Gold Dynamics Corp.
Form 10-Q
March 25, 2013

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2013

or

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

For the transition period from ______________________

Commission File No. 333-136981

Gold Dynamics Corp.

(Name of small business issuer in its charter)

Nevada

(State of Incorporation)

N/A (I.R.S. Employer Identification No.)

2248 Meridian Blvd. Ste H Minden, NV 89423

(Address of principal executive offices)

949-419-6588

(Registrant's telephone number, including area code)

(Former name, address and fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

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

Large accelerated filer __ Accelerated filer __

Non-accelerated filer __ Small Reporting Company _x_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The number of shares outstanding of the Registrant's common stock, par value $.001 per share, at March 25, 2013 was 103,250,000 shares.

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Part I - FINANCIAL INFORMATION

Gold Dynamics Corp.
(A Development Stage Company)
Balance Sheets

	January 31, 2013 (Unaudited)	July 31 2012 (Audited)
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ -	$ -
TOTAL CURRENT ASSETS	-	-
TOTAL ASSETS	$ -	$ -

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 58,151	$ 41,038
Shareholder Loan	15,937	15,937
TOTAL CURRENT LIABILITIES	74,088	56,975
Stockholders' Deficit		
Preferred Stock, $0.001 par value 50,000,000 authorized, none issued and outstanding		
Common stock, Authorized : 50,000,000, common shares $0.01 par value, 103,250,000 issued and outstanding as at January 31, 2013 and July 31, 2012	103,250	103,250
Additional paid in capital	(24,187)	(24,187)
(Deficit) accumulated during the development	(153,151)	(136,038)

stage		
TOTAL STOCKHOLDERS' DEFICIT	(74,088)	(56,975)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	-	$ -

See Accompanying Notes to Financial Statements

Gold Dynamics Corp.
(A Development Stage Company)
Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended,		April 17, 2006 (Inception) to
	January 31, 2013	January 31, 2012	January 31, 2013	January 31, 2012	January 31, 2013
General and Administration Expenses					
Professional Fees	$ 7,613	$ 2,250	17,113	9,265	$ 108,780
Consultation Fees	-	-		-	$ 22,500
Management Fees	-	-	-	-	1,355
Filing Fee	-	-			9,083
Rent	-	-			7,200
Bank charges and interest	202	202	404	404	4,435
	7,815	2,452	17,517	9,669	153,353

Net (loss) for the period	$ (7,815)	$ (2,452)	(17,517)	(9,669)	$ (153,353)
Net (loss) per share Basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	103,250,000	103,520,000	103,250,000	103,250,000	

See Accompanying Notes to Financial Statements

Gold Dynamics Corp.
(A Development Stage Company)
Statements of Cash Flows
(Unaudited)

	For the Six Months Ended January 31, 2013	January 31, 2012	April 17, 2006 (Inception) to January 31, 2013
Cash flow from Operating Activities			
Net loss	$ (17,517)	$ (9,669)	$ (153,353)
Adjustments to reconcile net loss to net cash			
	-		

used in operating activities:			
Imputed interest	404	404	4,435
Changes in:			
Accounts payable and accrued liabilities	17,113	9,265	56,981
Net cash used for operating activities	-	-	(91,937)
Financing Activities			
Additional Paid in Capital	-	-	(25,399)
Proceeds from shareholder loan	-	-	15,937
Proceeds from Bank Overdraft		-	
Proceeds from sale of common stock	-	-	101,399
Net cash provided by financing activities	-	-	91,937
Net change in cash	-	- -	
Cash, Beginning of Period	- -		-
Cash, End of Period $	- -	-	

See Accompanying Notes

Gold Dynamics Corp.

(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the Six Months Ended January 31, 2013

1. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Gold Dynamics formerly known as Vita Spirits Corp., formerly known as Revo Ventures Inc, have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with Gold Dynamics Corp. audited 2012 annual financial statements and notes thereto filed with the SEC on form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the result of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements, which would substantially duplicate the disclosure required in Gold Dynamics 2012 annual financial statements have been omitted.

The Company's primary operations began in April 2006. The Company intends to change its primary operations from an e-commerce focus to a producer of vitamin infused alcoholic beverages. As part of the change in operations, the Company has undergone a name change from Revo Ventures Inc. to Vita Spirits Corp.to Gold Dynamics Corp. to better reflect the Company's new focus.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 2009 the FASB established the Accounting Standards Codification ("Codification'" or "ASC") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). Rules and interpretive releases of the Securities and Exchange Commission issued under authority of federal securities laws are also sources of GAAP for SEC registrants. Existing GAAP was not intended to be changed as a result of the Codification, and accordingly the change did not impact our financial statements. The ASC does change the way the guidance is organized and presented.

Statement of Financial Accounting Standards ("SFAS'") SFAS No. 165 (ASC Topic 855), "Subsequent Events", SFAS No. 166 (ASC Topic 810), "Accounting for Transfers of Financial Assets-an Amendment of FASB Statement No. 140", SFAS No. 167 (ASC Topic 810), "Amendments to FASB Interpretation No. 46(R)", and SFAS No. 168 (ASC Topic 105), "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162" were recently issued. SFAS No. 165, 166, 167, and 168 have no current applicability to the Company or their effect on the financial statements would not have been significant.

Accounting Standards Update ("ASU") ASU No. 2009-05 (ASC Topic 820), which amends Fair Value Measurements and Disclosures - Overall, ASU No. 2009-13 (ASC Topic 605), Multiple-Deliverable Revenue arrangements, ASU No. 2009-14 (ASC Topic 985), Certain Revenue Arrangements that include Software Elements, and various other ASU's No. 2009-2 through ASU No. 2009-15 which contain technical corrections to existing guidance or affect guidance to specialized industries or entities were recently issued. These updates have no current applicability to the Company or their effect on the financial statements would not have been significant.

The Company does not expect that adoption of these or other recently issued accounting pronouncements will have a material impact on its financial position, results of operations or cash flows.

Recently Issued Accounting Standards

In August 2009, the FASB issued an amendment to the accounting standards related to the measurement of liabilities that are recognized or disclosed at fair value on a recurring basis. This standard clarifies how a company should measure the fair value of liabilities and that restrictions preventing the transfer of a liability should not be considered as a factor in the measurement of liabilities within the scope of this standard. This standard was effective for the Company on October 1, 2009. The Company does not expect the impact of its adoption to be material to its financial statements.

In October 2009, the FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminated the use of the residual method for allocating arrangement considerations and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard, for which the Company is currently assessing the impact, will become effective for the Company on January 1, 2011.

In October 2009, the FASB issued an amendment to the accounting standards related to certain revenue arrangements that include software elements. This standard clarifies the existing accounting guidance such that tangible products that contain both software and non-software components that function together to deliver the product's essential functionality, shall be excluded from the scope of the software revenue recognition accounting standards. Accordingly, sales of these products may fall within the scope of other revenue recognition standards or may now be within the scope of this standard and may require an allocation of the arrangement consideration for each element of the arrangement. This standard, for which the Company is currently assessing the impact, will become effective for the Company on January 1, 2011.

2. GOING CONCERN

Gold Dynamic's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business for the foreseeable future. Since inception, the Company has accumulated losses aggregating to $ 153,353 and has insufficient working capital to meet operating needs for the next twelve months as of January 31, 2013, all of which raise substantial doubt about Gold's ability to continue as a going concern.

3. COMMON STOCK TRANSACTIONS

On July 14, 2006, the Company sold 5,000,000 common shares at $0.001 per share to the sole director of the Company for total proceeds of $5,000.

On May 6, 2007, the Company sold 2,100,000 common shares pursuant to a registration statement at $0.01 per share for total proceeds of $21,000.

On April 22, 2008, the Company approved a forward split of a 15 for 2 forward stock split to our stockholders of record as of April 23, 2008. The Company increased the authorized shares from 50,000,000 to 75,000,000. The Company did not change the par value of the shares. All references to share value in these financial statements have been restated to reflect this split. Subsequent to the forward split, the Company had 53,250,000 common shares issued and outstanding.

On November 12, 2009, the Company sold 4,000.000 common shares at $ 0.0125 per share to an investor for the total proceeds of $50,000.

On December 15, 2009, we authorized the Forward Stock Split of our issued and outstanding Common Stock on a 2.6 for one (2.6:1) basis. As a result of the Forward Stock Split, the Company shall increase its issued and outstanding shares of the Common Stock to 138,450,000.

4. RELATED PARTY TRANSACTIONS

An officer has loaned the Company $15,937, without a fixed term of repayment. Imputed interest in the amount of $3,265 has been included in additional paid in capital for the period ending January 31, 2013.

5. SUBSEQUENT EVENTS

There have been no subsequent events since January 31, 2013 through the date of this filing.

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

This 10-Q contains forward-looking statements. Our actual results could differ materially from those set forth as a result of general economic conditions and changes in the assumptions used in making such forward-looking statements. The following discussion and analysis of our financial condition and results of operations should be read together with the audited consolidated financial statements and accompanying notes and the other financial information appearing elsewhere in this report. The analysis set forth below is provided pursuant to applicable Securities and Exchange Commission regulations and is not intended to serve as a basis for projections of future events. Refer also to "Cautionary Note Regarding Forward Looking Statements" and "Risk Factors" below.

The following discussion and analysis provides information which management of Gold Dynamics Corp. (the "Company") believes to be relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion should be read together with the Company's financial statements and the notes to financial statements, which are included in this report.

Caution about Forward-Looking Statements

This management's discussion and analysis or plan of operation should be read in conjunction with the financial statements and notes thereto of the Company for the quarter ended January 31, 2013. Because of the nature of a relatively new and growing company the reported results will not necessarily reflect the future.

This section includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this prospectus. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

Overview

Gold Dynamics Corp.'s primary operations began in April 2006. Gold Dynamics Corp. is an emerging precious metals explorer focused on underexplored regions of the world that is seeking to grow shareholder value by building gold and silver mineral resources through systematic exploration. The Company has brought together a highly experienced board and management team consisting of capable professionals with significant development and mine management experience.

Gold Dynamics Corp. seeks to identify, acquire, and develop deposits which have the potential to be world class and in an acceptable risk environment. Social responsibility and environmental stewardship are core values of the Company.

Results of Operations

Six Months ended January 31, 2013 compared to January 31, 2012.

The Company experienced general and administration expenses of $17, 517 and $9,669 for the six month periods ended January 31, 2013 and 2012, respectively. The increase in general and administration expenses for this period are attributed to a increase in professional, consultation and filings fees.

For the six month period ended January 31, 2013, the company experienced a net loss of $17,517 compared to a loss of $9,669 for the six months ended January 31, 2012.

Liquidity and Capital Resources

During the six month period ended January 31, 2013, the Company had no working capital needs. As of January 31, 2013, the Company has cash on hand in the amount of $0. Management does not expect that the current level of cash on hand will be sufficient to fund our operations for the next twelve month period. In the event that additional funds are required to maintain operations, our officers and directors have agreed to advance us sufficient capital to allow us to continue operations. We may also be able to obtain loans from our shareholders, but there are no agreements or understandings in place currently.

We believe we will require additional funding to expand our business and ensure its future profitability. We anticipate that any additional funding will be in the form of equity financing from the sale of our common stock. However, we do not have any arrangements in place for any future equity financing. In the event we are not successful in selling our common stock, we may also seek to obtain short-term loans from our director.

Item 3. Quantitative Disclosures About Market Risks

Not applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act (defined below)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

In addition, our management with the participation of our Principal Executive Officer and Principal Financial Officer have determined that no change in our internal control over financial reporting occurred during or subsequent to the quarter ended October 31, 2012 that has materially affected, or is (as that term is defined in Rules 13(a)-15(f) and 15(d)-15(f) of the Securities Exchange Act of 1934) reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Items 1. Legal Proceedings

We know of no material, existing or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6: Exhibits

(a) The following exhibit is filed as part of this report:

31.1 Certification of Principal Executive Officer and Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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 March 25, 2013

March 25, 2013

/s/ Gary Kirk__________________

Mr. Gary Kirk, President

and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from US GAAP. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders. 25 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED) Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes and may exclude amortization of premium on certain fixed income securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to AMPS shareholders, during 2010 and 2009 were as follows: DISTRIBUTIONS PAID IN FISCAL YEAR 2010 DISTRIBUTIONS PAID IN FISCAL YEAR 2009 ------------------------ -------------------------------------- ORDINARY LONG-TERM ORDINARY LONG-TERM RETURN OF INCOME CAPITAL GAINS INCOME CAPITAL GAINS CAPITAL -------- ------------- ----------- ------------- --------- Common N/A N/A $57,566,298 $0 $762,372 Preferred N/A N/A $ 1,646,350 $0 $ 0 As of November 30, 2009, the components of distributable earnings (i.e., ordinary income and capital gain/loss) available to Common and Preferred Stock Shareholders, on a tax basis, were as follows: UNDISTRIBUTED UNDISTRIBUTED NET UNREALIZED CAPITAL (LOSS) CARRYFORWARD ORDINARY INCOME LONG-TERM GAIN APPRECIATION/(DEPRECIATION) -------------------------- --------------- -------------- --------------------------- $(293,625,371) $0 $0 $(144,882,843) At November 30, 2009, the composition of the Fund's $293,625,371 accumulated realized capital losses was $39,515,188, $17,502,863, $19,167,841, $126,679,158 and $90,760,321 incurred in 2004, 2005, 2007, 2008 and 2009, respectively. These losses may be carried forward and offset against any future capital gains through 2012, 2013, 2015, 2016 and 2017, respectively. EXCISE TAX: The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and its capital gains (both long-term and short-term) for its fiscal year and (2) certain undistributed amounts from previous years. The Fund paid $14,343 of Federal excise taxes attributable to calendar year 2009 in March 2010. ADDITIONAL ACCOUNTING STANDARDS: In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements". ASU No. 2010-06 amends FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, to require additional disclosures regarding fair value measurements. Certain disclosures required by ASU No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, and other required disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is currently evaluating the impact ASU No. 2010-06 will have on its financial statement disclosures. 3. INVESTMENT ADVISORY FEE, SERVICING AGENT FEE, ADMINISTRATION FEE, TRANSFER AGENT FEE, CUSTODIAN FEE, DIRECTORS' FEES AND CHIEF COMPLIANCE OFFICER FEE Flaherty & Crumrine Incorporated (the "Adviser") serves as the Fund's investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.525% of the first $200 million of the Fund's average weekly total managed assets, 0.45% of the next $300 million of the Fund's average weekly total managed assets, and 0.40% of the Fund's average weekly total managed assets above $500 million. 26 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED) For purposes of calculating the fees payable to the Adviser, Servicing Agent, Administrator and Custodian, the Fund's average weekly total managed assets means the total assets of the Fund (including any assets attributable to any Fund auction market preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage). For purposes of determining total managed assets, the liquidation preference of any outstanding preferred shares issued by the Fund is not treated as a liability. Claymore Securities, Inc. (the "Servicing Agent") serves as the Fund's shareholder servicing agent. As compensation for its services, the Fund pays the Servicing Agent a fee computed and paid monthly at the annual rate of 0.025% of the first $200 million of the Fund's average weekly total managed assets, 0.10% of the next $300 million of the Fund's average weekly total managed assets and 0.15% of the Fund's average weekly total managed assets above $500 million. PNC Global Investment Servicing (U.S.) Inc. ("PNC") serves as the Fund's Administrator. As Administrator, PNC calculates the net asset value of the Fund's shares attributable to Common Stock and generally assists in all aspects of the Fund's administration and operation. As compensation for PNC's services as Administrator, the Fund pays PNC a monthly fee at an annual rate of 0.10% of the first $200 million of the Fund's average weekly total managed assets, 0.04% of the next $300 million of the Fund's average weekly total managed assets, 0.03% of the next $500 million of the Fund's average weekly total managed assets and 0.02% of the Fund's average weekly total managed assets above $1 billion. PNC also serves as the Fund's Common Stock dividend-paying agent and registrar (Transfer Agent). As compensation for PNC's services, the Fund pays PNC a fee at an annual rate of 0.02% of the first $150 million of the Fund's average weekly net assets attributable to Common Stock, 0.0075% of the next $350 million of the Fund's average weekly net assets attributable to Common Stock, and 0.0025% of the Fund's average weekly net assets attributable to Common Stock above $500 million, plus certain out of pocket expenses. For the purpose of calculating such fee, the Fund's average weekly net assets attributable to Common Stock are deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities. For this calculation, the Fund's liabilities are deemed to include the aggregate liquidation preference of any outstanding preferred shares and the loan principal balance. PFPC Trust Company ("PFPC Trust") serves as the Fund's Custodian. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust's services as custodian, the Fund pays PFPC Trust a monthly fee at the annual rate of 0.01% of the first $200 million of the Fund's average weekly total managed assets, 0.008% of the next $300 million of the Fund's average weekly total managed assets, 0.006% of the next $500 million of the Fund's average weekly total managed assets and 0.005% of the Fund's average weekly total managed assets above $1 billion. The Fund currently pays each Director who is not a director, officer or employee of the Adviser a fee of $9,000 per annum, plus $750 for each in-person meeting of the Board of Directors or Audit Committee, $500 for each in-person meeting of the Nominating Committee, and $250 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of $3,000. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings. 27 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED) The Fund currently pays the Adviser a fee of $37,500 per annum for Chief Compliance Officer services and reimburses out-of-pocket expenses incurred in connection with providing services in this role. 4. PURCHASES AND SALES OF SECURITIES For the six months ended May 31, 2010, the cost of purchases and proceeds from sales of securities excluding short-term investments, aggregated $152,315,249 and $102,406,454, respectively. At May 31, 2010, the aggregate cost of securities for federal income tax purposes was $1,029,488,476, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was $56,950,064 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was $159,223,888. 5. COMMON STOCK At May 31, 2010, 240,000,000 shares of $0.01 par value Common Stock were authorized. Common Stock transactions were as follows: SIX MONTHS ENDED YEAR ENDED 05/31/10 11/30/09 ---------------- ---------------- SHARES AMOUNT SHARES AMOUNT ------ -------- ------ -------- Shares issued under the Dividend Reinvestment and Cash Purchase Plan................... 65,672 $972,159 71,860 $738,448 ------ -------- ------ -------- 6. AUCTION MARKET PREFERRED STOCK (AMPS) The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of $0.01 par value preferred stock. Prior to July 30, 2009, the Fund had preferred stock issued in the form of AMPS. The AMPS was senior to the Common Stock and resulted in the financial leveraging of the Common Stock. As of July 30, 2009, the Fund redeemed and cancelled the last remaining shares of AMPS and does not currently have any issued and outstanding shares of preferred stock. The Fund redeemed AMPS shares as detailed in the table below. Shares were redeemed at a redemption price equal to the liquidation preference of $25,000 per share, plus the amount of accumulated but unpaid dividends for each redemption date, respectively. After these redemptions, borrowings from its debt facility were the Fund's sole source of leverage. REDEMPTION DATE $ AMOUNT OF AMPS ---------------- ---------------- May 21, 2008 $105,025,000 May 22, 2008 55,650,000 May 23, 2008 55,650,000 May 27, 2008 111,300,000 June 5, 2008 49,375,000 October 20, 2008 13,875,000 October 27, 2008 11,850,000 28 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED) REDEMPTION DATE $ AMOUNT OF AMPS ----------------

---------------- November 3, 2008 42,050,000* November 10, 2008 5,450,000* July 13, 2009 13,550,000 July 14, 2009 13,550,000 July 15, 2009 25,575,000 July 16, 2009 13,550,000 July 17, 2009 13,550,000 July 30, 2009 12,000,000 * Shares were redeemed on the dates reflected; however, from the Fund's perspective, the November 3rd and November 10th redemptions were effective as of October 24, 2008. The earlier effective date was due to the unconditional deposit of funds with the paying agent. 7. COMMITTED FINANCING AGREEMENT The Fund entered into a committed financing agreement ("Financing Agreement") on May 1, 2008 which allowed the Fund to borrow up to an initial limit of $385 million on a secured basis. The primary use of the initial proceeds was to redeem a portion of the outstanding shares of AMPS (See Note 6), although the Fund will use the borrowing facility in the normal course of business as financial leverage. Such leveraging tends to magnify both the risks and opportunities to Shareholders. On August 28, 2009, the Financing Agreement was amended to allow for changes in the committed amount. As of May 31, 2010, the committed amount, and amount borrowed, under the Financing Agreement was $331.975 million. Under the original terms of the Financing Agreement, the lender charged an annualized rate of 0.60% on the undrawn (committed) balance ("Commitment Fee"), and the Overnight London Interbank Offered Rate ("Overnight LIBOR") plus 0.70% on the drawn (borrowed) balance. The terms of the Financing Agreement were subsequently renegotiated and became effective as of October 20, 2008. Under the new terms of the Financing Agreement, the lender charges an annualized rate of 1.00% on the undrawn (committed) balance, and Three-Month London Interbank Offered Rate - reset every three months - plus 1.10% on the drawn (borrowed) balance. For the six months ended May 31, 2010, the daily weighted average annualized interest rate on the drawn balance was 1.371% and the average daily loan balance was $307,901,923. In addition, the Fund paid the lender an arrangement fee (at the origination of the facility on May 1, 2008) equal to 0.25% of the committed amount of $385 million. The arrangement fee was amortized to expenses over a period of six months. LIBOR rates may vary in a manner unrelated to the income received on the Fund's assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Shareholders. The Fund is required to meet certain asset coverage requirements under the Financing Agreement and under the 1940 Act. In accordance with the asset coverage requirements, at least two-thirds of the Fund's assets are expected to be pledged as collateral assuming the full committed amount is drawn. Securities pledged as collateral are identified in the portfolio of investments. If the Fund fails to meet these requirements, or maintain other financial covenants required under the Financing Agreement, the Fund may 29 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED) be required to repay immediately, in part or in full, the amount borrowed under the Financing Agreement. Additionally, failure to meet the foregoing requirements or covenants could restrict the Fund's ability to pay dividends to Shareholders and could necessitate sales of portfolio securities at inopportune times. The Financing Agreement has no stated maturity, but may be terminated by either party without cause with six months' advance notice. 8. PORTFOLIO INVESTMENTS, CONCENTRATION AND INVESTMENT QUALITY The Fund invests primarily in a diversified portfolio of preferred securities. This includes fully taxable preferred securities and traditional preferred stocks eligible for the inter-corporate dividends received deduction ("DRD"). Under normal market conditions, at least 80% of the value of the Fund's total assets will be invested in preferred securities. Also, under normal market conditions, the Fund invests at least 25% of its total assets in securities issued by companies in the utilities industry and at least 25% of its total assets in securities issued by companies in the banking industry. The Fund's portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives. The Fund may invest up to 25% of its assets at the time of purchase in securities rated below investment grade. These securities must be rated at least either "Ba3" by Moody's Investors Service, Inc. or "BB-" by Standard & Poor's or, if unrated, judged to be comparable in quality by the Adviser, in any case, at the time of purchase. However, these securities must be issued by an issuer having a class of senior debt rated investment grade outstanding. The Fund may invest up to 15% of its total assets in common stocks, which total includes those convertible securities that trade in close relationship to the underlying common stock of an issuer, and, under normal market conditions, may invest up to 20% of its total assets in debt securities. Certain of its investments in hybrid, i.e., fully taxable, preferred securities, will be subject to the foregoing 20% limitation to the extent that, in the opinion of the Adviser, such investments are deemed to be debt-like in key characteristics. Typically, a security will not be considered debt-like (a) if an issuer can defer payment of income for eighteen months or more without triggering an event of default and (b) if such issue is a junior and fully subordinated liability of an issuer or its ultimate guarantor. In addition to foreign money market securities, the Fund may invest up to 30% of its total assets in the securities of companies organized or having their principal place of business outside the United States. All foreign securities held by the Fund will be denominated in U.S. dollars. 9. SPECIAL INVESTMENT TECHNIQUES The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the date of the transaction. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures. The Fund may also enter into transactions, in accordance with its investment policies, involving any or all of the following: short sales of securities, 30 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED) purchases of securities on margin, futures contracts, interest rate swaps, swap futures, options on futures contracts, options on securities, swaptions and certain credit derivative transactions, including, but not limited to, the purchase and sale of credit protection. As in the case of when-issued securities, the use of over-the-counter derivatives, such as interest rate swaps, swaptions, and credit default swaps may expose the Fund to greater credit, operations, liquidity, and valuation risk than is the case with regulated, exchange traded futures and options. These transactions are used for hedging or other appropriate risk-management purposes, or, under certain other circumstances, to increase return. No assurance can be given that such transactions will achieve their desired purposes or will result in an overall reduction of risk to the Fund. 10. SECURITIES LENDING The Fund may lend up to 15% of its total assets (including the value of the loan collateral) to certain qualified brokers in order to earn additional income. The Fund receives compensation in the form of fees or interest earned on the investment of any cash collateral received. The Fund also continues to receive interest and dividends on the securities loaned. The Fund receives collateral in the form of cash or securities with a market value at least equal to the market value of the securities on loan, including accrued interest. In the event of default or bankruptcy by the borrower, the Fund could experience delays and costs in recovering the loaned securities or in gaining access to the collateral. The Fund has the right under the lending agreement to recover the securities from the borrower on demand. As of May 31, 2010 there were no securities on loan by the Fund. 11. SUBSEQUENT EVENTS Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there was the following subsequent event: On July 1, 2010, The PNC Financial Services Group, Inc. sold the outstanding stock of PNC Global Investment Servicing Inc. to The Bank of New York Mellon Corporation. At the closing of the sale, PNC Global Investment Servicing (U.S.) Inc. changed its name to BNY Mellon Investment Servicing (US) Inc. PFPC Trust Company will not change its name until a later date to be announced. 31 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN Under the Fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), a shareholder whose Common Stock is registered in his or her own name will have all distributions reinvested automatically by PNC as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") may be reinvested by the broker or nominee in additional shares under the Plan, but only if the service is provided by the broker or nominee, unless the shareholder elects to receive distributions in cash. A shareholder who holds Common Stock registered in the name of a broker or other nominee may not be able to transfer the Common Stock to another broker or nominee and continue to participate in the Plan. Investors who own Common Stock registered in street name should consult their broker or nominee for details regarding reinvestment. The number of shares of Common Stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. Whenever the market price per share of the Fund's Common Stock is equal to or exceeds the net asset value per share on the valuation date, participants in the Plan will be issued new shares valued at the higher of net asset value or 95% of the then current market value. Otherwise, PNC will buy shares of the Fund's Common Stock in the open market, on the New York Stock Exchange ("NYSE") or elsewhere, on or shortly after the payment date of the dividend or distribution and continuing until the ex-dividend date of the Fund's next distribution to holders of the Common Stock or until it has expended for such purchases all of the cash that would otherwise be payable to the participants. The number of purchased shares that will then be credited to the participants' accounts will be based on the average per share purchase price of the shares so purchased, including brokerage commissions. If PNC commences purchases in the open market and the then current market price of the shares (plus any estimated brokerage commissions) subsequently exceeds their net asset value most recently determined before the completion of the purchases, PNC will attempt to terminate purchases in the open market and cause the Fund to issue the remaining dividend or distribution in shares. In this case, the number of shares received by the participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. These remaining shares will be issued by the Fund at the higher of net asset value or 95% of the then current market value. Plan participants are not subject to any charge for reinvesting dividends or capital gains distributions. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to PNC's open market purchases in connection with the reinvestment of dividends or capital gains distributions. For the six months ended May 31, 2010, $1,141 in brokerage commissions were incurred. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. A participant in the Plan will be treated for Federal income tax purposes as having received, on the dividend payment date, a dividend or distribution in an amount equal to the cash that the participant could have received instead of shares. 32 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) In addition to acquiring shares of Common Stock through the reinvestment of cash dividends and distributions, a shareholder may invest any further amounts from $100 to $3,000 semi-annually at the then current market price in shares purchased through the Plan. Such semi-annual investments are subject to any brokerage commission charges incurred. A shareholder whose Common Stock is registered in his or her own name may terminate participation in the Plan at any time by notifying PNC in writing, by completing the form on the back of the Plan account statement and forwarding it to PNC, or by calling PNC, directly. A termination will be effective immediately if notice is received by PNC not less than 10 days before any dividend or distribution record date. Otherwise, the termination will be effective, and only with respect to any subsequent dividends or distributions, on the first day after the dividend or distribution has been credited to the participant's account in additional shares of the Fund. Upon termination and according to a participant's instructions, PNC will either (a) issue certificates for the whole shares credited to the shareholder's Plan account and a check representing and fractional shares or (b) sell the shares in the market. Shareholders who hold Common Stock registered in the name of a broker or other nominee should consult their broker or nominee to terminate participation. The Plan is described in more detail in the Fund's Plan brochure. Information concerning the Plan may be obtained from PNC at 1-800-331-1710. ADDITIONAL COMPENSATION AGREEMENT The Adviser has agreed to compensate Merrill Lynch from its own resources at an annualized rate of 0.10% of the Fund's total managed assets for certain services, including after-market support services designed to maintain visibility of the Fund. PROXY VOTING POLICIES AND PROXY VOTING RECORD ON FORM N-PX The Fund files Form N-PX with its complete proxy voting record for the 12 months ended June 30th no later than August 31st of each year. The Fund filed its latest Form N-PX with the Securities and Exchange Commission ("SEC") on August 21, 2009. This filing as well as the Fund's proxy voting policies and procedures are available (i) without charge, upon request, by calling the Fund's transfer agent at 1-800-331-1710 and (ii) on the SEC's website at www.sec.gov. In addition, the Fund's proxy voting policies and procedures are available on the Fund's website at www.fcclaymore.com. PORTFOLIO SCHEDULE ON FORM N-Q The Fund files a complete schedule of portfolio holdings with the SEC for the first and third fiscal quarters on Form N-Q, the latest of which was filed for the quarter ended February 28, 2010. The Fund's Form N-Q is available on the SEC's website at www.sec.gov or may be viewed and obtained from the SEC's Public Reference Room in Washington D.C. Information on the operation of the Public Reference Section may be obtained by calling 1-800-SEC-0330. 33 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) PORTFOLIO MANAGEMENT TEAM In managing the day-to-day operations of the Fund, the Adviser relies on the expertise of its team of money management professionals, consisting of Messrs. Crumrine, Ettinger, Stone and Chadwick. The professional backgrounds of each member of the management team are included in the "Information about Fund Directors and Officers" section of this report. MEETING OF SHAREHOLDERS On April 22, 2010, the Fund held its Annual Meeting of Shareholders (the "Annual Meeting") for the following purpose: Election of Directors of the Fund (the "Proposal"). The Proposal was approved by shareholders and the results of the voting are as follows: PROPOSAL 1: ELECTION OF DIRECTORS. NAME FOR WITHHELD ---- ---------- --------- Donald F. Crumrine .... 35,775,006 3,684,908 Robert F. Wulf .... 35,689,279 3,750,635 David Gale, Morgan Gust and Karen H. Hogan continue to serve in their capacities as Directors of the Fund. 34 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) INFORMATION ABOUT FUND DIRECTORS AND OFFICERS The business and affairs of the Fund are managed under the direction of the Fund's Board of

Directors. Information pertaining to the Directors and officers of the Fund is set forth below. PRINCIPAL NUMBER OF FUNDS TERM OF OFFICE OCCUPATION(S) IN FUND COMPLEX POSITION(S) AND LENGTH OF DURING PAST OVERSEEN OTHER DIRECTORSHIPS NAME, ADDRESS, AND AGE HELD WITH FUND TIME SERVED* FIVE YEARS BY DIRECTOR HELD BY DIRECTOR** --------------------- -------------- ----------------- ---------------------- -------------- -------------------- NON-INTERESTED DIRECTORS: DAVID GALE Director Class I Director President of Delta 4 Delta Dividend Group, Inc. since Dividend Group, 220 Montgomery Street January 2003 Inc. Suite 426 (investments) San Francisco, CA 94104 Age: 61 MORGAN GUST Director Class II Director Owner and operator of 4 CoBiz Financial, Inc. 301 E. Colorado Boulevard since various entities (financial services) Suite 720 January 2003 engaged in agriculture Pasadena, CA 91101 and real estate; Former Age: 63 President of Giant Industries, Inc. (petroleum refining and marketing) from March 2002 through June 2007 KAREN H. HOGAN+ Director Class II Director Active Committee Member 4 301 E. Colorado Boulevard since and Volunteer to Suite 720 July 2005 several non-profit Pasadena, CA 91101 organizations; Age: 49 from September 1985 to January 1997, Senior Vice President of Preferred Stock Origination at Lehman Brothers and previously, Vice President of New Product Development ---------- * The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows: CLASS I DIRECTOR - three year term expires at the Fund's 2011 Annual Meeting of Shareholders; director may continue in office until his successor is duly elected and qualified. CLASS II DIRECTORS - three year term expires at the Fund's 2012 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified. CLASS III DIRECTORS - three year term expires at the Fund's 2013 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified. ** Each Director also serves as a Director for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, and Flaherty & Crumrine/Claymore Total Return Fund. + As a Director, until July 30, 2009, represented holders of shares of the Fund's Auction Market Preferred Stock. 35 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) PRINCIPAL NUMBER OF FUNDS TERM OF OFFICE OCCUPATION(S) IN FUND COMPLEX POSITION(S) AND LENGTH OF DURING PAST OVERSEEN OTHER DIRECTORSHIPS NAME, ADDRESS, AND AGE HELD WITH FUND TIME SERVED* FIVE YEARS BY DIRECTOR HELD BY DIRECTOR** --------------------- -------------- ----------------- ---------------------- -------------- -------------------- NON-INTERESTED DIRECTORS: ROBERT F. WULF Director Class III Director Financial Consultant; 4 P.O. Box 753 and Audit since Trustee, University Neskowin, OR 97149 Committee January 2003 of Oregon Foundation; Age: 73 Chairman Trustee, San Francisco Theological Seminary INTERESTED DIRECTOR: DONALD F. CRUMRINE+ Director, Class III Director Chairman of the Board 4 301 E. Colorado Boulevard Chairman of since and Director of Suite 720 the Board and January 2003 Flaherty & Crumrine Pasadena, CA 91101 Chief Incorporated Age: 62 Executive Officer ---------- * The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows: CLASS I DIRECTOR - three year term expires at the Fund's 2011 Annual Meeting of Shareholders; director may continue in office until his successor is duly elected and qualified. CLASS II DIRECTORS - three year term expires at the Fund's 2012 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified. CLASS III DIRECTORS - three year term expires at the Fund's 2013 Annual Meeting of Shareholders; directors may continue in office until their successors are duly elected and qualified. ** Each Director also serves as a Director for Flaherty & Crumrine Preferred Income Fund, Flaherty & Crumrine Preferred Income Opportunity Fund, and Flaherty & Crumrine/Claymore Total Return Fund. + "Interested person" of the Fund as defined in the 1940 Act. Mr. Crumrine is considered an "interested person" because of his affiliation with Flaherty & Crumrine Incorporated, which acts as the Fund's investment adviser. 36 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) TERM OF OFFICE POSITION(S) AND LENGTH OF PRINCIPAL OCCUPATION(S) NAME, ADDRESS, AND AGE HELD WITH FUND TIME SERVED DURING PAST FIVE YEARS --------------------- ------------------- ------------- ------------------------------- OFFICERS: ROBERT M. ETTINGER President Since President and Director of 301 E. Colorado Boulevard January 2003 Flaherty & Crumrine Incorporated Suite 720 Pasadena, CA 91101 Age: 51 R. ERIC CHADWICK Chief Financial Since Director of Flaherty & Crumrine 301 E. Colorado Boulevard Officer, Vice July 2004 Incorporated since June 2006; Suite 720 President and Vice President of Flaherty & Pasadena, CA 91101 Treasurer Crumrine Incorporated Age: 35 CHAD C. CONWELL Chief Compliance Since Chief Compliance Officer of 301 E. Colorado Boulevard Officer, Vice July 2005 Flaherty & Crumrine Incorporated Suite 720 President and since September 2005; Vice Pasadena, CA 91101 Secretary President of Flaherty & Crumrine Age: 37 Incorporated since July 2005; Attorney with Paul, Hastings, Janofsky & Walker LLP from September 1998 to June 2005 BRADFORD S. STONE Vice President Since Director of Flaherty & Crumrine 47 Maple Street and Assistant July 2003 Incorporated since June 2006; Suite 403 Treasurer Vice President of Flaherty & Summit, NJ 07901 Crumrine Incorporated Age: 50 LAURIE C. LODOLO Assistant Since Assistant Compliance Officer and 301 E. Colorado Boulevard Compliance July 2004 Secretary of Flaherty & Crumrine Suite 720 Officer, Assistant Incorporated Pasadena, CA 91101 Treasurer and Age: 46 Assistant Secretary 37 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) BOARD CONSIDERATION AND APPROVAL OF CONTINUANCE OF INVESTMENT ADVISORY AGREEMENT On January 26, 2010, the Board of Directors of the Fund approved the continuation of the existing investment advisory agreement with the Adviser (the "Investment Advisory Agreement"). The following paragraphs summarize the material information and factors considered by the Board, including the Non-Interested Directors, as well as their conclusions relative to such factors. In considering whether to approve the Fund's Investment Advisory Agreement, the Board members considered and discussed a substantial amount of information and analysis provided, at the Board's request, by the Adviser. The Board members also considered detailed information regarding performance and expenses of other investment companies thought to be generally comparable to the Fund. The Board members discussed with management this and other information relating to the Agreement during the Special Meeting held on January 14, 2010 for that specific purpose. On January 26, 2010, the Board members approved the continuance of the Investment Advisory Agreement. In reaching their determinations relating to continuance of the Investment Advisory Agreement, the Board members considered these discussions and all other factors they believed relevant, including the factors discussed below. In their deliberations, the Board members did not identify any particular information that was all-important or controlling, and Board members may have attributed different weights to the various factors. The Board members evaluated this information, and all other information available to them, for the Fund, and their determinations were made separately in respect of each other fund advised by the Adviser. In particular, the Board members focused on the following with respect to the Fund. NATURE, EXTENT AND QUALITY OF SERVICES The Board members reviewed in detail the nature and extent of the services provided by the Adviser and the quality of those services over the past year and since inception. The Board members noted that these services included managing the Fund's investment program, as well as providing significant administrative services beyond what the Investment Advisory Agreement required. The Board members noted that the Adviser also provided, generally at its expense: office facilities for use by the Fund; personnel responsible for supervising the performance of administrative, accounting and related services; and investment compliance monitoring. The Board members also considered the Adviser's sound financial condition and the Adviser's commitment to its business, in part evidenced by the Adviser maintaining its staff despite lower revenues due to the recent difficult financial period. The Board members evaluated the Adviser's services based on their direct experience serving as Directors for many years, focusing on (i) the Adviser's knowledge of the preferred securities market generally and the sophisticated hedging strategies the Fund had employed until recently, the reasons why that strategy has been ineffective during the current market dislocation, why the Adviser has suspended its customary hedging strategy, and its focus on, and internal resources dedicated to, identifying opportunities to add additional value through hedging and other sophisticated financial transactions, and (ii) the Adviser's culture of compliance. The Board members reviewed the personnel responsible for providing services to the Fund and observed that, based on their experience and interaction with the Adviser: (1) the Adviser's personnel exhibited a high level of personal integrity, diligence and attention to detail in carrying out 38 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) their responsibilities under the Investment Advisory Agreement; (2) the Adviser was responsive to requests of the Board and its personnel were available between Board meetings to answer questions from Board members; and (3) the Adviser had kept the Board apprised of developments relating to the Fund. The Board members also considered the continued efforts undertaken by the Adviser to maintain an effective compliance program. The Board members concluded that the nature and extent of the services provided were reasonable and appropriate in relation to the Fund's investment goals and strategies, the corporate and regulatory environment in which the Fund operates, and the level of services provided by the Adviser, and that the quality of the Adviser's service continues to be high. INVESTMENT PERFORMANCE The Board members took note of the extraordinary market conditions prevailing over almost the past two years and at present, the sharp recovery in the market for the Fund's securities and the Fund's superior recent performance, which evidenced the Adviser's continued adherence to its investment discipline. The Board members considered the Fund's relative performance since inception, including its performance in recent fiscal periods, including its disappointing absolute performance over certain periods that preceded the recent period of excellent performance. The Board members reviewed the Fund's performance compared to relevant indices and funds thought to be generally comparable to the Fund and examined the differences between the Fund and certain funds in the comparison group. The Board members considered their expectation at the time of last year's review, which had been realized, that the Fund's absolute performance would improve as markets normalized as the Adviser continued to follow its investment approach. PROFITABILITY The Board members considered the Adviser's methodology for determining its profitability with respect to the Fund, and the Adviser's profit margin on an after-tax basis attributable to managing the Fund. The Board members noted in recent years, including the last, that declining assets under management, when compared to historic highs, has led to declining Adviser profitability, but noted with approval the Adviser's continued commitment to maintain existing personnel and service levels. The Board members also considered that the Adviser provided, at a lower cost, services to separate account clients and determined that the difference was justified in light of the additional services and costs associated with managing registered investment companies, such as the Fund. The Board members accepted the Adviser's statement that it did not realize material indirect benefits from its relationship with the Fund and did not obtain soft dollar credits from securities trading. ECONOMIES OF SCALE The Board members noted that the Fund, as a closed-end investment company, was not expected to increase materially in size and, based on recent adverse market conditions and related deleveraging, the Fund's size had declined significantly from historic highs. Thus, in both these circumstances, the Adviser would not benefit from economies of scale, especially where personnel and other Adviser costs of providing services did not decline commensurately. The Board members considered whether economies of scale could be realized because the Adviser advises other similar funds. Based on their experience, the Board members accepted the Adviser's explanation that significant economies of scale would not be realized because of the 39 Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated ADDITIONAL INFORMATION (UNAUDITED) (CONTINUED) complexity of managing preferred securities for separate funds and other portfolios. Nonetheless, the Board members noted that the Fund's advisory fee schedule declines as assets increase beyond a certain level (commonly known as a "breakpoint"), and that breakpoints provide for a sharing with shareholders of benefits derived as a result of economies of scale arising from increased assets. Accordingly, the Board members determined that the existing advisory fee levels reflect possible economies of scale, and possibly at levels more favorable to the Fund than might have been negotiated had the substantial volatility of the Fund's asset levels been anticipated at the time the breakpoints had been agreed upon. In light of their discussions and considerations as described above, the Board members made the following determinations as to the Fund: - the nature and extent and quality of the services provided by the Adviser are reasonable and appropriate and the quality of the services is high; - the Fund's overall performance over time has been satisfactory and its performance for recent periods of absolute underperformance was reflective of market conditions, given the Fund's investment policies and strategies and the Adviser's adherence to them, which is responsible for the recent superior performance as markets stabilized; - the fee paid to the Adviser was reasonable in light of (i) comparative performance and expense and advisory fee information, considered over relevant time periods, (ii) the cost of the services provided and profits to be realized, and (iii) the benefits derived or to be derived by the Adviser from its relationship with the Fund; and - there were not at this time significant economies of scale to be realized by the Adviser in managing the Fund's assets, and the fee was structured to provide for a sharing of the benefits of economies of scale. Based on these conclusions, the Board members determined that approval of the Investment Advisory Agreement was in the best interests of the Fund and its shareholders. 40 [This page intentionally left blank] [This page intentionally left blank] [This page intentionally left blank] (FLAHERTY & CRUMRINE/CLAYMORE LOGO) PREFERRED SECURITIES INCOME FUND Semi-Annual Report May 31, 2010 www.fcclaymore.com DIRECTORS Donald F. Crumrine, CFA Chairman of the Board David Gale Morgan Gust Karen H. Hogan Robert F. Wulf, CFA OFFICERS Donald F. Crumrine, CFA Chief Executive Officer Robert M. Ettinger, CFA President R. Eric Chadwick, CFA Chief Financial Officer, Vice President and Treasurer Chad C. Conwell Chief Compliance Officer, Vice President and Secretary Bradford S. Stone

Vice President and Assistant Treasurer Laurie C. Lodolo Assistant Compliance Officer, Assistant Treasurer and Assistant Secretary INVESTMENT ADVISER Flaherty & Crumrine Incorporated e-mail: flaherty@pfdincome.com SERVICING AGENT Claymore Securities, Inc. 1-866-233-4001 QUESTIONS CONCERNING YOUR SHARES OF FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND? - If your shares are held in a Brokerage Account, contact your Broker. - If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent -- BNY Mellon Investment Servicing (US) Inc. 1-800-331-1710 THIS REPORT IS SENT TO SHAREHOLDERS OF FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED FOR THEIR INFORMATION. IT IS NOT A PROSPECTUS, CIRCULAR OR REPRESENTATION INTENDED FOR USE IN THE PURCHASE OR SALE OF SHARES OF THE FUND OR OF ANY SECURITIES MENTIONED IN THIS REPORT. ITEM 2. CODE OF ETHICS. Not applicable. ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT. Not applicable. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES. Not applicable. ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. Not applicable. ITEM 6. INVESTMENTS. (a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form. (b) Not applicable. ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. Not applicable. ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES. There has been no change, as of the date of this filing, in any of the portfolio managers identified in response to paragraph (a)(1) of this Item in the registrant's most recently filed annual report on Form N-CSR. ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS. Not applicable. ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant's board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item. ITEM 11. CONTROLS AND PROCEDURES. (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)). (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. ITEM 12. EXHIBITS. (a)(1) Not applicable. (a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto. (a)(3) Not applicable. (b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto. SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. (registrant) Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated By (Signature and Title)* /s/ Donald F. Crumrine -- Donald F. Crumrine, Director, Chairman of the Board and Chief Executive Officer (principal executive officer) Date July 27, 2010 Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By (Signature and Title)* /s/ Donald F. Crumrine -- Donald F. Crumrine, Director, Chairman of the Board and Chief Executive Officer (principal executive officer) Date July 27, 2010 By (Signature and Title)* /s/ R. Eric Chadwick -- R. Eric Chadwick, Chief Financial Officer, Treasurer and Vice President (principal financial officer) Date July 27, 2010 * Print the name and title of each signing officer under his or her signature.