.1275	22.60	21.38	21.56
June 30, 2007	0.1275	22.18	20.42	20.62
July 31, 2007	0.1275	21.26	19.18	19.15
August 31, 2007	0.1275	20.87	18.59	18.78

----

(1) Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. AGGREGATE INFORMATION FOR FEDERAL INCOME TAX PURPOSES

At August 31, 2007 the aggregate cost of securities for federal income tax purposes was $1,482,967,471, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was $5,659,543, and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was $68,773,772.

[This page intentionally left blank]

[This page intentionally left blank]

[This page intentionally left blank]

DIRECTORS
Donald F. Crumrine, CFA

INVESTMENT ADVISER
Flaherty & Crumrine Incorporated
e-mail: flaherty@pfdincome.com

SERVICING AGENT
Claymore Securities, Inc.
1-866-233-4001

QUESTIONS CONCERNING YOUR SHARES OF FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES 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 Transfer Agent--
PFPC Inc. 1-800-331-1710

THIS REPORT IS SENT TO SHAREHOLDERS OF FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED 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.

Flaherty & Crumrine/Claymore
[LOGO] ============================
PREFERRED SECURITIES
INCOME FUND

Quarterly
Report

August 31, 2007

www.fcclaymore.com

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, 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 (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) 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 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

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

(Registrant) Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated

By (Signature and Title)* /s/ Donald F. Crumrine

Donald F. Crumrine, Director, Chairman of the Board
and Chief Executive Officer
(principal executive officer)

Date October 16, 2007

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 (Signature and Title)* /s/ Donald F. Crumrine

Donald F. Crumrine, Director, Chairman of the Board
and Chief Executive Officer
(principal executive officer)

Date October 16, 2007

By (Signature and Title)* /s/ R. Eric Chadwick

R. Eric Chadwick, Chief Financial Officer, Treasurer

and Vice President
(principal financial officer)

Date October 16, 2007

* Print the name and title of each signing officer under his or her signature.

"2"> 2,644 12,026

Cash at end of period
$5,108 $10,172

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

Page 4

Table of Contents

Intelligent Systems Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Throughout this report, the terms we , us , ours , ISC and company refer to Intelligent Systems Corporation, including its subsidiaries.

2. The unaudited consolidated financial statements presented in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States applicable to interim financial statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of ISC management, these consolidated financial statements contain all adjustments (which comprise only normal and recurring accruals) necessary to present fairly the financial position as of March 31, 2003 and 2002. The interim results for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our consolidated financial statements and notes thereto for the fiscal year ended December 31, 2002, as filed in our annual report on Form 10-K.

3. *Settlement of Escrow Fund* - On March 21, 2003, the former shareholders of PaySys International, Inc. entered into a Settlement Agreement with First Data Corporation (FDC) related to funds that had been held in escrow to resolve any post-closing claims by FDC related to the acquisition of PaySys by FDC in April 2001. As a result of the Settlement Agreement, we received $4,183,000 cash which represented our pro rata share (30.7%) of the amount released from the escrow fund. Since funds were contingent and not considered in the previously calculated gain on the sale, this amount is included as investment income in the results of the quarter ended March 31, 2003 and is reflected in the cash balance at the end of the quarter. We will also receive our pro rata share of the balance of a $1.0 million legal defense fund, after payment of legal and administrative expenses related to the escrow. We expect a disbursement from the legal defense fund in the second quarter of 2003, which will represent additional investment income and cash proceeds.

4. *Write-down of RF Solutions Note Receivable and Investment* - The first quarter 2003 results include a reserve of $600,000 against the $600,000 carrying value of our minority investment in RF Solutions, Inc., an early stage supplier of WLAN semiconductor products that sold its principal assets to a publicly traded company effective early in April 2003. We also took a reserve of $119,000 against the carrying value of a note receivable from RF Solutions. Both reserves were presented in the line item investment income for the quarter ended March 31, 2003. Under the terms of the April 2003 sale, the note holders and preferred shareholders of RF Solutions, including several venture capital funds and other minority investors like ISC, received a cash payment to repay part of the principal and interest outstanding on the notes and may receive an additional payment on the note balance and preferred stock investment, payable in common stock of Anadigics, Inc., the acquiror company [NASDAQ: ANAD], based on achievement of certain performance targets over the next twelve months. In April 2003, we received $79,000 cash in partial payment of our note. Since the amount of any future payment, if any, is not determinable at this time, we have fully reserved our remaining note balance and investment in RF Solutions.

5. *Comprehensive Income (Loss)* - In accordance with Financial Accounting Standards Board Statement No. 130, Reporting Comprehensive Income , comprehensive income is the total of net income and all other non-owner changes in equity in a period. A summary follows:

Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended March 31,	
(unaudited, in thousands)	**2003**	**2002**
Net income (loss)	$949	$(2,122)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(4)	5
Unrealized gain (loss)	5	(439)
Comprehensive income (loss)	$950	$(2,556)

6. *Industry Segments* Our consolidated subsidiaries are involved in two industry segments: Information Technology products and services, and Industrial Products. Operations in Information Technology products and services include development and sales of software licenses and related professional services and software maintenance contracts

Table of Contents

provided through three subsidiaries: QS Technologies, Inc., VISaer, Inc., and CoreCard Software, Inc. Operations in the Industrial Products segment include the manufacture and sale of bio-remediating parts washing systems by our ChemFree Corporation subsidiary. Total revenue by industry segment includes sales to unaffiliated customers. Sales between our industry segments are not material. Operating profit (loss) is total revenue less operating expenses. None of the corporate overhead expense is allocated to the individual industry segments. Identifiable assets by industry segment are those assets that are used in our subsidiaries in each industry segment. Corporate assets are principally cash, notes receivable and investments. The table following contains segment information for the quarters ended March 31, 2003 and 2002, in thousands.

Quarter ended March 31, *(unaudited)*	**2003**	**2002**
Information Technology		
Revenue	$ 1,577	$ 1,043
Operating income (loss)	(2,542)	(3,241)
Industrial Products		
Revenue	1,593	1,144
Operating income (loss)	205	(19)
Consolidated Segments		
Revenue	$ 3,170	$ 2,187
Operating income (loss)	(2,337)	(3,260)

A reconciliation of consolidated segment data above to consolidated income (loss) follows:

Consolidated segments operating loss	$ (2,337)	$ (3,260)
Corporate expenses	(237)	(357)
Consolidated operating loss	(2,574)	(3,617)
Interest income (expense)	(5)	24
Investment income	3,464	797
Equity of affiliates	(67)	(66)
Other income	27	751
Income (loss) before taxes	845	(2,111)
Income tax provision (benefit)	(104)	11
Net income (loss)	$ 949	$ (2,122)

	March 31, 2003 *(unaudited)*	**December 31, 2002** *(audited)*
Depreciation and Amortization		
Information Technology	$ 148	$ 192
Industrial Products	22	16
Consolidated segments	170	208
Corporate	7	12
Consolidated depreciation and amortization	$ 177	$ 220

Capital Expenditures		
Information Technology	$ 40	$ 15
Industrial Products	16	86
Consolidated segments	56	101
Corporate	3	4
Consolidated capital expenditures	$ 59	$ 105
Identifiable Assets		
Information Technology	$ 5,639	$ 6,334
Industrial Products	2,154	1,944
Consolidated segments	7,793	8,278
Corporate	10,554	9,582
Consolidated assets	$ 18,347	$ 17,860

Table of Contents

7. *Stock-Based Compensation* At March 31, 2003 we had two stock-based compensation plans. We account for the plans under the intrinsic value recognition and measurement principles of Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations. The intrinsic value recognition is measured by the difference between the exercise price and the market value of the underlying securities. Based on the additional disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment to SFAS No. 123 , the following table illustrates the effect of net income and earnings (loss) per share if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock Based Compensation .

Three Months ended March 31, *(in thousands, except per share data)*	**2003**	**2002**
Net income (loss), reported	$ 949	$(2,122)
Add: stock-based employee compensation included in reported net income (loss), net of related tax effect		
Deduct: stock-based compensation expense determined under fair value based method for all awards, net of related tax effect	(3)	(7)
Pro forma net income (loss)	$ 946	$(2,129)
Pro forma net income (loss) per common share basic	$ 0.21	$ (0.47)
Pro forma net income (loss) per common share diluted	$ 0.21	$ (0.47)

Item 2. Management s Discussion and Analysis of Results of Operations and Financial Condition

In addition to historical information, this Form 10-Q may contain forward-looking statements relating to Intelligent Systems Corporation (ISC). All statements, trend analysis and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including works such as anticipate , believe , plan , estimate , expect , and intend , and other similar expressions, constitute forward-looking statements. Prospect investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are delays in product development, undetected software errors, competitive pressures (including pricing), market acceptance, failure to establish referencable customer installations, changes in customer requirements, and preferences, changes in financial markets, performance, financial condition and valuation of affiliate companies, the war against Iraq and the SARS epidemic and their impact on the worldwide commercial aviation industry, other geopolitical or military actions, and general economic conditions, particularly those that cause business and government to delay or cancel software purchase decisions. ISC undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results.

Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements presented in this Form 10-Q.

Overview - Our consolidated subsidiaries during 2003 operate in two industry segments: Information Technology and Industrial Products. Included in the Information Technology sector are QS Technologies, Inc. (software for health and human services), VISaer, Inc. (software for maintenance, repair and overhaul operations in the aviation industry) and CoreCard Software, Inc. (software for the card processing market). The Industrial Products segment includes ChemFree Corporation (bio-remediating parts washers).

Revenue in the first quarter of 2003 was $3,170,000, an increase of 45 percent compared to the same period in 2002. Our net loss from operations in the first quarter of 2003 was $2,574,000 compared to a net loss of $3,617,000 in the first quarter of 2002. The reduction in operating loss is a result of improved performance at each of the controlled subsidiaries resulting from higher sales levels at VISaer, QS Technologies and ChemFree and lower expense levels, principally in the area of research and development. In the current quarter, we recognized a total of $3,523,000 in other income that offset the loss from operations, resulting in consolidated net income for the quarter of $949,000 compared to a net loss of $2,122,000 in the first quarter of 2002. The income in the first quarter of 2003 reflects a gain of $4,183,000 due to settlement of the escrow fund that had been established in April 2001 at the time of the sale of our affiliate company, PaySys International, Inc., to First Data Corporation.

Revenue - Total revenue in the first quarter of 2003 was $3,170,000, an increase of 45 percent compared to revenue of $2,187,000 in the same period last year. Revenue from products, which includes sales of equipment in our Industrial Products segment as well as software license fees related to the Information Technology segment, increased 26 percent period-to-period whereas revenue from services billed by the Information Technology segment increased 80 percent period-to-period. The increase in product revenue is due mainly to a 39 percent increase period-to-period in sales of ChemFree products, reflecting a greater number of machines sold or leased as well as more units sales of fluid and filters due to increased demand for the ChemFree products. Compared to the same period last year, ChemFree s revenue increased by 24 percent in domestic markets and 123 percent internationally, although the company does not expect the same level of increase in each succeeding quarter of 2003, particularly in the European markets or during the summer months. With respect to revenue from services, the period-to-period increase is due primarily to a 112 percent increase in VISaer s service revenue reflecting a greater number of hours billed for professional services and a 29 percent increase in QS Technologies service revenue, the majority of which is related to annual maintenance contract revenue.

Cost of Revenue - In the three months ended March 31, 2003, cost of revenue was 57 percent of consolidated revenue, compared to 55 percent in the same period last year. Cost of product revenue was 45 percent of product revenue in the first quarter of 2003 compared to 48 percent in the comparable period in 2002. The decrease between periods reflects a more favorable product mix in the current quarter as proportionately more of ChemFree s revenue was derived from higher margin fluid and filter sales (as compared to lower margin parts washer machines). Cost of service revenue (all of which relates to the VISaer and QS Technologies subsidiaries) increased by 92 percent from period to period and by 7 percent as a percentage of service revenue, reflecting changes at both QS Technologies and VISaer. While VISaer s cost of service revenue increased in absolute dollars to support a higher level of service revenue, the cost as a percentage of service revenue declined because the utilization rate for billable VISaer personnel was higher in the first quarter this year than last year. QS Technologies cost of service revenue increased in absolute amounts and as a percentage of revenue because QS Technologies allocated more technical personnel to the customer support function in the first quarter of this year than in the first quarter last year.

Operating Expenses - In the first quarter of 2003, total consolidated operating expenses decreased by 15 percent from the comparable period last year. Consolidated marketing expenses were up 31 percent period-to-period, reflecting mainly higher expenses in the Information Technology segment to support a higher sales volume offset in part by a reduction in marketing expenses in the Industrial Products segment. This reduction occurred because last year ChemFree incurred significant up-front expenses for a new marketing initiative in 2002 that did not require the same level of expenditure in 2003. Consolidated general and administrative expenses declined by 12 percent in the first period of 2003 compared to the first period last year. This reduction reflects mainly the elimination of duplicate administrative and management personnel expenses at CoreCard following the acquisition of CoreCard in the first quarter of 2002. Consolidated research and development expense in the first period of 2003 was $2,081,000 which is $705,000 (or 25 percent) less than for the first period last year. The significant decline is due mainly to reduced expenses at both VISaer and CoreCard. At VISaer, significant activities and subcontractor expense related to the initial conversion and development of the Web-based VISaer software have been completed and at CoreCard, fewer employees are required now than were needed in the early stages to create the technology platform and develop initial specifications and software code.

Interest Income - In the first quarter this year, we recorded $5,000 in interest expense compared to interest income of $24,000 in the first quarter of 2002. In 2003, interest expense relates to interest payable on equipment leases. In 2002, we earned interest on higher cash balances than in 2003.

Investment Income - In the first quarter of 2003, we earned net investment income of $3,464,000, representing investment income of $4,183,000 earned on the PaySys escrow settlement offset in part by a write-down of $600,000 to reduce the carrying value of our investment in RF Solutions, Inc. and a charge of $119,000 to reduce the carrying value of a note receivable from RF Solutions, Inc. (see Notes 3 and 4 to these financial statements for a detailed description of these transactions). By comparison, in the first quarter of 2002, we earned $797,000 in net investment income representing gains of $573,000 on the sale of shares of Atherogenics stock and $474,000 on the private sale of our remaining interest in a former affiliate company, Risk Labs, off set by a reserve of $250,000 to write down the carrying value of our minority interest in a privately held early stage software company.

Table of Contents

Equity Losses of Affiliate Companies - On a quarterly basis, we recognize our pro rata share of the earnings or losses of affiliate companies that we record on the equity method. These companies are typically early stage companies that incur losses during their development and early revenue stages. We recorded $67,000 and $66,000 of net equity losses in the first quarter of 2003 and 2002, respectively, which included our pro rata share of the net earnings or losses reported by three affiliate companies (CoreXpand, MediZeus and Horizon Software) in 2003 and one affiliate company (CoreXpand) in 2002.

Other Income, Net - Other income includes $27,000 and $752,000 in the first quarter of 2003 and 2002, respectively, most of which reflects recognition of deferred gain related to a VISaer product line sale in July 2000.

Taxes - In the first quarter of 2003, we recorded a tax benefit of $104,000 which reflects a refund of alternative minimum taxes paid by the VISaer subsidiary in a prior year. We did not accrue for any income tax liability in the first quarter of 2003 because we currently estimate the company will not incur a tax liability for the full year 2003. In the first quarter of 2002, we recorded income tax expense of $11,000 representing a subsidiary s state tax liability.

Common Shares - The basic and diluted weighted average number of basic shares outstanding in the first quarter of 2002 declined slightly due to our repurchase and retirement of a small number of shares of our common stock.

Liquidity and Capital Resources

Our cash balance at March 31, 2003 was $5,108,000 compared to $2,644,000 at December 31, 2002. For the first quarter ended March 31, 2003, our principal source of cash was $4,183,000 from the proceeds of the PaySys escrow settlement. During the three month period, our principal uses of cash were to support operations at CoreCard Software and VISaer, through advances totaling $1,578,000. Cash used for operations included a decrease of $217,000 in accounts payable and cash provided by operations included $686,000 generated from collections of accounts receivable.

In the first quarter of 2003, all of the preferred shareholders of VISaer permanently waived their rights to redemption by VISaer of their preferred shares. Consequently, VISaer reclassed the amounts that it had accrued in prior periods related to the redemption provision and, on our consolidated balance sheet at March 31, 2003, we reclassed the amounts shown as redeemable preferred stock of subsidiary at December 31, 2002, against goodwill. There was no income statement impact on this entry.

Our budgeted cash requirements for 2003 are substantially lower than for 2002 based on new and pending software license contracts at our Information Technology segment subsidiaries, anticipated software customer payments based on milestone achievements, and lower product development costs at VISaer and CoreCard Software. It is unclear what impact, if any, will result from the war against Iraq, potential further terrorist attacks either in the United States or abroad, the sudden acute respiratory syndrome (SARS) epidemic and other general economic factors, particularly with respect to VISaer s and ChemFree s international business, which represented $1,346,000 (42 percent) of consolidated revenue for the first quarter of 2003. We expect the impact may be more severe at VISaer since approximately 90 percent of its current year revenue is from international customers involved in the commercial aviation industry and a significant number of its prospective customers are in the Asian and Pacific markets. Unanticipated delays in contract awards, implementations or customer payments may increase our cash requirements during 2003. We believe our cash balances are adequate to support our operations and plans for the foreseeable future. We do not have off-balance sheet arrangements, relationships, transactions or guarantees with third parties or related parties that would affect our liquidity or results of operations.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. We consider certain accounting policies related to revenue recognition, valuation of acquired intangibles and impairment of long-lived assets, and valuation of investments to be critical policies due to the estimation processes involved in each. Management discusses its estimates and judgments with the Audit Committee of the Board of Directors. For a detailed description on the application of these and other accounting policies, see Note 1 to the Consolidated Financial Statements contained in our annual report on Form 10-K for 2002.

Revenue Recognition - Our product revenue consists of fees from software licenses and sales of equipment and supplies. Our service revenue consists of fees for implementation, consulting, training, maintenance and support for software products. A portion of our revenue is derived from software contracts that contain significant production, modification and/or

customization requirements and license fees for such contracts are recognized using contract accounting. In some situations, we recognize revenue on a percentage of completion basis that involves estimating our progress on the contract based on input measures. We recognize revenue and the related costs in the same proportion that the amount of labor hours incurred to date bears to the total estimated hours required for contract completion. If reliable estimates cannot be determined or if there is an acceptance clause in the contract, all revenue is deferred until the customer has accepted the software and any refund rights have expired. If we do not accurately estimate the resources required or the scope of work to be performed, or we do not manage the contract properly, in future periods we may need to restate revenues or to incur additional cost which would impact our margins and reported results.

Valuation of Intangibles - Purchase accounting for an acquisition requires use of accounting estimates and judgments to allocate the purchase price to the fair market value of the assets and liabilities purchased. Our business acquisitions may result in the allocation of a portion of the purchase price to goodwill and other intangible assets. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect the amount of future period amortization expenses and possible impairment expense that we will incur. On at least an annual basis, we review the values assigned to long-lived assets using an estimate of the undiscounted cash flows of the entity over the remaining life of the asset. Any resulting impairment could require a write-down that would have a material adverse impact on our financial condition or results of operations.

Valuation of Investments - We hold minority interests in non-publicly traded companies whose values are difficult to determine and are based on management s estimate of realizability of the carrying value of the investment. Future adverse changes in market conditions, poor operating results, lack of progress of the underlying investment or inability to raise capital to support the business plan could result in losses or an inability to recover the current carrying value of the investment. Our policy with respect to minority interests is to record an impairment charge when we believe an investment has experienced a decline in value that is other than temporary. Such charges could have a material adverse impact on our financial condition or results of operations and are not predictable or quantifiable in advance.

Factors That May Affect Future Operations

Future operations in both the Information Technology and Industrial Products segments are subject to risks and uncertainties that may negatively impact our results or projected cash requirements. In addition, the value of our investments are impacted by a number of factors beyond our control. Among the factors that may affect our consolidated results of operations or financial condition are delays in software product development, undetected software errors, competitive pressures (including pricing), inability to establish referenceable customers by CoreCard, failure of our product specifications and features to achieve market acceptance, changes in customer requirements and preferences, delays in anticipated customer payments, declines in performance, financial condition or valuation of minority-owned companies, the aftermath of the war against Iraq, other geopolitical or military actions, the SARS epidemic and the impact of these factors on the commercial aviation industry, particularly in the developing Asian-Pacific markets, and other general economic conditions, particularly those which may cause commercial and government customers to delay or cancel software purchase decisions.

Both VISaer and CoreCard will incur operating losses in 2003 although their cash requirements are expected to be less than their reported losses because of scheduled customer payments based on milestone achievements in advance of being able to recognize license revenue. CoreCard and VISaer will require cash to operate in 2003, although at significantly lower levels than in 2002. We anticipate that our other subsidiaries and our corporate operations will be cash neutral in 2003 in the aggregate. If either CoreCard or VISaer is unsuccessful or if we decide to suspend funding, we may not recover our investment. Furthermore, if VISaer fails to meet product development milestones or if CoreCard is unsuccessful in implementing its initial reference customers, anticipated payments from customers may be delayed, resulting in increased cash requirements. To minimize the effects of a potential slowdown in new business booked by VISaer due to further potential declines in an already weak aviation market, VISaer is taking proactive steps to focus its resources on meeting current contract requirements and deferring expenses related to new sales and marketing efforts. CoreCard s challenge is to establish a growing base of referenceable, satisfied customers and to overcome customer reluctance to implement a business critical system based on a new product offering from an early stage company with limited installations. One such customer contract is in negotiation at this time and others will be needed to overcome this reluctance. Depending on the number and payment terms of new software contracts, CoreCard s cash requirements and budgeted results may differ from our current forecasts.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not have any material market risk because we have no long-term borrowings and our exposure to foreign currency valuation is minimal.

Item 4. Controls and Procedures

Within 90 days prior to the filing date of this report on Form 10-Q, management of ISC conducted an evaluation, under the supervision and with the participation of ISC s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that ISC s disclosure controls and procedures are effective in ensuring that information required to be disclosed by ISC in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms. In addition, ISC management, including our Chief Executive Officer and Chief Financial Officer, reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of our last evaluation.

Part II. OTHER INFORMATION

Item 5. Other Information

Certifications Under Section 906 of the Sarbanes-Oxley Act of 2002

In accordance with guidance recently issued by the SEC, we have submitted the certifications of our Chief Executive Officer and our Chief Financial Officer required by section 906 of the Sarbanes-Oxley Act of 2002 as Exhibits 99.1 and 99.2, respectively, accompanying this report. Pursuant to this SEC guidance, such exhibits shall not be deemed to be filed as part of this report.

Item 6. Exhibits and Reports on Form 8-K

We filed a Form 8-K on May 7, 2003 disclosing that we issued a press release on May 7, 2003 announcing our financial results for the quarter ended March 31, 2003.

The following exhibits are filed with this report:

99.1	Certification of Chief Executive Officer required by section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Chief Financial Officer required by section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

INTELLIGENT SYSTEMS CORPORATION
Registrant

Date: May 15, 2003

By: */s/ J. Leland Strange*

J. Leland Strange
Chief Executive Officer, President

Date: May 15, 2003	By*: /s/ Bonnie L. Herron*
	Bonnie L. Herron Chief Financial Officer

Page 11

Table of Contents

CERTIFICATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Leland Strange, the Chief Executive Officer of Intelligent Systems Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intelligent Systems Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ J. Leland Strange

J. Leland Strange
Chief Executive Officer and President

Page 12

Table of Contents

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bonnie L. Herron, the Chief Financial Officer of Intelligent Systems Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intelligent Systems Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Bonnie L. Herron

Bonnie L. Herron
Chief Financial Officer