DREMAN CLAYMORE DIVIDEND & INCOME FUND
Form N-CSRS
July 06, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21455

Dreman/Claymore Dividend & Income Fund

(Exact name of registrant as specified in charter)

2455 Corporate West Drive Lisle, IL	**60532**
(Address of principal executive offices)	**(Zip code)**

Nicholas Dalmaso

Claymore Advisors, LLC

2455 Corporate West Drive

Lisle, IL 60532

(Name and address of agent for service)

Registrant s telephone number, including area code: (630) 505-3700

Date of fiscal year end: October 31

Date of reporting period: April 30, 2006

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR 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 Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

Item 1. Reports to Stockholders.

The registrant s annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

www.dremanclaymore.com

. . . your path to the LATEST,

most up-to-date INFORMATION about the

Dreman/Claymore Dividend & Income Fund

The shareholder report you are reading right now is just the beginning of the story. Online at **dremanclaymore.com**, you will find:

Daily, weekly and monthly data on share prices, distributions, dividends and more

Portfolio overviews and performance analyses

Announcements, press releases and special notices

Fund and adviser contact information

Dreman Value Management and Claymore Securities are continually updating and expanding shareholder information services on the Fund s website www.dremanclaymore.com, in an ongoing effort to provide you with the most current information about how your Fund s assets are managed, and the results of our efforts. It is just one more small way we are working to keep you better informed about your investment in the Fund.

Dear **Shareholder** |

We are pleased to report that the Dreman/Claymore Dividend & Income Fund (NYSE: DCS) posted strong performance for the semiannual fiscal period, once again outperforming the market as measured by the Standard & Poor s 500 Index (S&P 500) on a net asset value (NAV) basis.

As you may know, the Fund s investment goal is to construct and manage a portfolio of high-quality investments that provide a high level of current income, with a secondary objective of capital appreciation, while taking advantage of the favorable tax rates on dividend income. Since the close of this reporting period, we re pleased to report that the U.S. Congress passed an extension of the favorable tax rates on equity dividends that were due to expire at the end of 2008.The lower rates will now remain in effect through 2010. In keeping with Dreman Value Management s contrarian value approach to investing, the Fund s portfolio represents what we believe to be quality companies trading at attractive valuations relative to the market.

On a NAV basis, the Fund returned 13.12% versus 9.64% by the S&P 500 for the six months ended April 30, 2006. This represents a change in NAV to $22.62 on April 30 from $20.62 at the start of the period, plus the reinvestment of the Fund s distributions. The Fund s performance at market price was positive, but trailed these returns, posting a gain of 8.73%, which reflects a market price of $19.12 at the close of the period versus $18.20 on October 31, 2005, plus the reinvestment of the Fund s distributions.

We re disappointed with the widening discount, especially as the Fund has continued to outperform the S&P 500 on a NAV basis. This discount to NAV highlights the fact that many closed-end funds have fallen out of favor with investors despite the success of many in providing favorable NAV returns. We believe that this deep discount represents a compelling opportunity as common shares of the Fund are now available in the market at prices far below the value of the securities in the underlying portfolio.

When shares trade at a discount to NAV, the Dividend Reinvestment Plan (DRIP) takes advantage of the discount by reinvesting distributions in common shares of the Fund purchased in the market at a price less than NAV. Conversely, when the market price of the Fund s common shares is at a premium above NAV, the DRIP reinvests participants dividends in newly-issued common shares at NAV, subject to an IRS limitation that the purchase price cannot be more than 5% below the market price per share. The DRIP provides a cost effective means to accumulate additional shares and enjoy the benefits of compounding returns over time. Shareholders have the opportunity to reinvest their dividends from the Fund through the DRIP that is described in detail on page 22 of this report.

On May 1, 2006 the Fund declared a quarterly dividend of $0.325 per share. This represented an annualized distribution rate of 6.80% based upon the closing market price of $19.12 on April 30, 2006. Given the Fund s tax characteristics for the 2005 calendar year, this rate represents a tax-advantaged distribution rate of 8.40% for an individual shareholder subject to the maximum federal income tax bracket of 35%. Of course, the final determination of the tax characteristics of dividends paid is made after the end of each calendar year. There can be no assurance that this characterization is indicative of future allocations or that this distribution rate will be achieved in the future.

We provide a detailed discussion of the Fund s performance over this fiscal period in the Questions & Answers section of the report. You ll find information on the overall market environment, a discussion of which sectors and securities contributed and detracted from the Fund s performance and a summary of our contrarian value investment philosophy in that section, which begins on page 5 of this report.

The prospectus for the Fund contained a statement that the Fund will generally not invest in less than 10 industries or in greater than 15 industries, and that the Fund will not generally invest in less than 30 stocks or in greater than 60 stocks.The Fund has decided that this strategy should be eliminated to allow the Investment Manager to make investment decisions that they believe best meet the Fund s overall objective.

We thank you for your continued investment in DCS and we are honored that you have chosen the Dreman/Claymore Dividend & Income Fund as part of your investment portfolio. For the most up-to-date information on your investment, please visit the Fund s website at www.dremanclaymore.com

Sincerely,

David N. Dreman
Founder, Chairman and Chief Investment Officer of Dreman Value Management, LLC and Trustee of the Dreman/Claymore Dividend & Income Fund

May 22, 2006

DCS | Dreman/Claymore Dividend & Income Fund

Questions & Answers |

David N. Dreman leads the management team of the Dreman/Claymore Dividend & Income Fund (DCS). Dreman is the Founder, Chairman and Chief Investment Officer of Dreman Value Management LLC (DVM). In the following interview, Dreman and Portfolio Co-Managers Nelson Woodard and Lee A. Delaporte share their thoughts on the equity market and the Fund s performance in the six months ended April 30, 2006.

The closed-end fund market remained volatile during this fiscal period, how did DCS perform in this difficult environment?

We re pleased to report that DCS gained in both net asset value (NAV) and market value. For the six-month period ended April 30, 2006, DCS posted a 13.12% NAV return and an 8.73% market value return. The NAV return exceeded the 9.64% of the S&P 500, an index generally considered representative of the overall US equity market.

Despite the 8.73% gain in market value, the Fund s discount from NAV widened to 15.47% on April 30 from 11.74% at the end of the last fiscal period. We re especially frustrated with the discount in light of the strong NAV performance we have been able to generate for DCS. Since its inception on January 27, 2004, DCS has outperformed the S&P 500, on a NAV basis, with an annualized return of 14.12% vs. 8.72% by the S&P 500. Since market price is not something that we as managers are able to control, we will remain focused on seeking to generate a strong NAV that we hope, in time, will be recognized and ultimately supported by the market.

How did the equity market perform in the six months ended April 30?

As noted above, equities provided solid gains, with the S&P 500 returning 9.64% due in large part to investor confidence in the sustained growth prospects for the U.S. economy. Large-cap value stocks again outpaced their large-cap growth counterparts by a meaningful margin. We continued to tilt the portfolio toward companies that are less economically sensitive than the overall market. Equity market investors were intensely focused on Federal Reserve Board (the Fed) policy under the new Fed Chairman Ben Bernanke.The short-term interest rate, as measured by the Federal Funds rate is, at the time of this writing, 5%.The Fed has raised rates by a quarter of one percent at each of their last 16 meetings. We expect the Fed to continue tightening until short-term rates are approximately 5.25% to 5. 5%. The latest buzzwords are that the Fed s decisions are data dependent, meaning that as long as the economy produces strong growth and inflation trends higher, the Fed will continue to tighten. Conventional wisdom states that once the Fed stops tightening, the equity markets will commence a strong rally; we are not so sure. While we are optimistic that the U.S. will continue to produce solid economic growth over the near term, we expect growth to moderate by year-end. Absent a major geopolitical eruption from the likes of Iran or a super spike in oil prices, the slowdown we anticipate will be a result of the slowing housing market due to higher rates. Given the speculative excesses that have gripped parts of the housing market, a period of slack housing activity is probably good for long-term growth prospects.

How did these market events drive your stock selection process?

While we look for investment opportunities created by market events, we don t let the market drive our disciplined investment process. In all environments, we choose stocks based on our contrarian value philosophy, which is based on our contention that consensus opinion, especially when it comes to investing, is often wrong. We seek companies that we believe are financially sound and that have, for one reason or another, fallen out of favor with the investing public. We look for stocks that we feel are trading below their perceived intrinsic values, with prices that are low relative to their earnings (P/E[1] the most common

measure of how expensive a stock is), book value (P/B) and cash flow (P/CF). Typically, these types of companies have provided potential for above-market returns over time. We base our stock selection solely on fundamental bottom-up analysis a process of evaluation that accounts for the individual merits of each stock. Therefore, we do not choose stocks based on industry sector or the macroeconomic environment. Industry sector weightings are a result of individual stock selection. While our disciplined process has generated favorable results over time, there is no guarantee that the perceived intrinsic value we see in individual securities will be realized.

Which factors supported the Fund s strong NAV performance?

Despite rising interest rates, the equity market was quite strong during the period. The Fund s performance was helped by above-market returns from a variety of holdings throughout the portfolio as well as from the interest rate hedges that we employed to protect the Fund s valuation from the effects of rising interest rates.

Please tell about the hedges and how they were helpful.

Hedges were put into place to guard against rising interest rates both short-term rates and long-term rates. The risk of using a hedge is that rates might decline, which would cause the prices of the bonds to rise, resulting in losses to the hedges. That was not the case with either of the hedges this period.

The Fund s hedge (the short) against long-term rate increases has been an important part of the Fund s strategy since its inception. We employed the hedge to help provide protection for a significant part of the portfolio that is interest rate sensitive, and the hedge was particularly helpful this period as long-term interest rates moved higher. Admittedly, we were early in implementing the hedge, as the yield curve remained relatively flat for a longer period than we had expected. (A flat yield curve occurs when there is little difference in the level of yields between short-term and long-term bonds of comparable qualities.) However, now that long rates have risen, the hedge has acted as we had originally anticipated. The short was designed to help protect the value of our holdings that are highly vulnerable to rising long-term rates in sectors such as preferreds, utilities and REITs. As long-term rates moved higher this period, the short generated gains. Without the hedge, the Fund s interest rate sensitive securities would have caused the portfolio to lose ground.

Long-term rates have remained at historically low levels over the last few years causing us to believe that a moderate increase in rates is possible. Therefore we plan to maintain the short position. If we are correct in our assumption and long-term rates rise by at least one percent, the performance of DCS would likely benefit. That s because the hedge would offset the losses on the rate-sensitive long portion of the portfolio, enabling us to potentially reinvest in securities with higher yields, which would be available in the higher rate environment. We expect that scenario would improve the Fund s yield. Of course there are no guarantees that events will occur as we expect.

We also hedged approximately 30% of the Fund s short-term auction market preferred shares (AMPS) last year. This hedge protected the Fund against the impact of higher short-term rates and as such helped support the DCS leverage program.

Will you give us some examples of the portfolio s better performers?

Healthcare. The Fund s healthcare stocks were the best performers with major pharmaceutical stocks such as Merck & Co., Inc. and Bristol Myers Squibb Co. (4.4% and 2.0% of long-term investments, respectively) gaining substantial ground. Merck rebounded significantly from its lows reached last summer amid the fears of litigation due to its arthritis drug,Vioxx.While Merck will have to defend hundreds if not thousands of claims

that Vioxx caused heart problems, it looks as though the potential for large punitive damage awards is limited. At current prices, we believe Merck s stock price more than fully discounts any potential future litigation expenses. As important, Merck s dividend yield is approximately 4.42% as of April 30, 2006. Bristol Myers Squibb benefited from improved earnings and reduced litigation threats.

We continue to believe that healthcare stocks will outperform the overall market in the next few years. Our belief is based on both the demographic trends of an aging population that is willing to spend to improve health outcomes as well as attractive valuations of many stocks in the sector. The major pharmaceutical companies have significantly lagged the market over the last five years as earnings growth has been scarce and litigation risks numerous. We think that is about to change. That said, the Fund s 7.3% position in healthcare is appropriate for this Fund. While the potential for appreciation in healthcare stocks is strong, yields in the sector are often less attractive than what can be found elsewhere. Our focus is of course on generating a strong stream of qualified dividend income. To increase the healthcare position substantially at this point would sacrifice the Fund s income potential. If it is a choice between buying stocks with the greatest appreciation potential or those with the highest yield, we ll go for the yield in some cases.

Tobacco. The Fund s positions in tobacco producers Reynolds American, Inc. and Loews Corp. Carolina Group (1.4% and 1.9% of long-term investments) appreciated greatly due to a strong market environment and reduced litigation fears. While we still like the companies, the valuation of these stocks, we believe is approaching fair market valuation and we reduced our position in both to lock in profits for shareholders. Additionally, the securities substantial appreciation has lowered their yields considerably, making them less attractive investments for this income-oriented Fund.

Energy. The Fund s energy position (14.8% of long-term investments) gained as demand for oil continued to rise and oil prices remained at historically high levels. The sector s performance, however, was tempered somewhat by a decline in demand for natural gas due to a relatively warm winter season, which dragged down natural gas prices.

The Fund s investment in energy trusts were a primary contributor to performance. Energy trusts are publicly-traded partnerships whose interests in oil or gas fields are traded on securities exchanges like shares of corporate stock. Due to their structure, the income generated by these trusts is often treated as qualified dividend income. We began purchasing the trusts in the previous fiscal period for their high dividend yields. While exploration and production companies typically pay dividends, their yields are not generally as attractive as the integrated oil companies or those offered in other areas of the market. The Fund s energy trusts, however, generated high levels of dividend income and also a significant part of the Fund s appreciation. The trusts represented 7.2% of long-term holdings as of April 30, 2006.

While the energy sector has led the market for a number of years, we believe that more upside potential remains. Demand for oil has continued to grow, and at this juncture it appears that demand may exceed available supply. For that reason we don t expect the price of oil to decline materially. While we are bullish on energy, we do expect a good deal of volatility in the sector. Investments based on commodity prices are typically volatile. Additionally, many new investors have entered the market to chase the sector s strong gains. While we anticipate more positive returns, we re not convinced that sector can continue to rally at the level it did in 2005. If performance slows, we believe it is likely that many of those new investors may move to other areas of the market, potentially creating more volatility.

What about sectors or securities that hindered performance?

We re gratified to report that there were very few portfolio securities that lost ground. Fortunately, most that declined did so only minimally or in other cases the Fund held such a small position that the losses had relatively little impact on the portfolio as a whole.

Tobacco. Altria Group, Inc. (10.4% of long-term investments), the Fund s largest position, is a large diversified tobacco and consumer packaged goods company, which owns Philip Morris and Kraft Foods. During the period, Altria underperformed the market, submitting a relatively flat return. However, Altria provided a very attractive yield 4.37% as of April 30 and was a positive contributor in terms of generating qualified dividend income for the portfolio.

While we ve reduced positions in some of our other tobacco holdings, we remain committed to Altria, which has been a great performer over time. We like Altria s competitive yield and it appears that the company is near the end of a long standing court case. Altria has announced that the pending litigation, the Engle Case, is the last hurdle it wants to clear before spinning off its Kraft Foods business. If that happens, we expect that a great deal of shareholder value will be unlocked and that we may see the stock price rise further. While we are not certain when, or if, the value will be realized, we assume there is a good possibility the transaction would occur within the next 12 months.

Energy. Devon Energy Corp. (1.4% of long-term holdings) is an exploration and production company with substantial exposure to natural gas in North America. Since the middle of 2002, Devon shares have nearly tripled in price. However, Devon provided lackluster performance in this period as demand for natural gas and prices fell as a result of fairly mild winter temperatures. While we were of course disappointed, we believe this is just a hiccup in performance and have therefore maintained the Fund s Devon position within the portfolio. Over the longer-term we believe that growing demand for natural gas will exceed supply.

Diversified Financials. The Fund s position in mortgage provider Freddie Mac (3.6% of long-term investments) declined marginally during the period as the company announced additional delays in reporting their financial statements. The fact that Freddie was not down more tells us that holders of the stock are looking past any additional short-term disappointments and are focusing instead on the improving prospects for the company. With a P/E in the high single digits and long-term growth to match, we believe Freddie Mac and Fannie Mae (a similarly structured mortgage company that often trades in tandem with Freddie) have the potential for strong gains in the years ahead. DCS also owns Fannie Mae, which represented 3.7% of long-term investments. Fannie Mae provided a positive return in the period.

Please tell us about the Fund s distributions.

The Fund seeks to pay out 6.5% in distributions annually based on its initial $20 offering price.We seek income through qualified income sources those taxed at a lower rate than ordinary income to provide a large portion of the payout. We use utility stocks, some preferred stocks and historically high dividend-yielding common stocks to generate qualified income. We can (and did this period) place hedges on the Fund s income securities to attempt to protect the value of our interest-rate sensitive holdings. The risk of using a hedge is that rates might decline, which would cause the prices of the bonds to rise. That was not

the case this period as both short-term and long-term interest rates rose. As mentioned previously, the hedges added a good deal of value for the Fund over the last six months.

Have higher short-term interest rates impacted the effectiveness of the Fund s leverage program?

DCS, like many closed-end funds, utilizes leverage as part of its investment strategy. The purpose of leverage is to finance the purchase of additional securities that provide increased income and potentially greater appreciation to common shareholders than could be achieved from a portfolio that is not leveraged. In executing this strategy, the Fund issued short-term AMPS, as mentioned earlier.

A leveraged portfolio, of course, results in greater NAV volatility and entails more downside risk than an unleveraged portfolio. The use of leverage also makes the Fund more vulnerable to rising interest rates. As mentioned previously we employed a hedge on approximately 30% of the Fund s AMPS to partially offset increases in the short-term interest rate paid to the AMPS holders. The hedge has added a great deal of value this period as interest rates moved higher. We will continue to employ our leverage strategy as long as we feel there is a benefit to doing so.

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[1] P/E is equal to a stock s market capitalization divided by its after-tax earnings over the most recent 12-month period. P/B is equal to a stock s market capitalization divided by its book value (This ratio compares the market s valuation of a company to the value of that company as indicated on its financial statements.) P/CF is equal to a stock s capitalization divided by its cash flow for the latest fiscal year.

DCS Risks and Other Considerations

There can be no assurance that the Fund will achieve its investment objectives. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

Fund risks and considerations include, but are not limited to: Hedging Risk; Not a Complete Investment Program; Market Discount Risk; Equity Risk; Special Risks Related to Preferred Securities; Income Risk; Value Investing Risk; Fund Distribution Risk; Interest Rate Risk; Inflation Risk; Foreign Securities; Non-diversified Status; Industry Concentration Risk; Lower-Rated Securities; Financial Leverage; Management Risk; Dependence on Key Personnel; Anti-Takeover Provisions; Illiquid Securities; Common Stock Risk; Special Risks of Derivative Transactions and Geopolitical Risks. There can be no assurance that a percentage of dividends paid on common shares, if any, will consist of qualifying dividend income.

Fund Summary | As of April 30, 2006 (unaudited)

Fund Statistics		
Share Price	$	19.12
Common Share Net Asset Value	$	22.62
Premium/Discount to NAV		-15.47%
Net Assets Applicable to Common Shares ($000)	$	1,026,741

Total Returns (Inception 1/27/04)	**Market**	**NAV**
Six-Month non-annualized	8.73%	13.12%
One Year	11.14%	19.64%
Since Inception average annual	4.23%	14.12%

Sector Breakdown	**% of Long-Term Investments**
Financials	46.6%
Consumer Staples	24.0%
Energy	14.8%
Healthcare	7.3%
Utilities	4.5%
Telecommunications	2.2%
Other	0.6%

Industry Breakdown	**% of Long-Term Investments**
Tobacco	22.0%
Thrift & Mortgage Financial	16.1%
Oil & Gas	15.9%
Commercial Banks	15.5%
Insurance	7.6%
Pharmaceuticals	7.0%
Real Estate & Real Estate Investment Trusts	4.2%
Electric Utilities	3.6%
Diversified Financial Services	2.3%
Diversified Telecommunications	2.2%
Other	3.6%

Top Ten Issuers	**% of Long-Term Investments**
Altria Group, Inc.	10.4%
Fannie Mae	7.9%
UST, Inc.	6.4%
Merck & Co., Inc.	4.4%
Washington Mutual, Inc.	3.9%
Freddie Mac	3.7%
ConocoPhillips	3.2%
ChevronTexaco Corp.	2.3%
Prudential PLC	2.1%
AT&T, Inc.	2.1%

DCS | Dreman/Claymore Dividend & Income Fund

Portfolio of **Investments** | **April 30, 2006** (unaudited)

Number of Shares		Value
	Long-Term Investments 139.8%	
	Common Stocks 100.5%	
	Consumer Staples 30.8%	
2,037,500	Altria Group, Inc. (a)	$ 149,063,500
522,000	Loews Corp. Carolina Group	26,747,280
123,700	Regal Entertainment Group Class A	2,600,174
183,200	Reynolds American, Inc.	20,087,880
600,000	Saks, Inc	12,084,000
166,800	Universal Corp.	6,350,076
2,096,500	UST, Inc. (a)	92,099,245
383,013	Vector Group Ltd.	6,894,234
		315,926,389
	Energy 19.7%	
152,700	ARC Energy Trust, Units (Canada)	4,122,900
188,600	BP Prudhoe Bay Royalty Trust	13,748,940
92,500	Bonavista Energy Trust (Canada)	3,389,200
530,600	Chevron Corp.	32,377,212
686,200	ConocoPhillips	45,906,780
347,400	Cresent Point Energy Trust (Canada)	7,069,590
336,000	Devon Energy Corp.	20,196,960
92,800	Enerplus Resources Fund (Canada)	4,973,152
654,300	Fairborne Energy Trust (Canada)	9,088,227
325,000	Harvest Energy Trust (Canada)	9,987,250
866,200	Ketch Resources Trust (Canada)	8,791,930
131,500	Pengrowth Energy Trust Class A (Canada)	3,215,175
625,000	Penn West Energy Trust (Canada)	24,187,500
100,000	Petrofund Energy Trust	2,456,000
150,800	San Juan Basin Royalty Trust	5,929,456
50,000	Vermilion Energy Trust	1,477,000
240,400	Williams Coal Seam Gas Royalty Trust	5,411,404
		202,328,676
	Financials 30.8%	
185,000	American Home Mortgage Investment Corp.	6,423,200
180,900	American International Group, Inc.	11,803,725
540,000	Bank of America Corp.	26,956,800
1,037,100	Fannie Mae (a)	52,477,260
857,500	Freddie Mac (a)	52,358,950
163,900	Jer Investors Trust, Inc.	2,650,263
724,800	KeyCorp	27,701,856
87,546	Ladenburg Thalmann Financial Services, Inc. (b)	102,429
444,100	Luminent Mortgage Capital, Inc.	3,686,030
486,400	MFA Mortgage Investments, Inc.	3,336,704
201,700	Newcastle Investment Corp.	4,520,097
525,600	Novastar Financial, Inc.	19,447,200
233,600	PNC Financial Services Group	16,695,392
415,000	Regions Financial Corp.	15,151,650
448,600	U.S. Bancorp	14,103,984
65,000	Wachovia Corp.	3,890,250

1,232,800	Washington Mutual, Inc.	55,549,968
		316,855,758
	Healthcare 10.2%	
1,135,000	Bristol-Myers Squibb Co.	28,806,300
80,700	Medco Health Solutions, Inc. (b)	4,295,661
1,846,300	Merck & Co., Inc. (a)	63,549,646
300,000	Pfizer, Inc.	7,599,000
		104,250,607
	Industrials 0.2%	
100,000	Double Hull Tankers, Inc. (Channel Islands)	1,280,000
56,800	Eagle Bulk Shipping, Inc. (Marshall Island)	790,088
		2,070,088
	Telecommunications 3.0%	
1,140,000	AT&T, Inc.	29,879,400
107,000	Alaska Communications Systems Group, Inc.	1,349,270
		31,228,670
	Utilities 5.8%	
158,300	Ameren Corp.	7,973,571
165,400	Consolidated Edison, Inc.	7,132,048
361,900	Empire District Electric Co.	8,233,225
317,200	Great Plains Energy, Inc.	8,960,900
324,700	Peoples Energy Corp.	11,796,351
345,600	Progress Energy, Inc.	14,791,680
274,380	Star Gas Partners, LP (b)	696,925
		59,584,700
	Total Common Stocks	
	(Cost $897,256,204)	1,032,244,888
	Preferred Stocks 31.6%	
	Consumer Discretionary 0.3%	
125,000	Red Lion Hotels Capital Trust, 9.500%	3,250,000
	Consumer Staples 2.8%	
40,000	Dairy Farmers of America, 7.875% (c)	3,830,000
25,000	Universal Corp., 6.750%	25,152,600
	Energy 1.0%	28,982,600
385,500	Southern Union Co., 7.550%	9,945,900

See notes to financial statements.

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

Number of Shares		Value
	Financials 27.0%	
7,000,000	Abbey National Capital Trust I, 8.963% (d)	$ 8,842,183
58,000	Abbey National PLC, Series B, 7.375% (United Kingdom)	1,490,600
200,000	ABN AMRO Capital Fund Trust VII, 6.080%	4,634,000
200,000	Affordable Residential, Series A, 8.250%	4,450,000
700,000	AmerUs Group Co., 7.250%	17,857,000
240,000	Arch Capital Group, Ltd., 8.000% (Bermuda)	6,204,000
218,100	Axis Capital Holdings Ltd., Series A, 7.250% (Bermuda)	5,380,527
80,000	Banco Santander, Series 1, 6.410% (Spain)	1,944,000
10,000,000	Barclays Bank PLC, 8.550% (United Kingdom) (c)(d)	11,146,980
11,000,000	CA Preferred Funding Trust, 7.000%	10,975,261
189,300	Chevy Chase Bank, Series C, 8.000%	5,073,240
310,000	CIT Group, Inc., Series A, 6.350%	7,784,100
1,000	Doral Financial Corp., Series B, 8.350% (Puerto Rico)	20,500
8,660	Doral Financial Corp., Series C, 7.250% (Puerto Rico)	177,530
260,000	Endurance Specialty Holdings, Ltd., 7.750% (Bermuda)	6,183,138
200,000	Fannie Mae, Series E, 5.100%	8,268,760
80,000	Fannie Mae, Series O, 7.065% (d)	4,385,000
100,000	Freddie Mac, 5.810%	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 Funding, 8.000%	13,905,520
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,

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.

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.

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 |

Board of Trustees

Richard L. Crandall

Nicholas Dalmaso*

David N. Dreman*

Roman Friedrich III,Chairman

Ronald A. Nyberg

Ronald E.Toupin, Jr.

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

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public concern regarding privacy and data security;

our ability to maintain high levels of customer satisfaction; and

the rate of growth in online solutions generally.

In addition, substantially all of our revenue is currently derived from customers in the U.S. Consequently, a decrease of interest in and demand for cloud backup solutions in the U.S. could have a disproportionately greater impact on us than if our geographic mix of revenue was less concentrated.

If we are unable to attract new customers to our solutions on a cost-effective basis, our revenue and operating results would be adversely affected.

We generate substantially all of our revenue from the sale of subscriptions to our solutions. In order to grow, we must continue to attract a large number of customers on a cost-effective basis, many of whom have not previously used cloud backup solutions. We use and periodically adjust a diverse mix of advertising and marketing programs to promote our solutions. Significant increases in the pricing of one or more of our advertising channels would increase our advertising costs or cause us to choose less expensive and perhaps less effective channels. As we add to or change the mix of our advertising and marketing strategies, we may need to expand into channels with significantly higher costs than our current programs, which could adversely affect our operating results. We may incur advertising and marketing expenses significantly in advance of the time we anticipate recognizing any revenue generated by such expenses, and we may only at a later date, or never, experience an increase in revenue or brand awareness as a result of such expenditures. We have made in the past, and may make in the future, significant investments to test new advertising, and there can be no assurance that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective advertising programs, our ability to attract new customers could be adversely affected, our advertising and marketing expenses could increase substantially, and our operating results may suffer.

A portion of our potential customers locate our website through search engines, such as Google, Bing, and Yahoo!. Our ability to maintain the number of visitors directed to our website is not entirely within our control. If search engine companies modify their search algorithms in a manner that reduces the prominence of our listing, or if our competitors search engine optimization efforts are more successful than ours, fewer potential customers may click through to our website. In addition, the cost of purchased listings has increased in the past and may increase in the future. A decrease in website traffic or an increase in search costs could adversely affect our customer acquisition efforts and our operating results.

A significant portion of our customers first try our cloud backup solutions through free trials. We seek to convert these free trial users to paying customers of our solutions. If our rate of conversion suffers for any reason, our revenue may decline and our business may suffer.

If we are unable to retain our existing customers, our revenue and operating results would be adversely affected.

If our efforts to satisfy our existing customers are not successful, we may not be able to retain them, and as a result, our revenue and ability to grow would be adversely affected. We may not be able to accurately predict future trends in customer renewals. Customers choose not to renew their subscriptions for many reasons, including if customer service issues are not satisfactorily resolved, a desire to reduce discretionary spending, or a perception that they do not use the service sufficiently, that the solution is a poor value, or that competitive services provide a better value or experience. If our customer retention rate decreases, we may need to increase the rate at which we add new customers in order to maintain and grow our revenue, which may require us to incur significantly higher advertising and marketing expenses than we currently anticipate, or our revenue may decline. A significant decrease in our customer retention rate would therefore have an adverse effect on our business, financial condition, and operating results.

Our relationships with our partners may be terminated or may not continue to be beneficial in generating new customers, which could adversely affect our ability to increase our customer base.

We maintain a network of active partners, which refer customers to us through links on their websites and outbound promotion to their customers. If we are unable to maintain our contractual relationships with existing partners or establish new contractual relationships with potential partners, we may experience delays and increased costs in adding customers, which could have a material adverse effect on us. The number of customers that we are able to add through these relationships is dependent on the marketing efforts of our partners, over which we have very little control.

We have recently introduced additional solutions for mobile devices and, if users of these devices do not widely adopt our solutions, our revenue and operating results could be adversely affected.

The number of people who access the internet through devices other than personal computers, including smartphones and handheld tablets or computers, has increased dramatically in the past few years and is projected to continue to increase. In addition, people are increasingly using their mobile devices to create and store data and other content that is important to them. We recently introduced our mobile backup solutions for the iPhone and Android smartphones; however, these solutions have not yet achieved widespread adoption. If one or more of our competitors were to launch similar services, or if we are unsuccessful in achieving widespread adoption of our mobile solutions, our competitive position could be materially harmed. As new devices and new platforms are continually being released, it is difficult to predict the problems that we may encounter in developing versions of our solutions for use on these mobile devices, and we may need to devote significant resources to the creation, support, and maintenance of such solutions, which could adversely affect our operating results.

If we are unable to expand our base of small business customers, our business could be adversely affected.

In 2010, we introduced the first version of our backup solution targeted toward small businesses, which are generally companies that are too small to have a dedicated in-house IT staff. We have committed and continue to commit substantial resources to the expansion and increased marketing of our small business solutions. If we are unable to market and sell our solutions to small businesses with competitive pricing and in a cost-effective manner, our ability to grow our revenue and achieve profitability will be harmed. We believe that it is more difficult and expensive to attract and retain small business customers than consumers, because small businesses:

- are difficult to reach without using more expensive, targeted sales campaigns;

may have different or much more complex needs than those of individual consumers, such as archiving, version control, enhanced security requirements, and other forms of encryption and authentication, which our solutions may not adequately address; and

frequently cease operations due to the sale or failure of their business.

In addition, small businesses frequently have limited budgets and are more likely to be significantly affected by economic downturns than larger, more established companies. As a result, they may choose to spend funds on items other than our solutions, particularly during difficult economic times. If we are unsuccessful in meeting the needs of potential small business customers, it could adversely affect our future growth and operating results.

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If we are unable to improve market recognition of and loyalty to our brand, or if our reputation were to be harmed, we could lose customers or fail to increase the number of our customers, which could harm our revenue, operating results, and financial condition.

Given our consumer and small business market focus, maintaining and enhancing the Carbonite brand is critical to our success. We believe that the importance of brand recognition and loyalty will increase in light of increasing competition in our markets. We plan to continue investing substantial resources to promote our brand, both domestically and internationally, but there is no guarantee that our brand development strategies will enhance the recognition of our brand. Some of our existing and potential competitors have well-established brands with greater recognition than we have. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain customers may be adversely affected. In addition, even if our brand recognition and loyalty increases, this may not result in increased use of our solutions or higher revenue.

Our solutions, as well as those of our competitors, are regularly reviewed in computer and business publications. Negative reviews, or reviews in which our competitors products and services are rated more highly than our solutions, could negatively affect our brand and reputation. From time-to-time, our customers express dissatisfaction with our solutions, including, among other things, dissatisfaction with our customer support, our billing policies, and the way our solutions operate. If we do not handle customer complaints effectively, our brand and reputation may suffer, we may lose our customers confidence, and they may choose not to renew their subscriptions. In addition, many of our customers participate in online blogs about computers and internet services, including our solutions, and our success depends in part on our ability to generate positive customer feedback through such online channels where consumers seek and share information. If actions that we take or changes that we make to our solutions upset these customers, their blogging could negatively affect our brand and reputation. Complaints or negative publicity about our solutions or billing practices could adversely impact our ability to attract and retain customers and our business, financial condition, and operating results.

The termination of our relationship with any major credit card company would have a severe, negative impact on our ability to collect revenue from customers. Increases in credit card processing fees would increase our operating expenses and adversely affect our operating results.

Substantially all of our customers purchase our solutions online with credit cards, and our business depends upon our ability to offer credit card payment options. The termination of our ability to process payments on any major credit card would significantly impair our ability to operate our business and significantly increase our administrative costs related to customer payment processing. If we fail to maintain our compliance with the data protection and documentation standards adopted by the major credit card issuers and applicable to us, these issuers could terminate their agreements with us, and we could lose our ability to offer our customers a credit card payment option. If these issuers increase their credit card processing fees because we experience excessive chargebacks or refunds or for other reasons, it could adversely affect our business and operating results.

Any significant disruption in service on our websites or in our computer systems could damage our reputation and result in a loss of customers, which would harm our business, financial condition, and operating results.

Our brand, reputation, and ability to attract, retain and serve our customers are dependent upon the reliable performance of our websites, network infrastructure and payment systems, and our customers ability to readily access their stored files. We have experienced interruptions in these systems in the past, including server failures that temporarily slowed down our websites performance and our customers ability to access their stored files, or made our websites and infrastructure inaccessible, and we may experience interruptions in the future. In addition, while we operate and maintain the primary elements of our websites and network infrastructure, some elements of this complex system are operated by third parties that we do not control and that would require significant time to replace. We expect this dependence on third parties to continue. In particular, a portion of our solution is hosted by Amazon Web Services, which provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. Interruptions in our systems or the third-party systems on which we rely, whether due to system failures, computer viruses, physical or electronic break-ins, or other factors, could affect the security or availability of our websites and infrastructure and prevent us from being able to continuously back up our customers data or our customers from accessing their stored data.

In addition, prolonged delays or unforeseen difficulties in connection with adding storage capacity or upgrading our network architecture when required may cause our service quality to suffer. Problems with the reliability or security of our systems could harm our reputation. Damage to our reputation and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

Our systems provide redundancy at the disk level, but do not keep separate, redundant copies of stored customer files. Instead, we rely on the fact that our customers, in effect, back up our system by maintaining the primary instance of their files. We do not intend to create redundant backup sites for our solutions. As such, a total failure of our systems, or the failure of any of our systems,

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could result in the loss of or a temporary inability to back up our customers data and result in our customers being unable to access their stored files. If one of our data centers fails at the same time that our customers computers fail, we would be unable to provide stored copies of their data. If this were to occur, our reputation could be compromised and we could be subject to liability to the customers that were affected.

Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events. As the majority of our data facilities are located in a single metropolitan area, we may be more susceptible to the risk that a single event could significantly harm the operations of these facilities. The occurrence of a natural disaster, power failure or an act of terrorism, vandalism or other misconduct, a decision to close the facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions in our services. The occurrence of any of the foregoing events could damage our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, that may result from interruptions in our service as a result of system failures.

We depend on data centers operated by third parties and any disruption in the operation of these facilities could adversely affect our business.

We host our services and serve all of our customers from our network servers, which are located in data center facilities operated by third parties. While we control and have access to our servers and all of the components of our network that are located in our external data centers, we do not control the operation of these facilities. Our data center leases expire at various times in 2015 and 2016 with rights of extension, and a separate data center hosting arrangement is cancellable by us upon 120 days notice. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer our servers to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. During the first half of 2012, we relocated our equipment and operations from our Boston, Massachusetts data center to our other data centers and discontinued the use of our Boston, Massachusetts data center. We incurred moving and other costs in connection with this transition.

Problems faced by our third-party data center locations, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers. Our third-party data center operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party data center operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. Any changes in third-party service levels at our data centers or any errors, defects, disruptions, or other performance problems with our services could harm our reputation and may damage our customers stored files. Interruptions in our services might reduce our revenue, cause us to issue credits or refunds to customers, subject us to potential liability, or harm our renewal rates.

If the security of our customers confidential information stored in our systems is breached or their stored files are otherwise subjected to unauthorized access, our reputation and business may be harmed, and we may be exposed to liability.

Our customers rely on our online system to store digital copies of their files, including financial records, business information, photos, and other personally meaningful content. We also store credit card information and other personal information about our customers. A breach of our network security and systems or other events that cause the loss or public disclosure of, or access by third parties to, our customers stored files could have serious negative consequences for our business, including possible fines, penalties and damages, reduced demand for our solutions, an unwillingness of customers to provide us with their credit card or payment information, an unwillingness of our customers to use our solutions, harm to our reputation and brand, loss of our ability to accept and process customer credit card orders, and time-consuming and expensive litigation. Third parties may be able to circumvent our security by deploying viruses, worms, and other malicious software programs that are designed to attack or attempt to infiltrate our systems and networks and we may not immediately discover these attacks or attempted infiltrations. Further, outside parties may attempt to fraudulently induce our employees, consultants, or affiliates to disclose sensitive information in order to gain access to our information or our customers information. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated or remote areas around the world. As a result, we may be unable to proactively address these techniques or to implement adequate preventative or reactionary measures. In addition, employee or consultant error, malfeasance, or other errors in the storage, use, or transmission of personal information could result in a breach of customer or employee privacy. We maintain insurance coverage to mitigate the potential financial impact of these risks; however, our insurance may not cover all such events or may be insufficient to compensate us for the potentially significant losses, including the potential damage to the future growth of our business, that may result from the breach of customer or employee privacy.

Many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers

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to lose confidence in the effectiveness of our data security measures. Any security breach, whether successful or not, would harm our reputation and could cause the loss of customers. Similarly, if a well-publicized breach of data security at any other cloud backup service provider or other major consumer website were to occur, there could be a general public loss of confidence in the use of the internet for cloud backup services or commercial transactions generally. Any of these events could have material adverse effects on our business, financial condition, and operating results.

We process, store and use personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.

We receive, store, and process personal information and other customer data. There are numerous federal, state, local, and foreign laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other customer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules. We generally seek to comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties. We strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy and data protection to the extent possible. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, litigation, or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Our customers may also accidentally disclose their passwords or store them on a mobile device that is lost or stolen, creating the perception that our systems are not secure against third-party access. Additionally, if third parties that we work with, such as vendors or developers, violate applicable laws or our policies, such violations may also put our customers information at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the use or disclosure of our customers data, or regarding the manner in which the express or implied consent of customers for the use and disclosure of such data is obtained, could require us to modify our solutions and features, possibly in a material manner, and may limit our ability to develop new services and features that make use of the data that our customers voluntarily share with us.

We may not be able to respond to rapid technological changes with new solutions, which could have a material adverse effect on our operating results.

The cloud backup market is characterized by rapid technological change and frequent new product and service introductions. Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing solutions, introduce new features and products, and sell into new markets. Customers may require features and capabilities that our current solutions do not have. Our failure to develop solutions that satisfy customer preferences in a timely and cost-effective manner may harm our ability to renew our subscriptions with existing customers and create or increase demand for our solutions, and may adversely impact our operating results.

The introduction of new services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business and operating results. In addition, any new markets or countries into which we attempt to sell our solutions may not be receptive. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new solutions and enhancements. We have in the past experienced delays in the planned release dates of new features and upgrades, and have discovered defects in new solutions after their introduction. There can be no assurance that new solutions or upgrades will be released according to schedule, or that when released they will not contain defects. Either of these situations could result in adverse publicity, loss of revenue, delay in market acceptance, or claims by customers brought against us, all of which could have a material adverse effect on our reputation, business, operating results, and financial condition. Moreover, upgrades and enhancements to our solutions may require substantial investment and we have no assurance that such investments will be successful. If customers do not widely adopt enhancements to our solutions, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire enhancements to our existing solutions on a timely and cost-effective basis, or if such enhancements do not achieve market acceptance, our business, operating results, and financial condition may be adversely affected.

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Our quarterly operating results have fluctuated in the past and may continue to do so in the future. As a result, we may fail to meet or exceed the expectations of securities analysts or investors, which could cause our stock price to decline.

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly operating results or guidance fall below the expectations of securities analysts or investors, the price of our common stock could decline substantially. The following factors, among others, could cause fluctuations in our quarterly operating results or guidance:

- our ability to attract new customers and retain existing customers;
- our ability to accurately forecast revenue and appropriately plan our expenses;
- our ability to introduce new solutions;
- the actions of our competitors, including pricing changes or the introduction of new products;
- our ability to effectively manage our growth;
- the mix of annual and multi-year subscriptions at any given time;
- seasonal variations or other cyclicality in the demand for our solutions, including the purchasing and budgeting cycles of our small business customers;
- the timing and cost of advertising and marketing efforts;
- the timing and cost of developing or acquiring technologies, services, or businesses;
- the timing, operating cost, and capital expenditures related to the operation, maintenance, and expansion of our business;
- service outages or security breaches and any related impact on our reputation;
- our ability to successfully manage any future acquisitions of businesses, solutions, or technologies;
- the impact of worldwide economic, industry, and market conditions and those conditions specific to internet usage and online businesses;
- costs associated with defending intellectual property infringement and other claims; and

changes in government regulation affecting our business.

We believe that our quarterly revenue and operating results may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of one quarter as an indication of future performance.

Seasonal variations in our business may also cause fluctuations in our financial results. For example, we generally spend more on advertising during the first and third quarters of each year to capitalize on lower advertising rates in these periods and increased sales of devices that create or store data during post-holiday and back to school periods and our bookings tend to be higher in these periods. While we believe that these seasonal trends have affected and will continue to affect our quarterly results, our trajectory of rapid growth may have overshadowed these effects to date. We believe that our business may become more seasonal in the future as our growth rate slows, and that such seasonal variations in advertising expenditures and customer purchasing patterns may result in fluctuations in our financial results.

Growth may place significant demands on our management and our infrastructure.

We have experienced substantial growth in our business. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. As our operations grow in size, scope, and complexity, we will need to improve and upgrade our systems and infrastructure to attract, service, and retain an increasing number of customers. The expansion of our systems and infrastructure will require us to commit substantial financial, operational, and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Any such additional capital investments will increase our cost base. Continued growth could also strain our ability to maintain reliable service levels for our customers, develop and improve our operational, financial, and management controls, enhance our reporting systems and procedures, and recruit, train, and retain highly skilled personnel. If we fail to achieve the necessary level of efficiency in our organization as we grow, our business, financial condition, and operating results could be harmed.

We may expand by acquiring or investing in other companies, which may divert our management s attention, result in additional dilution to our stockholders, and consume resources that are necessary to sustain our business.

We may in the future acquire complementary products, services, technologies, or businesses. We may also enter into relationships with other businesses to expand our portfolio of solutions or our ability to provide our solutions in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. We do not have substantial experience with integrating and managing acquired businesses or assets. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for the development of our business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown liabilities, including litigation against the companies that we may acquire. In connection with any such transaction, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us, that we are unable to repay, or that may place burdensome restrictions on our operations;
- incur large charges or substantial liabilities; or
- become subject to adverse tax consequences or substantial depreciation, deferred compensation, or other acquisition-related accounting charges.

Any of these risks could harm our business and operating results.

Integration of an acquired company s operations may present challenges.

The integration of an acquired company requires, among other things, coordination of administrative, sales and marketing, accounting and finance functions, and expansion of information and management systems. Integration may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures. We may not be able to retain key employees of an acquired company. Additionally, the process of integrating a new product or service may require a disproportionate amount of time and attention of our management and financial and other resources. Any difficulties or problems encountered in the integration of a new product or service could have a material adverse effect on our business.

The integration of an acquired company may cost more than we anticipate, and it is possible that we will incur significant additional unforeseen costs in connection with such integration, which may negatively impact our earnings.

In addition, we may only be able to conduct limited due diligence on an acquired company s operations. Following an acquisition, we may be subject to unforeseen liabilities arising from an acquired company s past or present operations and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. Any unforeseen liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

Even if successfully integrated, there can be no assurance that our operating performance after an acquisition will be successful or will fulfill management s objectives.

The loss of one or more of our key personnel, or our failure to attract, integrate, and retain other highly qualified personnel, could harm our business.

We depend on the continued service and performance of our key personnel. We do not have long-term employment agreements with any of our officers or key employees. In addition, many of our key technologies and systems are custom-made for our business by our personnel. The loss of key personnel, including key members of our management team, as well as certain of our key marketing, sales, product development, or technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. In addition, several of our key personnel have only recently been employed by us, and we are still in the process of integrating these personnel into our operations. Our failure to successfully integrate these key employees into our business could adversely affect our business.

To execute our growth plan, we must attract and retain highly qualified personnel. Competition for these employees is intense, and we may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. New hires require significant training and, in most cases, take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, in making employment decisions, particularly in the internet and high-technology industries, job candidates often consider the value of the stock options that they are to receive in connection with their employment. In addition, employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we fail to attract new personnel, or fail to retain and motivate our current personnel, our business and growth prospects could be severely harmed.

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Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity, and teamwork fostered by our culture, and our business may be harmed.

We believe that our corporate culture has been a key contributor to our success. If we do not continue to develop our corporate culture as we grow and evolve, including maintaining our culture of transparency with our employees, it could harm our ability to foster the innovation, creativity, and teamwork that we believe that we need to support our growth. As our organization grows and we are required to implement more complex organizational structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture, which could negatively impact our future success. In addition, the availability of a public market for our securities could create disparities of wealth among our employees, which could adversely impact relations among employees and our corporate culture in general.

Our operating results may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.

Primarily due to the nature of our services, we do not believe we are required to collect sales or other related taxes from our customers in certain states or countries. However, one or more other states or countries may seek to impose sales or other tax collection obligations on us, including for past sales by us or our resellers and other partners. A successful assertion that we should be collecting sales or other related taxes on our services could result in substantial tax liabilities for past sales, discourage customers from purchasing our services, or otherwise harm our business and operating results. In March 2013, we accrued $0.3 million to resolve uncollected sales tax claims with a state tax assessor s office.

Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2012, we had federal, state, and foreign net operating loss carryforwards, or NOLs, of $116.9 million, $107.0 million, and $2.0 million, respectively, available to offset future taxable income, which expire in various years through 2033 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code, or Section 382, imposes limitations on a company s ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. We performed an analysis of our changes in ownership through December 31, 2012 and have adjusted our NOLs as of that date to reflect the usage limitations, calculated in accordance with Section 382, resulting from such changes in ownership. If additional changes in our ownership occur in the future, our ability to use NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results and the market price of our common stock.

Any expenses or liability resulting from litigation could adversely affect our operating results and financial condition.

From time to time, we may be subject to claims or litigation, including intellectual property litigation as described elsewhere in this Quarterly Report on Form 10-Q. Any such claims or litigation may be time-consuming and costly, divert management resources, require us to change our services, require us to credit or refund subscription fees, or have other adverse effects on our business. Any of the foregoing could have a material adverse effect on our operating results and could require us to pay significant monetary damages. In addition, we receive and must respond on a periodic basis to subpoenas from law enforcement agencies seeking information in connection with criminal investigations. While we have in place a procedure to respond to such subpoenas, any failure on our part to properly respond to such subpoena requests could expose us to litigation or other proceedings and adversely affect our business, financial condition, and operating results.

Our success depends on our customers continued high-speed access to the internet and the continued reliability of the internet infrastructure.

Our business depends on our customers high-speed access to the internet, as well as the continued maintenance and development of the internet infrastructure. The future delivery of our solutions will depend on third-party internet service providers to expand high-speed internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary products and services, including high-speed modems, for providing reliable and timely internet access and services. All of these factors are out of our control. To the extent that the internet continues to experience an increased number of users, frequency of use, or bandwidth requirements, the internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any internet outages or delays could adversely affect our ability to provide services to our customers.

Our business may be significantly impacted by a change in the economy, including any resulting effect on consumer spending.

Our business may be affected by changes in the economy generally, including any resulting effect on consumer spending. Our solutions are discretionary purchases, and our customers may reduce their discretionary spending on our solutions during an economic downturn. Although we have not experienced a material reduction in subscription renewals, we may experience such a reduction in the future, especially in the event of a prolonged recessionary period. Conversely, media prices may increase in a period of economic growth, which could significantly increase our marketing and advertising expenses. As a result, our business, financial condition, and operating results may be significantly affected by changes in the economy generally.

We face many risks associated with our plans to expand internationally, which could harm our business, financial condition, and operating results.

We anticipate that our efforts to expand internationally will entail the marketing and advertising of our services and brand and the development of localized websites. We do not have substantial experience in selling our solutions in international markets or in conforming to the local cultures, standards, or policies necessary to successfully compete in those markets, and we must invest significant resources in order to do so. We may not succeed in these efforts or achieve our customer acquisition or other goals. For some international markets, customer preferences and buying behaviors may be different, and we may use business or pricing models that are different from our traditional subscription model to provide cloud backup and related services to customers. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international solutions, and therefore may not be profitable on a sustained basis, if at all.

In addition, conducting international operations subjects us to new risks that we have not generally faced in the U.S. These risks include:

- localization of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of experience in other geographic markets;
- strong local competitors;
- cost and burden of complying with, lack of familiarity with, and unexpected changes in foreign legal and regulatory requirements, including consumer and data privacy laws;
- difficulties in managing and staffing international operations;
- fluctuations in currency exchange rates or restrictions on foreign currency;
- potentially adverse tax consequences, including the complexities of transfer pricing, foreign value added or other tax systems, double taxation and restrictions, and/or taxes on the repatriation of earnings;
- dependence on third parties, including channel partners with whom we do not have extensive experience;
- compliance with the Foreign Corrupt Practices Act, economic sanction laws and regulations, export controls, and other U.S. laws and regulations regarding international business operations;

- increased financial accounting and reporting burdens and complexities;
- political, social, and economic instability abroad, terrorist attacks, and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Our software contains encryption technologies, certain types of which are subject to U.S. and foreign export control regulations and, in some foreign countries, restrictions on importation and/or use. Any failure on our part to comply with encryption or other applicable export control requirements could result in financial penalties or other sanctions under the U.S. export regulations, including restrictions on future export activities, which could harm our business and operating results. Regulatory restrictions could impair our access to technologies that we seek for improving our solutions and may also limit or reduce the demand for our solutions outside of the U.S.

We may not be able to maintain control of our business in China and have taken steps to terminate our operations through our affiliated entity in China.

The government of the People s Republic of China, or PRC, restricts foreign investment in internet and online advertising businesses. We have taken steps to terminate our cloud backup business in China, which was operated through an affiliated entity in China owned by an individual designated by us who is a PRC citizen. We originally loaned funds to the designated individual in order to enable the individual to form the affiliated entity and obtain any necessary licenses, including an Internet Content Provider (ICP) license, which was granted by the PRC government. All loans are, and will continue to be, secured by the capital stock of the affiliated entity; however, we cannot assure you that we will be able to recover these loans or our investment in the affiliated entity. We have no equity interest in the affiliated entity. While we have terminated certain of our contractual arrangements with the designated individual and the affiliated entity, including the right of the affiliated entity to operate our business in China, we continue to have a contractual right to exercise the designated individual s right as the sole stockholder of the affiliated entity. We cannot assure you, however, that we will be able to enforce these remaining contracts. For example, the affiliated entity could fail to take actions required by our contractual arrangements or termination thereof. In addition, we cannot assure you that the designated individual of our affiliated entity will always act in our best interests. If the designated individual of our affiliated entity fails to perform his obligations under the respective agreements with us, we may need to engage in litigation in China to enforce our rights, which may be time-consuming and costly, divert management resources, or have other adverse effects on our business, and we may not be successful in enforcing our rights.

Enforcing agreements and laws in China is difficult and may be impossible because China does not have a comprehensive system of laws.

In China, enforcement of contractual agreements may be sporadic, and implementation and interpretation of laws may be inconsistent. The PRC judiciary is relatively inexperienced in interpreting agreements and enforcing China s laws, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of such law, or to obtain enforcement of a judgment or an arbitration award by a court of another jurisdiction. The PRC government has exercised and continues to exercise substantial control over virtually every aspect of the Chinese economy through regulation and state ownership. Many of the current reforms that support private business in China are of recent origin or are provisional in nature. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment, or inflation, or in the disparities of per capita wealth among citizens of China and between regions within China, could also lead to further readjustment of the PRC government s reform measures. It is not possible to predict whether the PRC government will continue to be as supportive of private business in China, nor is it possible to predict how any future reforms will affect our business. Specifically, the laws and regulations governing our business or the enforcement and performance of our remaining contractual arrangements with our affiliated Chinese entity and its designated individual stockholder are still relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. New laws and regulations may also be applied retroactively. We cannot assure you that the PRC government would agree that the remaining operating arrangements of our affiliated Chinese entity comply with PRC licensing, registration, or other regulatory requirements, with existing policies, or with requirements or policies that may be adopted in the future.

In addition, because of the particular weakness of the Chinese intellectual property regime, it is often difficult to create and enforce intellectual property rights in China. Accordingly, we may not be able to effectively protect our intellectual property rights in China against infringement by other business entities, individuals, and current or former employees.

Risks Related to Intellectual Property

Assertions by a third party that our solutions infringe its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses. We are currently a defendant in a lawsuit alleging patent infringement.

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. Many companies are devoting significant resources to obtaining patents that could affect many aspects of our business. Third parties may claim that our technologies or solutions infringe or otherwise violate their patents or other intellectual property rights. As we face increasing competition and become increasingly visible as a publicly-traded company, or if we become more successful, the possibility of new third-party claims may increase.

We have licensed proprietary technologies from third parties that we use in our technologies and business, and we cannot be certain that the owners rights in their technologies will not be challenged, invalidated, or circumvented. If we are forced to defend ourselves against intellectual property infringement claims, whether they have merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, limitations on our ability to use our current websites and technologies, and an inability to market or provide our solutions. As a result of any such claim, we may have to develop or acquire

non-infringing technologies, pay damages, enter into royalty or licensing agreements, cease providing certain services, adjust our marketing and advertising activities, or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us, or at all.

Furthermore, we may acquire proprietary technologies from third parties and may incorporate such technologies in our solutions. In addition to the general risks described above associated with intellectual property and other proprietary rights, we are subject to the additional risk that the seller of such technologies may not have appropriately created, maintained, or enforced their rights in such technology.

In August 2010, Oasis Research, LLC, or Oasis Research, filed a lawsuit against us and several of our competitors and other online technology companies in the U.S. District Court for the Eastern District of Texas, alleging that our cloud backup storage services, and the other companies products or services, infringe certain of Oasis Research s patents. Oasis Research sought an award for damages in an unspecified amount. A trial was held from March 14-22, 2013, and a jury verdict was returned against Oasis Research that found all of the asserted patents invalid. The court has not yet entered a judgment against Oasis Research and the parties are awaiting decision on certain post-trial motions. We are not able to assess with certainty the outcome of this lawsuit or the amount or range of potential damages or future payments associated with this lawsuit at this time. However, any litigation is subject to inherent uncertainties, and there can be no assurance that the expenses associated with defending this lawsuit or its resolution will not have a material adverse impact on our business, operations, financial condition, or cash flows.

Our success depends in large part on our ability to protect and enforce our intellectual property rights. If we are not able to adequately protect our intellectual property and proprietary technologies to prevent use or appropriation by our competitors, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

Our future success and competitive position depend in large part on our ability to protect our intellectual property and proprietary technologies. We rely on a combination of trademark, patent, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage. CARBONITE is a registered trademark in the U.S. and in over 30 other countries, including countries in the European Union. Carbonite also has additional registrations and pending applications for additional marks in the U.S. and other countries, including but not limited to Carbonite The Better Backup Plan , Green Dot Logo, Back it up. Get it back , Because Your Life is On Your Computer , Carbonite and the Green Dot Logo, Carbonite Lock Logo and Chinese character representations for Carbonite. We cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. We currently have four issued patents and 18 pending patent applications in the U.S. and internationally. We cannot assure you that any patents will issue from any such patent applications, that patents that issue from such applications will give us the protection that we seek, or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers.

There can be no assurance that the steps that we take will be adequate to protect our technologies and intellectual property, that our trademark and patent applications will lead to registered trademarks or issued patents, that others will not develop or patent similar or superior technologies, products, or services, or that our trademarks, patents, and other intellectual property will not be challenged, invalidated, or circumvented by others. Furthermore, effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our services are available or where we have employees or independent contractors. In addition, the legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights in internet-related industries are uncertain and still evolving.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive and time consuming and could materially harm our business.

The steps we have taken may not adequately protect our intellectual property or prevent unauthorized use of our technologies. Others may independently develop technologies that are competitive to ours or infringe our intellectual property. To counter infringement or unauthorized use, we may be required to file patent infringement claims, which can be expensive and time-consuming to litigate. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop others from using the technology at issue on the grounds that our patent(s) do not cover such technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not being issued. If our efforts to protect our technologies and intellectual property are inadequate, the value of our brand and other intangible assets may be diminished and competitors may be able to mimic our solutions and methods of operations. Any of these events could have a material adverse effect on our business, financial condition, and operating results.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure. In addition, during the course of any such

litigation, there could be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and proprietary information. Failure to protect our proprietary information could make it easier for third parties to compete with our solutions and harm our business.

We have devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, licensees, independent contractors, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure or inability to obtain or maintain trade secret protection or otherwise protect our proprietary rights could adversely affect our business.

Our use of open source software could negatively affect our ability to sell our solutions and subject us to possible litigation.

A portion of the technologies licensed by us to our customers incorporates so-called open source software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our solutions that contained the open source software, and required to comply with the foregoing conditions. Any of the foregoing could disrupt the distribution and sale of our solutions and harm our business.

We rely on third-party software, including server software and licenses from third parties to use patented intellectual property, that is required to develop and provide our solutions.

We rely on software licensed from third parties to develop and offer our solutions, including server software from Microsoft and other patented third-party technologies. In addition, we may need to obtain future licenses from third parties to use intellectual property associated with the development of our solutions, which might not be available to us on acceptable terms, or at all. Any loss of the right to use any software required for the development and maintenance of our solutions could result in delays in the provision of our solutions until equivalent technology is either developed by us, or, if available from others, is identified, obtained, and integrated, which delay could harm our business. Any errors or defects in third-party software could result in errors or a failure of our solutions, which could harm our business.

If we are unable to protect our domain names, our reputation, brand, customer base, and revenue, as well as our business and operating results, could be adversely affected.

We have registered domain names for websites, or URLs, that we use in our business, such as www.carbonite.com. If we are unable to maintain our rights in these domain names, our competitors or other third parties could capitalize on our brand recognition by using these domain names for their own benefit. In addition, although we own the Carbonite domain name under various global top level domains such as .com and .net, as well as under various country-specific domains, we might not be able to, or may choose not to, acquire or maintain other country-specific versions of the Carbonite domain name or other potentially similar URLs. Domain names similar to ours have already been registered in the U.S. and elsewhere, and our competitors or other third parties could capitalize on our brand recognition by using domain names similar to ours. The regulation of domain names in the U.S. and elsewhere is generally conducted by internet regulatory bodies and is subject to change. If we lose the ability to use a domain name in a particular country, we may be forced to either incur significant additional expenses to market our solutions within that country, including the development of a new brand and the creation of new promotional materials, or elect not to sell our solutions in that country. Either result could substantially harm our business and operating results. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize the name Carbonite in all of the countries in which we currently conduct or intend to

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conduct business. Further, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights varies among jurisdictions and is unclear in some jurisdictions. We may be unable to prevent third parties from acquiring and using domain names that infringe, are similar to, or otherwise decrease the value of, our brand or our trademarks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs, divert management attention, and not be decided favorably to us.

Material defects or errors in our software could harm our reputation, result in significant costs to us, and impair our ability to sell our solutions.

The software applications underlying our solutions are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects or errors in our solutions, and new defects or errors in our existing solutions may be detected in the future by us or our customers. The costs incurred in correcting such defects or errors may be substantial and could harm our operating results. In addition, we rely on hardware purchased or leased and software licensed from third parties to offer our solutions. Any defects in, or unavailability of, our or third-party software or hardware that cause interruptions to the availability of our solutions could, among other things:

- cause a reduction in revenue or delay in market acceptance of our solutions;
- require us to issue credits or refunds to our customers or expose us to claims for damages;
- cause us to lose existing customers and make it more difficult to attract new customers;
- divert our development resources or require us to make extensive changes to our solutions or software, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

Risks Related to Ownership of our Common Stock

Our stock price may be volatile due to fluctuations in our operating results and other factors, each of which could cause our stock price to decline.

Shares of our common stock were sold in our initial public offering in August 2011 at a price of $10.00 per share, and our common stock has subsequently traded as high as $21.10 and as low as $5.75. An active, liquid, and orderly market for our common stock may not be developed or sustained, which could depress the trading price of our common stock. The market price for shares of our common stock could be subject to significant fluctuations in response to various factors, some of which are beyond our control. Some of the factors that may cause the market price for shares of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- actual or anticipated fluctuations in our key operating metrics, financial condition, and operating results;

loss of existing customers or inability to attract new customers;

actual or anticipated changes in our growth rate;

announcements of technological innovations or new offerings by us or our competitors;

our announcement of actual results for a fiscal period that are lower than projected or expected or our announcement of revenue or earnings guidance that is lower than expected;

changes in estimates of our financial results or recommendations by securities analysts;

failure of any of our solutions to achieve or maintain market acceptance;

changes in market valuations of similar companies;

success of competitive products or services;

changes in our capital structure, such as future issuances of securities or the incurrence of debt;

announcements by us or our competitors of significant products or services, contracts, acquisitions, or strategic alliances;

regulatory developments in the U.S. or foreign countries;

actual or threatened litigation involving us or our industry;

additions or departures of key personnel;

general perception of the future of the cloud backup market or our solutions;

share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;

sales of our shares of common stock by our existing stockholders; and

changes in general economic, industry, and market conditions.

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In addition, the stock market in general, and the market for internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company s securities. This litigation, if instituted against us, could result in very substantial costs, divert our management s attention and resources, and harm our business, financial condition, and operating results. In addition, recent fluctuations in the financial and capital markets have resulted in volatility in securities prices.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business, and investors views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. As part of our process of documenting and testing our internal control over financial reporting, we may identify areas for further attention and improvement. Implementing any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes, and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our solutions to new and existing customers.

Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our business could reduce our ability to compete successfully.

Although we currently anticipate that our available funds, including the net proceeds of our initial public offering and our available bank line of credit, will be sufficient to meet our cash needs for at least the next 12 months, we may require additional financing in the future. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. If we need to raise additional funds, we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per share value of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our solutions;
- continue to expand our development, sales, and marketing organizations;
- acquire complementary technologies, products, or businesses;
- expand our operations in the U.S. or internationally;
- hire, train, and retain employees;
- respond to competitive pressures or unanticipated working capital requirements; or
- continue our operations.

Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

If our existing stockholders sell, or indicate an intent to sell, a substantial number of shares of our common stock in the public market, the trading price of our common stock could decline significantly. Two of our largest shareholders are venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the respective terms of their funds, their decision to sell or hold our common stock may be based not only on the underlying investment merits of our securities but also on the requirements of their internal fund structure. Additionally, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates beneficially own approximately 18.7 million shares of our common stock, which represents 69.8% of our issued and outstanding shares of common stock as of March 31, 2013. If these shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

Our directors, executive officers, and principal stockholders have substantial control over us and could delay or prevent a change in corporate control.

Our directors, executive officers, and holders of more than 5% of our common stock, together with their affiliates, beneficially hold a majority of our outstanding shares of common stock and have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our

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assets. In addition, these stockholders, acting together, have the ability to control or influence the management and affairs of our company. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control of our company.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If any of the analysts who cover us change their recommendation regarding our securities adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who covers us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our management will continue to have broad discretion over the use of the proceeds we received in our initial public offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will continue to have broad discretion to use our net proceeds from our initial public offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply these proceeds in ways that increase the value of your investment. We intend to use the remaining net proceeds from our initial public offering primarily for general corporate purposes, including working capital, sales and marketing activities, general and administrative matters, and capital expenditures. We may also use a portion of these proceeds to acquire, invest in, or obtain rights to complementary technologies, solutions, or businesses. Until we use these proceeds from our initial public offering, we plan to invest them, and these investments may not yield a favorable rate of return. If we do not invest or apply the remaining net proceeds from our initial public offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth and continuing operations. In addition, the provisions of our revolving credit facility prohibit us from paying cash dividends. Therefore, you are not likely to receive any dividends on your shares of common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. Our common stock may not appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action;

limiting the liability of, and providing indemnification to, our directors and officers;

controlling the procedures for the conduct and scheduling of stockholder meetings;

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providing the board of directors with the express power to postpone previously scheduled annual meetings of stockholders and to cancel previously scheduled special meetings of stockholders;

providing that directors may be removed prior to the expiration of their terms by stockholders only for cause; and

advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror s own slate of directors or otherwise attempting to obtain control of us.

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On August 10, 2011, our registration statement on Form S-1 (File No. 333-174139) was declared effective for our initial public offering.

The net proceeds to us from our initial public offering have been invested in money market funds and U.S. agency and treasury securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits	
3.1(1)	Amended and Restated Certificate of Incorporation of Carbonite, Inc.
3.2(2)	Amended and Restated By-Laws of Carbonite, Inc.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1*	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

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(1) Filed as Exhibit 3.1 to Registrant Form 10-Q for the quarterly period ended September 30, 2011 filed with the Securities and Exchange Commission on November 10, 2011, and incorporated herein by reference.

(2) Filed as Exhibit 3.2 to Amendment No. 2 to Registrant s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 13, 2011, and incorporated herein by reference.

* These certificates are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing we make under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language in any filings.

+ In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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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, thereunto duly authorized.

CARBONITE, INC.

Dated: May 7, 2013	By: /s/ David Friend David Friend Chief Executive Officer
Dated: May 7, 2013	By: /s/ Anthony Folger Anthony Folger Chief Financial Officer