

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND

To the Shareholders of the Flaherty & Crumrine/Claymore Total Return Fund (“FLC” or the “Fund”):

During the second half of 2007, conditions in U.S. preferred securities markets deteriorated dramatically, resulting in significant negative performance for the Fund. While some companies in the Fund’s portfolio have challenges to manage, we believe those companies and the Fund’s other holdings will continue to deliver high current income to the Fund’s shareholders. No one knows when the preferred and overall credit markets will stabilize, but eventually they will. The road to stabilization is likely to be bumpy for some time, so we will continue to navigate diligently with our disciplined, credit-focused investment strategy.

Since yields rise when prices of fixed income securities fall, one of the silver linings in the current market environment is the Fund’s income. During this period, we have been able to re-position a portion of the portfolio into higher-yielding investment-grade securities. Along with other factors, this allowed us to raise our dividend modestly, effective in December.

The following table summarizes the Fund’s performance in its most recent fiscal quarter and over longer time periods, compared with the average return of a group of closed-end funds that invest in other types of securities than preferred securities (as outlined in footnote (3) below):

TOTAL RETURN ON NET ASSET VALUE⁽¹⁾ FOR PERIODS ENDED NOVEMBER 30, 2007					
	<u>Actual Returns</u>			<u>Average Annualized Returns</u>	
	<u>Three Months</u>	<u>Six Months</u>	<u>One Year</u>	<u>Three Years</u>	<u>Life of Fund⁽²⁾</u>
Flaherty & Crumrine/Claymore Total Return Fund	-4.7%	-9.3%	-9.3%	1.3%	2.8%
Lipper Domestic Investment Grade Funds ⁽³⁾	2.2%	2.0%	3.9%	5.0%	5.7%

(1) Based on monthly data provided by Lipper Inc. in each calendar month during the relevant period. Distributions are assumed to be reinvested at NAV in accordance with Lipper’s practice, which differs from the methodology used elsewhere in this report.

(2) Since inception on August 26, 2003.

(3) Includes all closed-end funds in Lipper’s U.S. Government, U.S. Mortgage and Corporate Debt BBB Rated categories in each month during the period. Although the investment strategies used by the Fund differ significantly from the strategies used by these other fixed-income funds, the Fund seeks to accomplish a similar objective.

As the table reflects, the Fund’s relative performance over all time periods was dramatically impacted by the last six months of the fiscal year. Since July 2007, U.S. markets have suffered from a severe credit crunch. Sparked by the problems in the subprime mortgage market, the credit crunch expanded into a complete re-evaluation by investors and lenders of prices associated with the extension of credit and liquidity, in other words, the “risk premium.” Rationally or irrationally, lenders and investors became afraid of the greater risk that their borrowers might default, and demanded significantly higher risk premiums for making loans or owning preferred or debt securities. Many investors fled to the safest credit instrument they knew – U.S. Treasury securities.

Widening risk premiums played out in a number of market sectors. For consumers, mortgage rates jumped significantly in the first few months of the crunch and banks tightened lending standards. For institutions, credit fears became so widespread that banks even worried about lending to other banks; the cost of interbank borrowing surged. For the Fund, leverage became more expensive and yields on preferred securities increased dramatically, driving down the value of the Fund's portfolio.

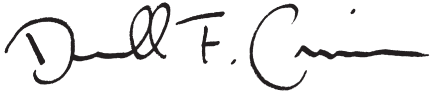
In some asset classes, lenders and investors simply retreated from extending credit to borrowers at any risk premium. Left unchecked, this credit contraction could have had severe negative repercussions on both asset values and the economy. In response, the Federal Reserve cut the fed funds rate by one percentage point and the discount rate by one and a half percentage points, with the likelihood of further cuts to come. In addition, the Fed and other major global central banks flooded markets with liquidity through repurchase operations. Preferred securities and other credit-market instruments, which were falling sharply in price prior to the Fed's actions, have since stabilized somewhat. Although we cannot say that prices of credit-market instruments have reached a bottom, the Fed's actions have clearly helped provide liquidity to the market. In the discussion topics that follow this letter, we write further about our thoughts on the future of the current credit crunch, the outlook for the U.S. economy and the possible response by the Fed. It's likely that the behavior of the preferred securities market these past months will one day be the subject of business school dissertations. From our vantage point, we'd observe that the market was impacted by, among other things, issues of liquidity, a flood of supply from financial issuers desperate to replenish their capital and concerns over the creditworthiness of the financial institutions that constitute a large part of the preferred securities market.

Early on, losses by investors in mortgage securities prompted liquidation of their holdings in preferred securities to meet their funding needs. Too many willing sellers, and too few buyers, then had an adverse impact on valuations throughout the secondary preferred securities market. Subsequently, companies directly impacted by credit-related losses – especially banks, broker-dealers and the government-sponsored housing lenders, Fannie Mae and Freddie Mac – turned largely to the preferred market to raise much-needed capital to offset their losses. The pricing of these new issues came at substantial discounts to outstanding preferred securities, which further drove down prices in the secondary preferred market (including for preferred securities of non-financial companies).

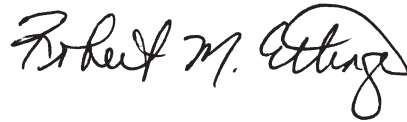
Although many types of companies have experienced some strain from the current credit crunch, those most affected include banks, financial services companies and broker-dealers – the industries with direct and indirect exposures to problems in the housing market. Preferred securities issued by these types of companies have consequently suffered the greatest declines in value. In the more detailed discussion that follows this letter, we talk about credit fundamentals of the financial services companies we own. In short, we believe that current market values of most securities we own are more reflective of the credit crunch and associated fears and illiquidity than the overall creditworthiness of these issuers. Consequently, we remain cautiously optimistic that a more normal market will bring about positive returns for our preferred-securities investments this year. On a longer-term horizon, we are all but certain of it.

Following this letter is discussion on a variety of subjects, including: an attribution of total returns on net asset value; the Fund's market price performance; the economy and our views on monetary policy; credit fundamentals of financial services companies; and tax treatment of the Fund's dividends. The Questions and Answers on the Fund's website at www.fcclaymore.com have additional comments on a number of topics that may interest you. We believe an informed shareholder can be one of the strongest assets of any company, and we encourage you to read the remainder of this report and explore the website for a wide range of additional information about your Fund.

Sincerely,



Donald F. Crumrine
Chairman of the Board



Robert M. Ettinger
President

January 18, 2008

DISCUSSION TOPICS

The Fund's Preferred Securities Portfolio and Components of Total Return on NAV

The preferred securities market has suffered one of its worst years in modern U.S. financial history. While no index comprehensively reflects the investment universe for the Fund, Merrill Lynch publishes three different indices which attempt to measure performance of some sectors of the investment-grade preferred securities market: the Merrill Lynch 8% Capped DRD Preferred Stock Index (which includes traditional tax-advantaged preferred stocks); the Merrill Lynch Hybrid Preferred Securities Index (which includes fully-taxable, exchange-traded preferred securities) and the Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index (which includes both tax-advantaged and taxable preferred securities with adjustable dividends). Set forth below are the six month and twelve month total returns of these indices:

**Total Returns of Merrill Lynch Preferred Securities Indices*
for Periods Ended November 30, 2007**

	Six Months	One Year
Merrill Lynch 8% Capped DRD Preferred Stock Index SM	(8.7)%	(6.9)%
Merrill Lynch Hybrid Preferred Securities Index SM	(9.2)%	(7.8)%
Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index SM	(15.6)%	(13.7)%

*The Merrill Lynch 8% Capped DRD Preferred Stock IndexSM includes investment grade preferred securities issued by both corporations and government agencies that qualify for the corporate dividends received deduction with issuer concentration capped at a maximum of 8%. The Merrill Lynch Hybrid Preferred Securities IndexSM includes taxable, fixed-rate, U.S. dollar-denominated investment-grade, preferred securities listed on a U.S. exchange. The Merrill Lynch Adjustable Preferred Stock, 7% Constrained IndexSM includes adjustable rate preferred securities issued by US corporations and government agencies with issuer concentration capped at a maximum of 7%. All index returns include interest and dividend income and, unlike the Fund's returns on net asset value, are unmanaged and do not reflect any expenses.

While we realize it's only small consolation, as set forth in the table below, the Fund's total return on its securities portfolio was better than these indices. Unfortunately, as one might expect, the Fund's strategy of using leverage amplified its negative returns and, coupled with its expenses and hedging strategy, caused the NAV of the Fund to perform worse than two of the indices.

The table below reflects the performance of each investment tool used by the Fund to achieve its objective, namely: (a) investing in a portfolio of securities; (b) hedging that portfolio of securities against significant increases in long-term interest rates; and (c) issuing an auction-rate preferred stock to leverage and enhance returns to Common Stock shareholders. The table then adjusts for the impact of the Fund's expenses to arrive at a total return on NAV (which factors in all of these items).

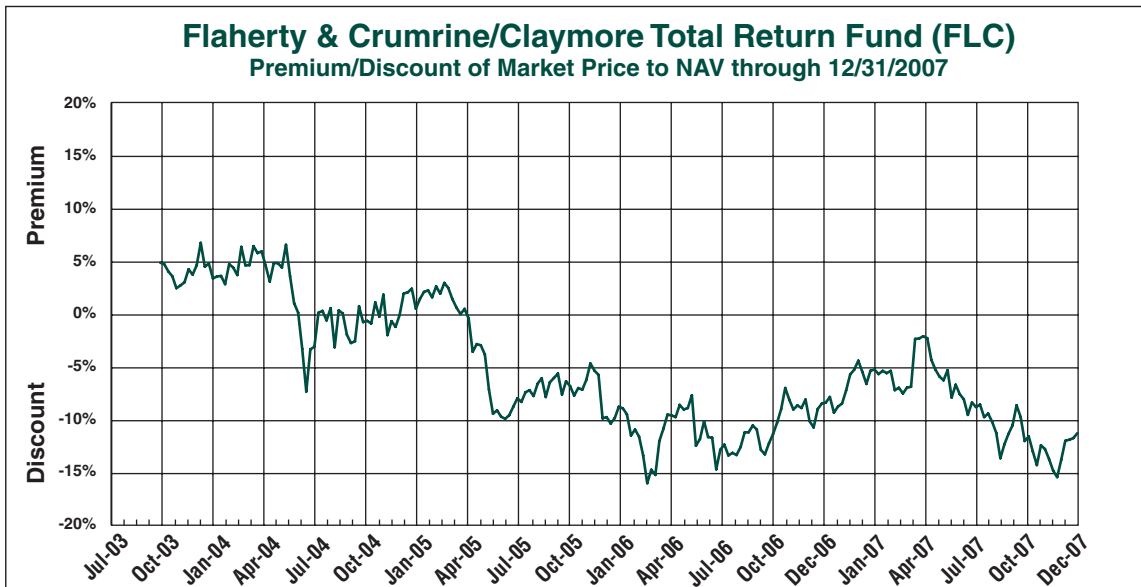
**Components of FLC's Total Return on NAV
for Periods Ended November 30, 2007**

	Six Months	One Year
Total Return on Unleveraged Securities Portfolio (including principal and income)	(3.8)%	(2.4)%
Return from Interest Rate Hedging Strategy.....	(0.7)%	(0.7)%
Impact of Leverage	(4.0)%	(4.7)%
Expenses.....	(0.8)%	(1.5)%
<i>Total Return on NAV</i>	(9.3)%	(9.3)%

Market Total Return

While our focus is primarily on managing the Fund's portfolio, an investor's actual return is comprised of monthly dividend payments plus changes in the Fund's market price. For the year ended November 30, 2007, the total return on *market value* for the Fund's common shares was -17.0%. During the fourth quarter alone, total return on *market value* was -7.1%.

We've often said that in a perfect world, market prices would closely track net asset values; however, as seen in the chart below, in the real world deviations can be large. Over the past year, shareholders saw some significant deterioration in the relationship between net asset value and market price.



Over the past six months, investors have been indiscriminately selling many types of corporate securities, including closed-end funds. The discounts of closed-end funds of all stripes, including the Fund's, widened materially. Toward the end of the year, the Fund's decline in market price was further compounded by tax-loss selling pressure. Throughout the period, the market price of the Fund's shares has almost traded without apparent relation to their underlying net asset value (NAV), and we have seen near-historic discounts in the Fund's market prices to their NAVs.

As discussed in greater detail on the Fund's website, fundamentally, the market prices of the Fund's shares are subject to the laws of supply and demand, which became substantially imbalanced. We believe that the fundamentals of FLC continue to be strong and that this supply/demand imbalance is unjustified when one considers the Fund's current dividend levels and the quality of its portfolio.

The U.S. Economy and Federal Reserve Monetary Policy

The U.S. economy has performed remarkably well to date in the face of significant deterioration in housing and credit markets. Real gross domestic product grew by 4.9% at an annual rate in the third quarter, the fastest quarterly growth pace in four years. However, prospects for future growth have clearly dimmed.

Today, the key question for the economy – and for investors – is to what extent housing and credit headwinds affect economic growth over coming quarters. On one hand, if the impact is only modest, then the economy probably can regain its footing after a couple quarters of slow (sub-2%) growth. On the other hand, if the housing downturn becomes even worse than expected, generating further sizable losses in the financial sector, then credit contraction in combination with already-slowing consumer spending could result in recession.

Without repeating the detailed analysis we present in our Quarterly Economic Update (which is available on the Fund's website), we continue to think that the economy will narrowly avoid recession. However, we now believe that additional monetary easing will be needed, and the downside risks have increased as credit market strains have intensified.

The housing market remains the weakest part of the economy, and we expect it to weaken through 2008 as a large inventory of unsold homes continues to weigh on both prices and construction activity. Many mortgage borrowers with little home equity will default, others will struggle with higher mortgage payments as their rates reset, and fewer and fewer homeowners will be able to extract home equity to finance current consumption. The result will be slower growth in consumer spending, although we think that steady, if unspectacular, gains in employment will prevent consumption from falling outright.

Falling home prices and poor loan underwriting have resulted in surging delinquency and default rates and rising loss severity. Mortgage investors must anticipate how many loans will default and how much of the loan value will be recovered in foreclosure. Thus, mortgage prices need to reflect not only current losses, but also expectations of all future losses. As a result, the price of many mortgage-backed securities, particularly those backed by subprime loans, have fallen dramatically – even in cases where securities have suffered no defaults on principal or interest to date. In turn, prices of securities issued by companies with exposure to mortgage securities also have fallen sharply.

The distinction between current and expected losses is an important one for investors. First, because prices have fallen on many securities, financial institutions who hold them have taken sizable mark-to-market losses that have reduced earnings and capital. But these write downs already incorporate expected future losses. In the case of subprime mortgages (and many other assets), market prices incorporate quite dire loss estimates. Although it's possible that losses ultimately will exceed market expectations, it's also possible that losses will be less. If in fact losses are less than current market prices reflect, then holders of those securities ultimately will report gains from current (depressed) prices. Thus, investors in these securities may well avoid further losses (or even have gains) even as defaults increase, as long as defaults and losses arising from those defaults are less than what is baked into current prices. Second, although market prices reflect severe loss expectations on mortgages, the vast majority of those losses have not yet occurred. Normally, changes in wealth (in this case, mark-to-market losses) have a significantly smaller economic impact than realized losses (actual defaults). As a result, the economic impact of defaults will probably take some time to play out. That offers the possibility that the economy can avoid recession, despite the magnitude of the losses that ultimately may be incurred in the mortgage market. At the same time, it also means growth may be sluggish for more than just a couple of quarters. Right now, we just can't say which way the economy is likely to turn: toward recession, an extended period of sluggish growth, or a two-quarter pause before resuming normal growth. However, even the best of those three scenarios points to slow growth in early 2008, so our economic outlook remains cautious.

In response to the gloomier economic outlook and the credit crunch, the Federal Reserve cut the fed funds rate by a total of one percentage point from September through December 2007. However, just as it increased the rate further than normal due to declining risk premiums from 2004-06, the Fed may now have to lower the fed funds rate by more than normal due to elevated risk premiums. The credit crunch, which has raised risk premiums, has reduced the stimulative effect of the Fed's rate cuts. Although recent coordinated actions by major central banks to provide term financing are starting to improve the pass-through of lower official rates to market rates, it is clear that whatever set of market rates needed to keep the economy out of recession is likely to be associated with a lower-than-normal fed funds rate.

In addition to the cost of credit, the Fed needs to be concerned about the availability of credit. Securitization markets are essentially shut down for mortgages other than U.S. government agency-eligible conforming loans; ditto for many other forms of collateral. This is forcing borrowers to turn to banks and finance companies for funds, expanding their balance sheets at a time when capital is being squeezed due to mark-to-market losses and higher charge-offs on existing loans. Thus, financial institutions are tightening lending standards and raising loan rates, which likely will constrain economic growth in the absence of easier monetary policy.

With the bulk of the economic impact of rising loan defaults yet to be felt, we believe that the Fed will err on the side of additional rate cuts, at least until market rates come down meaningfully.

Fundamental Credit Trends for Financial Services Companies

Although the economic outlook is uncertain, we believe that the credit outlook is positive overall. The corporate nonfinancial sector remains healthy, with low leverage, strong interest coverage, and good liquidity. However, the corporate financial sector, which constitutes the largest sector of the preferred market and where consequently the Fund has significant holdings, is both more strained and more variable. Funding costs for all financial institutions have increased meaningfully, and many companies have taken large write-downs on subprime mortgages and other assets whose market prices have fallen substantially. Life insurance and property and casualty insurance companies have generally avoided most of the problems facing other financial companies, but banks, finance companies, financial guarantors and broker-dealers have been significantly affected because of their direct and indirect exposure to problems in housing markets. These companies all face a difficult operating environment over the next several years, especially if the economy slips into recession.

Recognizing these risks, we remain confident about the overall creditworthiness of the Fund's holdings of financial issuers. Overall, we believe that the issuers (a) are well capitalized, (b) have strong business franchises, (c) are well managed, and (d) have access to additional capital, if needed. We believe that they have the ability to absorb sizable losses and still navigate a difficult credit landscape. Because most of these financial companies operate in a mark-to-market environment, their write downs already reflect both current and expected future losses. Although we admit that we worry about a few holdings more than others, we believe that overall credit quality of the portfolio remains sound. Put simply, we think that current preferred securities prices more accurately reflect the fear and illiquidity of today's credit markets than the fundamental creditworthiness of the issuers. It may take some time, but we are confident that preferred securities prices will reflect more of their creditworthiness eventually.

Tax Advantages of 2007 Calendar Year Distributions

In 2007, the Fund passed on a portion of its income to individuals in the form of qualified dividend income or QDI. QDI is taxed at a maximum 15% rate instead of an individual's ordinary income tax rate. In calendar year 2007, approximately 26.4% of distributions made by the Fund was eligible for QDI treatment. For an individual in the 28% tax bracket, this means that the Fund's total distributions will only be taxed at a blended 24.6% rate versus the 28% rate which would apply to distributions by a fund containing traditional corporate bonds. This tax advantage means that, all other things being equal, an individual in the 28% tax bracket who held 100 shares of Common Stock of the Fund for the calendar year would have had to receive approximately \$161 in distributions from a traditional corporate bond fund to net the same after-tax amount as the \$153 in distributions paid by the Fund.

For detailed information about the tax treatment of the particular distributions received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 17.8% of distributions that were eligible for the inter-corporate dividends received deduction or DRD.

It is important to remember that the composition of the portfolio and the income distributions can change from one year to the next, and the QDI or DRD portions of next year's distributions may not be the same (or even similar) to this year's.

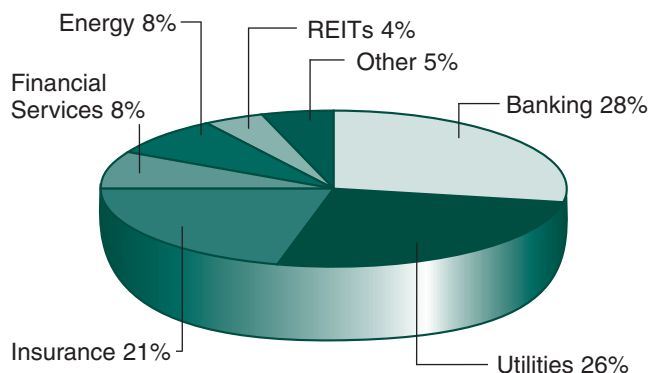
PORTFOLIO OVERVIEW
November 30, 2007 (Unaudited)

Fund Statistics on 11/30/07

Net Asset Value	\$	19.71
Market Price	\$	17.00
Discount		13.75%
Yield on Market Price		9.00%
Common Stock Shares Outstanding		9,776,333

Industry Categories

% of Portfolio



Moody's Ratings

% of Portfolio

AA	5.9%
A	16.9%
BBB	55.6%
BB	14.8%
Below "BB"	1.7%
Not Rated	3.8%

Below Investment Grade* 14.8%

* Below investment grade by both Moody's and S&P.

Top 10 Holdings by Issuer

% of Portfolio

Midamerican Energy	5.2%
Liberty Mutual Group	4.2%
Energy Louisiana	4.0%
Banco Santander	3.9%
Wachovia Corp	3.5%
AON Corp	3.3%
Wisconsin Energy	2.9%
Lehman Brothers	2.7%
Merrill Lynch	2.7%
Nexen	2.4%

% of Portfolio**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	24%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	16%

** This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation. See accompanying notes to the financial statements for the tax characterization of 2007 distributions.

PORTFOLIO OF INVESTMENTS**November 30, 2007**

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — 78.8%		
Banking — 28.3%		
\$ 5,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B	\$ 6,356,050
	Banco Santander:	
381,000	6.50% Pfd., 144A****	7,936,230**(1)
214,920	6.80% Pfd.	4,614,074**(1)
\$ 8,365,000	Capital One Capital III, 7.686% 08/15/36	6,958,006
\$ 6,800,000	CBG Florida REIT Corporation, 7.114%, 144A****	6,483,602
80,000	Citigroup Capital VIII, 6.95% Pfd. 09/15/31	1,810,000
40,000	Citizens Funding Trust I, 7.50% Pfd. 09/15/66	800,500
40,000	Cobank, ACB, 7.00% Pfd., 144A****	2,038,800*
27,500	Colonial Capital Trust IV, 7.875% Pfd.	650,375(2)
\$ 4,950,000	Comerica Capital Trust II, 6.576% 02/20/37	4,029,023
7,000	FBOP Corporation, Adj. Rate Pfd., 144A****	6,650,000*
\$ 400,000	First Empire Capital Trust I, 8.234% 02/01/27	417,138
\$ 1,900,000	First Hawaiian Capital I, 8.343% 07/01/27, Series B	1,982,762(1)
\$ 100,000	First Tennessee Capital I, 8.07% 01/06/27, Series A	104,130
2	FT Real Estate Securities Company, 9.50% Pfd., 144A****	2,450,889
\$ 1,000,000	HBOS PLC, 6.657%, 144A****	839,500**(1)
\$ 855,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	891,149(1)
	ING Groep NV:	
36,000	7.05% Pfd.	825,750**(1)
10,000	7.20% Pfd.	233,125**(1)
\$ 1,500,000	JPMorgan Chase Capital XXIII, Adj. Rate 05/15/47	1,221,627
82,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66	1,768,125(2)
4,995	National City Capital Trust II, 6.625% Pfd. 11/15/36	98,264
\$ 810,000	North Fork Capital Trust II, 8.00% 12/15/27	843,181
151,059	PFGI Capital Corporation, 7.75% Pfd.	3,510,611
\$ 700,000	Regions Financing Trust II, 6.625% 05/15/47	588,070
	Roslyn Real Estate:	
25	8.95% Pfd., Series C, 144A****	2,696,953
10	Adj. Rate Pfd., Series D, 144A****	1,015,000
\$ 1,400,000	Royal Bank of Scotland Group PLC, 7.64%	1,423,845**(1)
33,100	Sovereign Bancorp, 7.30% Pfd., Series C	823,363*
191,525	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36	4,417,045
\$ 675,000	Sovereign Capital Trust VI, 7.908% 06/13/36	661,770
	U.S Bancorp, Auction Pass-Through Trust, Cl. B:	
15	Series 2006-5, Variable Rate Pfd., 144A****	206,250*
15	Series 2006-6, Variable Rate Pfd., 144A****	206,250*

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2007

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Banking — (continued)		
3,120	USB Capital X, 6.50% Pfd. 04/12/66	\$ 68,835 ⁽²⁾
11,200	USB Capital XII, 6.30% Pfd. 02/15/67	232,751
\$ 5,000,000	Wachovia Capital Trust I, 7.64% 01/15/27, 144A****	5,192,450
\$ 670,000	Wachovia Capital Trust V, 7.965% 06/01/27, 144A****	697,885
217,200	Wachovia Preferred Funding, 7.25% Pfd., Series A	5,273,898
\$ 2,000,000	Washington Mutual Preferred Funding IV, 9.75%, 144A****	1,597,800
\$ 2,800,000	Webster Capital Trust IV, 7.65% 06/15/37	2,401,280
		<u>91,016,356</u>
Financial Services — 5.5%		
\$ 5,350,000	CIT Group, Inc., 6.10% 03/15/67	4,000,195
23,898	First Republic Bank, 7.25% Pfd.	533,224
2,000	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A****	2,230,320
	Goldman Sachs:	
36,000	Cabco Trust Capital I, Adj. Rate Pfd. 02/15/34	689,627
1,500	STRIPES Custodial Receipts, Pvt.	891,000*
\$ 3,000,000	Gulf Stream-Compass 2005 Composite Notes, 144A****	2,695,500
	Merrill Lynch:	
160,000	6.25% Pfd.	3,529,600*
80,000	Adj. Rate Pfd., Series 5	1,495,000*
20,000	Fixed Income Pass-through 2007-A, Cl. B, Adj. Rate Pfd, 144A****	200*†
3,000	Series II STRIPES Custodial Receipts, Pvt.	771,000*
11,000	SLM Corporation, Adj. Rate Pfd, Series B	660,000*
		<u>17,495,666</u>
Insurance — 15.3%		
189,680	ACE Ltd., 7.80% Pfd., Series C	4,688,662** ⁽¹⁾
\$ 2,305,000	AMBAC Financial Group, Inc., 6.15% 02/15/37	1,565,049
\$ 9,511,000	AON Capital Trust A, 8.205% 01/01/27	10,458,619
	Arch Capital Group Ltd.:	
28,650	7.875% Pfd., Series B	669,622** ⁽¹⁾
47,100	8.00% Pfd.	1,102,729** ⁽¹⁾
\$ 3,000,000	AXA SA, 6.379%, 144A****	2,547,717** ⁽¹⁾
	Axis Capital Holdings:	
58,350	7.25% Pfd., Series A	1,263,645** ⁽¹⁾
56,600	7.50% Pfd., Series B	5,519,632 ⁽¹⁾

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2007

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Insurance — (continued)		
160,000	Delphi Financial Group, 7.376% Pfd. 05/15/37	\$ 3,288,000
\$ 5,220,000	Everest Re Holdings, 6.60% 05/15/37	4,759,935
\$ 6,500,000	Liberty Mutual Group, 7.80% 03/15/37, 144A****	5,924,386
\$ 300,000	PartnerRe Finance II, 6.44% 12/01/66	272,308 ⁽¹⁾
109,000	Scottish Re Group Ltd., 7.25% Pfd.	1,255,953** ⁽¹⁾
\$ 3,615,000	USF&G Capital, 8.312% 07/01/46, 144A****	4,486,096
\$ 1,500,000	ZFS Finance USA Trust V, 6.50% 05/09/37, 144A****	1,367,396 ⁽¹⁾
		<u>49,169,749</u>
Utilities — 20.8%		
45,700	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	4,741,375*
347,000	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27	16,628,240
\$ 500,000	COMED Financing II, 8.50% 01/15/27, Series B	498,750
\$ 2,375,000	COMED Financing III, 6.35% 03/15/33	1,907,125
\$ 4,500,000	Dominion Resources Capital Trust I, 7.83% 12/01/27	4,475,250
145,000	Entergy Arkansas, Inc., 6.45% Pfd.	3,697,500*
50,000	Entergy Louisiana, Inc., 6.95% Pfd.	5,059,000*
133,500	FPC Capital I, 7.10% Pfd., Series A	3,229,031
	FPL Group Capital, Inc.:	
\$ 750,000	6.35% 10/01/66	713,820
\$ 750,000	6.65% 06/15/67	727,247
30,445	Indianapolis Power & Light Company, 5.65% Pfd.	2,738,832*
	Interstate Power & Light Company:	
90,000	7.10% Pfd., Series C	2,259,900*
38,600	8.375% Pfd., Series B	1,129,050*
\$ 5,000,000	PECO Energy Capital Trust IV, 5.75% 06/15/33	4,460,095
\$ 750,000	Puget Sound Energy, Inc., 6.974% 06/01/67	700,050
130,550	Southern Union Company, 7.55% Pfd.	3,250,695*
10,000	Southwest Gas Capital II, 7.70% Pfd.	250,938 ⁽²⁾
5,000	Union Electric Company, \$7.64 Pfd.	512,450*
5,000	Virginia Electric & Power Company, \$6.98 Pfd.	509,532*
101,200	Virginia Power Capital Trust, 7.375% Pfd. 07/30/42	2,469,918
\$ 5,200,000	Wisconsin Energy Corporation, 6.25% 05/15/67	4,867,746
85,137	Wisconsin Power & Light Company, 6.50% Pfd.	2,109,806*
		<u>66,936,350</u>

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2007

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (continued)		
Energy — 3.0%		
\$ 750,000	Enbridge Energy Partners LP, 8.05% 10/01/37	\$ 757,301
	Enterprise Products Partners:	
\$ 4,000,000	7.034% 01/15/68	3,729,024
\$ 2,000,000	8.375% 08/01/66	2,091,136
2,750	EOG Resources, Inc., 7.195% Pfd., Series B	2,973,245*
		<u>9,550,706</u>
Real Estate Investment Trust (REIT) — 4.3%		
85,000	Equity Residential Properties, 8.29% Pfd., Series K	4,406,400
	PS Business Parks, Inc.:	
25,400	6.70% Pfd., Series P	502,445
5,700	6.875% Pfd., Series I	115,603
61,920	7.20% Pfd., Series M	1,327,410
23,538	7.375% Pfd., Series O	500,919
43,200	7.60% Pfd., Series L	978,752
45,000	7.95% Pfd., Series K	1,072,971
	Public Storage, Inc.:	
21,650	6.45% Pfd., Series F	441,119
115,600	6.625% Pfd., Series M	2,362,575
30,000	6.85% Pfd., Series Y	654,900
56,000	7.25% Pfd., Series K	1,268,753 ⁽²⁾
		<u>13,631,847</u>
Miscellaneous Industries — 1.6%		
1,395	Centaur Funding Corporation, 9.08% Pfd. 04/21/20, 144A****	1,615,584
40,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,617,600*
		<u>5,233,184</u>
Total Preferred Securities		
	(Cost \$272,364,837)	<u>253,033,858</u>
Corporate Debt Securities — 19.8%		
Financial Services — 2.7%		
\$ 4,817,563	Lehman Brothers, Guaranteed Note, Variable Rate, 12/16/16, 144A****	4,250,054
	Lehman Brothers Holdings:	
\$ 2,500,000	6.875% 07/17/37, Sub. Note	2,436,183
\$ 1,900,000	7.00% 09/27/27	1,928,111
		<u>8,614,348</u>

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2007

<u>Shares/\$ Par</u>		<u>Value</u>
Corporate Debt Securities — (continued)		
Insurance — 5.5%		
15,000	AAG Holding Company, Inc., 7.25% Pfd.	\$ 313,800
20,000	American Financial Group, Inc., 7.125% 02/03/34, Senior Note	465,000
\$ 2,000,000	Farmers Exchange Capital, 7.20% 07/15/48, 144A****	1,939,800
\$ 7,577,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	7,490,327
\$ 7,000,000	UnumProvident Corporation, 7.25% 03/15/28, Senior Notes	7,356,286
		<u>17,565,213</u>
Utilities — 5.0%		
27,200	Corp-Backed Trust Certificates, 7.875% 02/15/32, Series Duke Capital	681,972
\$ 1,000,000	Duke Capital Corporation, 8.00% 10/01/19, Senior Notes	1,178,191
	Energy Louisiana LLC:	
\$ 7,562,000	6.30% 09/01/35, 1st Mortgage	7,400,710
15,000	7.60% 04/01/32, 1st Mortgage	376,875
46,900	PPL Capital Funding, Inc., 6.85% 07/01/47	1,127,007
\$ 1,015,000	Westar Energy, Inc., 5.95% 01/01/35	958,653
\$ 4,000,000	Wisconsin Electric Power Company, 6.875% 12/01/95	4,445,524
		<u>16,168,932</u>
Energy — 4.5%		
\$ 2,500,000	KN Energy, Inc., 7.45% 03/01/98	2,227,343
328,300	Nexen, Inc., 7.35% Subordinated Notes	7,858,681 ⁽¹⁾
\$ 4,000,000	Noble Energy, Inc., 7.25% 08/01/97	4,369,188
		<u>14,455,212</u>
Miscellaneous Industries — 2.1%		
20,000	Corp-Backed Trust Certificates, 7.00% 11/15/28, Series Sprint	383,800
19,625	Ford Motor Company, 7.50% 06/10/43, Senior Notes	341,720
\$ 4,265,000	General Motors Corporation, 8.80% 03/01/21	3,689,225 ⁽²⁾
	Pulte Homes, Inc.:	
25,844	7.375% 06/01/46	496,011 ⁽²⁾
\$ 2,160,000	7.875% 06/15/32	1,855,647
		<u>6,766,403</u>
Total Corporate Debt Securities		
(Cost \$65,946,394)		<u>63,570,108</u>

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

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2007

<u>Shares/\$ Par</u>		<u>Value</u>
Option Contracts — 0.1%		
1,180	March Put Options on March U.S.Treasury Bond Futures, Expiring 02/22/08 . .	\$ 184,375†
	Total Option Contracts	
	(Cost \$226,855)	<u>184,375</u>
Money Market Fund — 0.2%		
783,410	BlackRock Provident Institutional, TempFund	783,410
	Total Money Market Fund	
	(Cost \$783,410)	<u>783,410</u>
Securities Lending Collateral — 1.5%		
4,905,720	BlackRock Institutional Money Market Trust	4,905,720
	Total Securities Lending Collateral	
	(Cost \$4,905,720)	<u>4,905,720</u>
	Total Investments (Cost \$344,227,216***)	100.4% 322,477,471
	Other Assets And Liabilities (Net)	(0.4%) <u>(1,240,628)</u>
	Total Net Assets Available to Common Stock and Preferred Stock	100.0%‡ \$ <u>321,236,843</u>
	Auction Market Preferred Stock (AMPS) Redemption Value	<u>(128,500,000)</u>
	Total Net Assets Available To Common Stock	<u>\$ 192,736,843</u>

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

** Securities distributing Qualified Dividend Income only.

*** Aggregate cost of securities held.

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

(1) Foreign Issuer.

(2) All or a portion of this security is on loan.

† Non-income producing.

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

ABBREVIATIONS:

Pfd. — Preferred Securities

Pvt. — Private Placement Securities

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

STATEMENT OF ASSETS AND LIABILITIES

November 30, 2007

ASSETS:

Investments, at value (Cost \$344,227,216) including \$4,872,670 of securities on loan	\$322,477,471
Receivable for investments sold	121,248
Dividends and interest receivable	3,868,375
Prepaid expenses	<u>74,762</u>
Total Assets	<u>326,541,856</u>

LIABILITIES:

Payable for securities lending collateral	\$ 4,905,720
Dividends payable to Common Stock Shareholders	65,715
Investment advisory fee payable	146,471
Administration, Transfer Agent and Custodian fees payable	35,696
Servicing agent fees payable	14,450
Professional fees payable	69,598
Directors' fees payable	2,149
Accrued expenses and other payables	18,825
Accumulated undeclared distributions to Auction Market Preferred Stock Shareholders	<u>46,389</u>
Total Liabilities	<u>5,305,013</u>

Auction Market Preferred Stock (5,140 shares outstanding) redemption value	<u>128,500,000</u>
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NET ASSETS AVAILABLE TO COMMON STOCK	<u><u>\$ 192,736,843</u></u>
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NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Distributions in excess of net investment income	\$ (290,982)
Accumulated net realized loss on investments sold	(16,322,944)
Unrealized depreciation of investments	(21,749,745)
Par value of Common Stock	97,763
Paid-in capital in excess of par value of Common Stock	<u>231,002,751</u>
Total Net Assets Available to Common Stock	<u><u>\$192,736,843</u></u>

NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (9,776,333 shares outstanding)	<u><u>\$ 19.71</u></u>
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STATEMENT OF OPERATIONS
For the Year Ended November 30, 2007

INVESTMENT INCOME:

Dividends†	\$ 13,357,287
Interest	<u>11,800,531</u>
Total Investment Income	25,157,818

EXPENSES:

Investment advisory fee	\$ 1,878,068
Servicing agent fee	195,614
Administrator's fee	262,646
Auction Market Preferred Stock broker commissions and auction agent fees	330,711
Professional fees	111,242
Insurance expense	157,463
Transfer Agent fees	72,880
Directors' fees	70,713
Custodian fees	43,022
Compliance fees	38,586
Other	107,025
Total Expenses	<u>3,267,970</u>

NET INVESTMENT INCOME 21,889,848

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized gain/(loss) on investments sold during the year	(3,531,006)
Net realized gain/(loss) from written options during the year	1,085,078
Change in unrealized appreciation/depreciation of investments	<u>(32,552,743)</u>

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS (34,998,671)

DISTRIBUTIONS TO AUCTION MARKET PREFERRED STOCK**SHAREHOLDERS:**

From net investment income (including changes in accumulated undeclared distributions)	<u>(6,874,365)</u>
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NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK
RESULTING FROM OPERATIONS

\$ (19,983,188)

† For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction ("DRD") or as qualified dividend income ("QDI") for individuals.

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

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	Year Ended November 30, 2007	Year Ended November 30, 2006
OPERATIONS:		
Net investment income	\$ 21,889,848	\$ 19,984,993
Net realized gain/(loss) on investments sold during the year	(2,445,928)	947,351
Change in net unrealized appreciation/depreciation of investments . .	(32,552,743)	9,275,005
Distributions to AMPS* Shareholders from net investment income, including changes in accumulated undeclared distributions	<u>(6,874,365)</u>	<u>(6,219,883)</u>
Net increase/(decrease) in net assets resulting from operations	(19,983,188)	23,987,466
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders ⁽¹⁾	<u>(14,957,790)</u>	<u>(15,324,402)</u>
Total Distributions to Common Stock Shareholders	(14,957,790)	(15,324,402)
FUND SHARE TRANSACTIONS:		
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	<u>—</u>	<u>—</u>
Net increase in net assets available to Common Stock resulting from Fund share transactions	—	—
NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR	<u><u>\$ (34,940,978)</u></u>	<u><u>\$ 8,663,064</u></u>
NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of year	\$227,677,821	\$ 219,014,757
Net increase/(decrease) in net assets during the year	<u>(34,940,978)</u>	<u>8,663,064</u>
End of year (including distributions in excess of net investment income of (\$290,982) and of (\$632,897), respectively)	<u><u>\$192,736,843</u></u>	<u><u>\$ 227,677,821</u></u>

* Auction Market Preferred Stock.

⁽¹⁾ May include income earned, but not paid out, in prior fiscal year.

FINANCIAL HIGHLIGHTS**For a Common Stock share outstanding throughout each period.**

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	Year Ended November 30,				For the period from
	2007	2006	2005	2004	August 29, 2003 ⁽¹⁾ through November 30, 2003
PER SHARE OPERATING PERFORMANCE:					
Net asset value, beginning of period	\$ 23.29	\$ 22.40	\$ 23.56	\$ 24.33	\$ 23.82 ⁽²⁾
INVESTMENT OPERATIONS:					
Net investment income	2.24	2.04	1.94	1.95	0.30
Net realized and unrealized gain/(loss) on investments	(3.59)	1.06	(0.86)	(0.55)	0.55
DISTRIBUTIONS TO AMPS* SHAREHOLDERS:					
From net investment income	(0.70)	(0.64)	(0.41)	(0.19)	(0.01)
From net realized capital gains	—	—	—	—	—
Total from investment operations	(2.05)	2.46	0.67	1.21	0.84
COST OF ISSUANCE OF AMPS*					
	—	—	—	0.01	(0.17)
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:					
From net investment income	(1.53)	(1.57)	(1.83)	(1.99)	(0.16)
Total distributions to Common Stock Shareholders	(1.53)	(1.57)	(1.83)	(1.99)	(0.16)
Net asset value, end of period	\$ 19.71	\$ 23.29	\$ 22.40	\$ 23.56	\$ 24.33
Market value, end of period	\$ 17.00	\$ 22.08	\$ 19.70	\$ 24.15	\$ 25.16
Total investment return based on net asset value**	(8.71%)	12.30%	3.27%	5.22%	2.82%**** ⁽³⁾
Total investment return based on market value**	(16.95%)	21.06%	(11.41%)	4.30%	1.31%**** ⁽³⁾
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:					
Total net assets, end of period (in 000's)	\$ 192,737	\$ 227,678	\$ 219,015	\$ 229,805	\$ 235,499
Operating expenses	1.51%	1.50%	1.47%	1.51%	1.34%***
Net investment income †	6.94%	6.28%	6.51%	7.33%	4.86%***
SUPPLEMENTAL DATA:††					
Portfolio turnover rate	57%	68%	38%	79%	56%***
Total net assets available to Common and Preferred Stock, end of period (in 000's)	\$ 321,237	\$ 356,178	\$ 347,515	\$ 358,305	\$ 363,999
Ratio of operating expenses to total average net assets available to Common and Preferred Stock	0.95%	0.94%	0.94%	0.97%	1.11%***

* Auction Market Preferred Stock.

** Assumes reinvestment of distributions at the price obtained by the Fund's Dividend Reinvestment and Cash Purchase Plan.

*** Annualized.

**** Not annualized.

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

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

(1) Commencement of operations.

(2) Net asset value at beginning of period reflects the deduction of the sales load of \$1.125 per share and offering costs of \$0.05 per share paid by the shareholder from the \$25.00 offering price.

(3) Total return on net asset value is calculated assuming a purchase at the offering price of \$25.00 less the sales load of \$1.125 and offering costs of \$0.05 and the ending net asset value per share. Total return on market value is calculated assuming a purchase at the offering price of \$25.00 on the inception date of trading (August 29, 2003) and the sale at the current market price on the last day of the period. Total return on net asset value and total return on market value are not computed on an annualized basis.

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

FINANCIAL HIGHLIGHTS (Continued)

Per Share of Common Stock

	<u>Total Dividends Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment Price⁽¹⁾</u>
December 31, 2006	\$0.1275	\$22.99	\$21.48	\$21.68
January 31, 2007	0.1275	23.01	21.70	21.78
February 28, 2007	0.1275	23.37	21.62	21.84
March 31, 2007	0.1275	22.87	22.35	22.24
April 30, 2007	0.1275	22.98	21.63	21.66
May 31, 2007	0.1275	22.53	20.81	20.96
June 30, 2007	0.1275	22.24	20.39	20.46
July 31, 2007	0.1275	21.44	19.36	19.14
August 31, 2007	0.1275	21.07	18.69	18.84
September 30, 2007	0.1275	21.13	18.60	18.91
October 31, 2007	0.1275	21.05	18.70	18.62
November 30, 2007	0.1275	19.71	17.00	17.04

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

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

FINANCIAL HIGHLIGHTS (Continued)

The table below sets out information with respect to Auction Market Preferred Stock (AMPS) currently outstanding.

<u>Date</u>	<u>Total Shares Outstanding (1)</u>	<u>Asset Coverage Per Share (2)</u>	<u>Involuntary Liquidating Preference Per Share</u>	<u>Average Market Value Per Share (1)(3)</u>
11/30/07	5,140	\$62,506	\$25,000	\$25,000
11/30/06	5,140	69,301	25,000	25,000
11/30/05	5,140	67,650	25,000	25,000
11/30/04	5,140	69,732	25,000	25,000
11/30/03	5,140	70,831	25,000	25,000

(1) See note 6.

(2) Calculated by subtracting the Fund's total liabilities (excluding the AMPS) from the Fund's total assets and dividing that amount by the number of AMPS shares outstanding.

(3) Excludes accumulated undeclared dividends.

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

NOTES TO FINANCIAL STATEMENTS

1. Organization

Flaherty & Crumrine/Claymore Total Return Fund Incorporated (the “Fund”) was incorporated as a Maryland corporation on July 18, 2003, and commenced operations on August 29, 2003 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund’s primary investment objective is to provide its common shareholders with high current income. The Fund’s secondary investment objective is capital appreciation.

2. Significant Accounting Policies

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of the financial statements is in conformity with the U.S. generally accepted accounting principles (“US GAAP”) and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Portfolio valuation: The net asset value of the Fund’s Common Stock is determined by the Fund’s Administrator no less frequently than on the last business day of each week and month. It is determined by dividing the value of the Fund’s net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund’s net assets attributable to Common Stock is deemed to equal the value of the Fund’s total assets less (i) the Fund’s liabilities and (ii) the aggregate liquidation value of its Auction Market Preferred Stock (“AMPS”).

The Fund’s preferred and debt securities are valued on the basis of current market quotations provided by independent pricing services or dealers approved by the Board of Directors of the Fund. Each quotation is based on the mean of the bid and asked prices of a security. In determining the value of a particular preferred or debt security, a pricing service or dealer may use information with respect to transactions in such investments, quotations, market transactions in comparable investments, various relationships observed in the market between investments, and/or calculated yield measures based on valuation technology commonly employed in the market for such investments. Common stocks that are traded on stock exchanges are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available mean price. Futures contracts and option contracts on futures contracts are valued on the basis of the settlement price for such contracts on the primary exchange on which they trade. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon (“swaptions”), are valued using prices supplied by a pricing service, or if such prices are unavailable, prices provided by a single broker or dealer that is not the counterparty or, if no such prices are available, at a price at which the counterparty to the contract would repurchase the instrument or terminate the contract. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type.

NOTES TO FINANCIAL STATEMENTS (Continued)

Investments in money market instruments and all debt and preferred securities which mature in 60 days or less are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

Securities transactions and investment income: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund also amortizes premiums and accretes discounts on fixed income securities using the effective yield method.

Options: Purchases of options are recorded as an investment, the value of which is marked-to-market at each valuation date. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price. The risks associated with purchasing options and the maximum loss the Fund would incur are limited to the purchase price originally paid.

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market at each valuation date. When a written option expires, the Fund realizes a gain equal to the amount of the premium originally received. When the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the amount of the premium originally received. When a put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise.

The risk in writing a call option is that the Fund may forego the opportunity for profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised.

Repurchase agreements: The Fund may engage in repurchase agreement transactions. The Fund's investment adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions is at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

Federal income taxes: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as

NOTES TO FINANCIAL STATEMENTS (Continued)

amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no federal income tax provision will be required.

Dividends and distributions to shareholders: The Fund expects to declare dividends on a monthly basis to shareholders of Common Stock ("Shareholders"). Distributions to Shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to Shareholders at least annually. Any net realized long-term capital gains may be distributed to Shareholders at least annually or may be retained by the Fund as determined by the Fund's Board of Directors. Capital gains retained by the Fund are subject to tax at the capital gains corporate tax rate. Subject to the Fund qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term capital gains may be used by the Fund's Shareholders as a credit against their own tax liabilities.

Income 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.

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 2007 and 2006 was as follows:

	<u>Distributions paid in fiscal year 2007</u>		<u>Distributions paid in fiscal year 2006</u>	
	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>
Common	\$14,957,790	\$0	\$15,324,402	\$0
Preferred	\$6,874,365	\$0	\$6,219,883	\$0

As of November 30, 2007, 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:

<u>Capital (Loss) Carryforward</u>	<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-Term Gain</u>	<u>Net Unrealized Appreciation/(Depreciation)</u>
(\$15,475,410)	\$780,768	\$0	(\$22,597,279)

At November 30, 2007, the composition of the Fund's \$15,475,410 accumulated realized capital losses was \$573,838, \$8,529,240, \$943,555, \$1,648,329 and \$3,780,448 incurred in 2003, 2004, 2005, 2006 and 2007, respectively. These losses may be carried forward and offset against any future capital gains through 2011, 2012, 2013, 2014 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

Reclassification of accounts: During the year ended November 30, 2007, reclassifications were made in the Fund's capital accounts to report these balances on a tax basis, excluding temporary differences, as of November 30, 2007. Additional adjustments may be required in subsequent reporting periods. These reclassifications have no impact on the net asset value of the Fund. The calculation of net investment income per share in the financial highlights exclude these adjustments. Below are the reclassifications:

<u>Paid-in Capital</u>	<u>Undistributed Net Investment Income</u>	<u>Accumulated Net Realized Gain on Investments</u>
(\$84,978)	\$284,222	(\$199,244)

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 is subject to a payment of an estimated \$24,000 of Federal excise taxes attributable to calendar year 2007. The Fund paid \$17,154 of Federal excise taxes attributable to calendar year 2006 in March 2007.

Additional Accounting Standards: In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006, with early application permitted if no interim financial statements have been issued. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS 157 applies to fair value measurements already required or permitted by existing standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

Management is currently evaluating the impact the adoption of FIN 48 and SFAS 157 will have on the Fund's financial statements.

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 0.575% of the first \$200 million of the Fund's average weekly total managed assets, 0.50% of the next \$300 million of the Fund's average weekly total managed assets, and 0.45% of the Fund's average weekly total managed assets above \$500 million.

NOTES TO FINANCIAL STATEMENTS (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 minus the sum of accrued liabilities. For purposes of determining total managed assets, the liquidation preference of any 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.

PFPC Inc., a member of the PNC Financial Services Group, Inc. ("PNC Financial Services"), serves as the Fund's Administrator. As Administrator, PFPC Inc. 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 PFPC Inc.'s services as Administrator, the Fund pays PFPC Inc. 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.

PFPC Inc. also serves as the Fund's Common Stock dividend-paying agent and registrar (Transfer Agent). As compensation for PFPC Inc.'s services, the Fund pays PFPC Inc. 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 purpose of calculating such fee, the Fund's average weekly net assets attributable to the 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 Fund preferred shares.

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 0.010% 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 or the Servicing Agent a fee of \$9,000 per annum, plus \$500 for each in-person meeting of the Board of Directors or any committee and \$150 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of \$2,500. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

NOTES TO FINANCIAL STATEMENTS (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 year ended November 30, 2007, the cost of purchases and proceeds from sales of securities excluding short-term investments, aggregated \$196,808,390 and \$200,691,554, respectively.

At November 30, 2007, the aggregate cost of securities for federal income tax purposes was \$345,074,750, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$4,133,129 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$26,730,408.

Written option transactions during the year ended November 30, 2007 are summarized as follows:

	<u>Contract Amounts</u>	<u>Premiums Received</u>
Written options outstanding at beginning of year	300	\$566,935
Options Opened	340	277,291
Options Exercised	0	0
Options Expired	(300)	(566,935)
Options Closed	(340)	(277,291)
Written options outstanding at end of year	0	\$ 0

5. Common Stock

At November 30, 2007, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock Transactions were as follows:

	<u>Year Ended 11/30/07</u>		<u>Year Ended 11/30/06</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares issued under the Dividend Reinvestment and Cash Purchase Plan	—	\$ —	—	\$ —

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. The AMPS, which consists of Series T7 and W28, are senior to the Common Stock and result in the financial leveraging of the Common Stock. Such leveraging tends to magnify both the risks and opportunities to Common Stock Shareholders. Dividends on shares of AMPS are cumulative.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Fund is required to meet certain asset coverage tests with respect to the AMPS. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, AMPS at a redemption price of \$25,000 per share plus an amount equal to the accumulated and unpaid dividends on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset requirements could restrict the Fund's ability to pay dividends to Common Stock Shareholders and could lead to sales of portfolio securities at inopportune times.

An auction of the AMPS is generally held every 7 days for Series T7 and every 28 days for Series W28. Existing AMPS Shareholders may submit an order to hold, bid or sell such shares at par value on each auction date. AMPS Shareholders may also trade shares in the secondary market, if any, between auction dates.

At November 30, 2007, 2,570 shares for each of Series T7 and W28 of AMPS were outstanding at the annualized rate of 5.25% and 5.121% for each of Series T7 and W28, respectively. The dividend rate, as set by the auction process, is generally expected to vary with short-term interest rates. These 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 Common Stock Shareholders. While the Fund expects to structure its portfolio holdings and hedging transactions to lessen such risks to Common Stock Shareholders, there can be no assurance that such results will be attained.

7. Portfolio Investments, Concentration and Investment Quality

The Fund invests primarily in a diversified portfolio of preferred and debt 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 50% 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 utility 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 20% of its total assets 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. Certain of its investments in hybrid, i.e., fully taxable, preferred securities will be considered debt securities 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

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

8. 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, 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.

9. 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 November 30, 2007, the market value of securities loaned by the fund was \$4,872,670. The loans were secured with collateral of \$4,905,720. Income from securities lending for the year ended November 30, 2007 was \$26,829 and is included in interest income on the Statement of Operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Flaherty & Crumrine/Claymore Total Return Fund Incorporated

We have audited the accompanying statement of assets and liabilities of Flaherty & Crumrine/Claymore Total Return Fund Incorporated, including the portfolio of investments, as of November 30, 2007, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years or periods in the five-year period then ended. These financial statements and financial highlights are the responsibility of management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2007 by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Flaherty & Crumrine/Claymore Total Return Fund Incorporated as of November 30, 2007, and the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years or periods in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
January 18, 2008

SUPPLEMENTARY TAX INFORMATION (Unaudited)

Distributions to Common Stock and AMPS Shareholders are characterized as follows for purposes of Federal income taxes:

Fiscal Year 2007

	<u>Individual Shareholder</u>		<u>Corporate Shareholder</u>	
		<u>Ordinary</u>		<u>Ordinary</u>
	<u>QDI</u>	<u>Income</u>	<u>DRD</u>	<u>Income</u>
AMPS and Common Stock	26.41%	73.59%	17.84%	82.16%

Calendar Year 2007

	<u>Individual Shareholder</u>		<u>Corporate Shareholder</u>	
		<u>Ordinary</u>		<u>Ordinary</u>
	<u>QDI</u>	<u>Income</u>	<u>DRD</u>	<u>Income</u>
AMPS	26.39%	73.61%	17.79%	82.21%
Common Stock	26.40%	73.60%	17.81%	82.19%

Qualified Dividend Income ("QDI") distributions are taxable at a maximum 15% personal tax rate.

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 their own name will have all distributions reinvested automatically by PFPC Inc. 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, PFPC Inc. 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 PFPC Inc. 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, PFPC Inc. 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 PFPC Inc.'s open market purchases in connection with the reinvestment of dividends or capital gains distributions. For the year ended November 30, 2007, \$1,349 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.

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 PFPC Inc. in writing, by completing the form on the back of the Plan account statement and forwarding it to PFPC Inc. or by calling PFPC Inc., directly. A termination will be effective immediately if notice is received by PFPC Inc. 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, PFPC Inc. will either (a) issue certificates for the whole shares credited to the shareholder's Plan account and a check representing any 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 PFPC Inc. 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 0.15% of the Fund's total managed assets for certain services, including after-market support services designed to maintain the 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 27, 2007. 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 August 31, 2007. 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.

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.

Certifications

Included in the Annual Written Affirmation submitted to the NYSE, Donald F. Crumrine, as the Fund’s Chief Executive Officer, has certified that, as of May 16, 2007, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund’s reports to the SEC on Forms N-CSR and N-Q contain certifications by the Fund’s principal executive officer and principal financial officer that relate to the Fund’s disclosure in such reports and that are required by Rule 30a2(a) under the 1940 Act.

Modification to Non-Fundamental Investment Policy

In 2007, the Board of Directors approved a change regarding the Fund’s non-fundamental investment policy of investing in securities issued by other investment companies (including money market mutual funds). The Fund may now invest in shares of other investment companies subject to the limitations of the Investment Company Act of 1940 and the rules and regulations thereunder. To the extent that investment advisory or brokerage expenses or other fees or expenses of any investment company are reflected in the price of its shares held in the Fund’s portfolio, there will be duplication of expenses.

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.

Name, Address, and Age	Position(s) Held with Fund	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex Overseen by Director	Other Directorships Held by Director**
NON-INTERESTED DIRECTORS:					
David Gale Delta Dividend Group, Inc 220 Montgomery Street Suite 426 San Francisco, CA 94104 Age: 58	Director	Class I Director since August 2003	President and CEO of Delta Dividend Group, Inc. (investments)	4	Metromedia International Group, Inc. (telecommunications)
Morgan Gust 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 60	Director	Class II Director since August 2003	Owner and operator of various entities engaged in agriculture and real estate; Former President of Giant Industries, Inc (petroleum refining and marketing) since March 2002	4	CoBiz Financial, Inc. (financial services)
Karen H. Hogan† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 46	Director	Class II Director since July 2005	Retired; Community Volunteer; from September 1985 to January 1997, Senior Vice President of Preferred Stock Origination at Lehman Brothers and previously, Vice President of New Product Development	4	

* 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 2008 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 2009 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 2010 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 Preferred Securities Income Fund.

† As a Director, represents holders of shares of the Fund's Auction Market Preferred Stock.

ADDITIONAL INFORMATION (Unaudited) (Continued)

Name, Address, and Age	Position(s) Held with Fund	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex Overseen by Director	Other Directorships Held by Director**
NON-INTERESTED DIRECTORS:					
Robert F. Wulf P.O. Box 753 Neskowin, OR 97149 Age: 70	Director and Audit Committee Chairman	Class III Director since August 2003	Financial Consultant; Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary	4	
INTERESTED DIRECTOR:					
Donald F. Crumrine †, †† 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 60	Director, Chairman of the Board and Chief Executive Officer	Class III Director since August 2003	Chairman of the Board and Director of Flaherty & Crumrine Incorporated	4	

* 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 2008 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 2009 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 2010 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 Preferred Securities Income Fund.

† As a Director, represents holders of shares of the Fund's Auction Market Preferred Stock.

†† "Interested person" of the Fund as defined in the Investment Company Act of 1940, as amended. Mr. Crumrine is considered an "interested person" because of his affiliation with Flaherty & Crumrine Incorporated, which acts as the Fund's investment adviser.

ADDITIONAL INFORMATION (Unaudited) (Continued)

Name, Address, and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
OFFICERS:			
Robert M. Ettinger 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 49.	President	Since August 2003	President and Director of Flaherty & Crumrine Incorporated
R. Eric Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 32	Chief Financial Officer, Vice President and Treasurer	Since August 2003	Director of Flaherty & Crumrine Incorporated since June 2006; Vice President of Flaherty & Crumrine Incorporated
Chad C. Conwell 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 35	Chief Compliance Officer, Vice President and Secretary	Since July 2005	Chief Compliance Officer of Flaherty & Crumrine Incorporated since September 2005; Vice President of Flaherty & Crumrine Incorporated since July 2005; Attorney with Paul, Hastings, Janofsky & Walker LLP from September 1998 to June 2005
Bradford S. Stone 392 Springfield Avenue Mezzanine Suite Summit, NJ 07901 Age: 48	Vice President and Assistant Treasurer	Since August 2003	Director of Flaherty & Crumrine Incorporated since June 2006; Vice President of Flaherty & Crumrine Incorporated since May 2003; Director of U.S. Market Strategy at Barclays Capital from June 2001 to April 2003
Nicholas Dalmaso 2455 Corporate West Drive Lisle, IL 60532 Age: 42	Vice President and Assistant Secretary	Since August 2003	Director of Claymore Group, LLC since January 2002; Senior Managing Director; and Chief Administrative Officer of Claymore Securities, Inc. since November 2001 and Claymore Advisors, LLC since October 2003

ADDITIONAL INFORMATION (Unaudited) (Continued)

<u>Name, Address, and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
OFFICERS:			
Laurie C. Lodolo 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 44	Assistant Compliance Officer, Assistant Treasurer and Assistant Secretary	Since July 2004	Assistant Compliance Officer of Flaherty & Crumrine Incorporated since August 2004; Secretary of Flaherty & Crumrine Incorporated since February 2004; Account Administrator of Flaherty & Crumrine Incorporated since January 1987

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
Nicholas Dalmaso
Vice President and Assistant Secretary
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 Total Return Fund?

- If your shares are held in a Brokerage Account, contact your Broker.
- If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent —

PFPC Inc. 1-800-331-1710

This report is sent to shareholders of Flaherty & Crumrine/Claymore Total Return Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.



Flaherty & Crumrine/Claymore

TOTAL RETURN FUND

Annual Report

November 30, 2007

www.fcclaymore.com