

## FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND

To the Shareholders of Flaherty & Crumrine/Claymore Total Return Fund:

The start of fiscal 2009 has been a mixed bag—overall performance was negative but signs of improvement began to appear late in the Fund's 1<sup>st</sup> fiscal quarter ended February 28, 2009. During this period, the Fund's total return based on net asset value was -9.3%. The total return based on market price was -0.3%.

Since the middle of 2007, when the first signs of economic trouble appeared, financial markets throughout the world have experienced severe turmoil. The preferred market has been knocked around especially hard and, as a result, the performance of the Fund has suffered. In June 2007, the Fund's NAV was above \$22 per share. At the end of this past fiscal period it was \$7.86. In the summer of 2007, the Fund was paying a monthly dividend of \$0.1275 per share; it is now \$0.11. In addition to managing the Fund, we are shareholders and these numbers hurt.

The temptation to rip out the rear-view mirror and concentrate on the road ahead is reinforced by the view from both. We have just experienced the worst markets in the history of the Fund, and it's not possible to know if we have seen the bottom. But if the first step towards recovery is admitting there is a problem, the massive de-leveraging of our financial system is such an admission. While painful, this will result in a much healthier economy going forward.

In the meantime, however, there is a great deal of uncertainty and fear about how much bad debt is out there and about the government's plans for dealing with it. In the tumultuous days of late February, there were very real concerns about the viability of several large financial institutions. In addition, the hodge-podge of government programs introduced since September left many scratching their heads to find any real core strategy for recovery. Talk of nationalizing the banking system took on a life of its own, and prices of securities issued by most banks (debt, preferred and common stock) all seemed to be in freefall.

On February 25<sup>th</sup>, the U.S. Treasury released details of its Capital Assistance Program; two days later, Citicorp announced a preferred for common exchange program; and in early March, several large banks announced that they were profitable in January and February. These developments muted talk of bank nationalization and financial meltdown. (Please see the Fund's website for a more detailed discussion dated February 27, 2009.)

The events of late February, along with subsequent announcements by several banks that they expect to be profitable in the 1<sup>st</sup> quarter, have enticed some investors back into the market. Equally important, efforts to kick start the economy appear to be taking hold and some degree of confidence has been restored. As discussed in the Quarterly Economic Update on the Fund's website, we expect the growth rate of the U.S. economy to once again be positive by the 4<sup>th</sup> quarter of this year.

As one would expect, for several quarters, bank issues have been the worst performing segment of the preferred market, as well as of the Fund's portfolio. Fortunately, the Fund's exposure to the banking industry was much less than it might otherwise have been—bank issues comprise about 60% of the entire preferred universe, but only 33%<sup>1</sup> of the portfolio as of February 28, 2009.

Other than banks, the portfolio is invested in utilities 29%, insurance 23% and energy 6%. These positions helped dampen the negative impact of the banks, but they too are trading at historically low levels. Whereas concerns about credit quality have been the key factor driving the bank market, prices in these other segments have been impacted more by a widespread desire (or need) to sell. Investors ranging from hedge funds to broker/dealer firms to closed-end funds like FLC have been caught in a

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<sup>1</sup> The bank component of the entire universe is based on par value, while calculation for the Fund's portfolio is based on market value.

deleveraging cycle where falling prices force sales, and sales cause prices to fall further. This trend became readily evident during the latter part of last year. Only recently has it shown signs of abating.

There are indications the market for preferred stocks has begun to stabilize. The indiscriminate selling has slowed and buyers are returning. We've been encouraged to see more rational investor behavior. For example, most companies in the utility industry are financially healthy, but until recently, investors were acting like they were all marching up to death's door. The same can be said for most insurance companies. And, in our opinion, there are still many healthy banks in the U.S., yet the market had seemed to think a bank is a bank is a bank (apologies to Gertrude Stein). In recent weeks, sanity appears to be creeping back into the market and some are viewing these anomalies as opportunities.

The depressed prices of preferred securities have also attracted the interest of issuers themselves, and in the past few weeks several have launched formal tender offers or appear to be purchasing their securities in the open market. In this environment, a company's willingness to spend cash and purchase its own securities is a meaningful indication of just how cheap the securities have gotten.

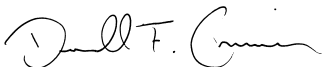
Another small but important sign of improvement was the ability of one company to raise capital by issuing preferred. FPL Capital, a subsidiary of a large public utility, sold \$375 million of a new preferred security, and demand for the issue was strong. This was the first new preferred issue since last September! A vibrant new issue market would be a sure signal of the market's return to health, and while we're not there yet, we are encouraged by the response to this recent issue.

In light of ongoing weakness in the preferred market, the Fund has continued to reduce the amount of leverage it employs. As the value of the Fund's investment portfolio declined, the ratios of assets to liabilities using required measures fell and the Fund reduced leverage to maintain coverage ratios. During the last quarter, the Fund reduced its outstanding debt by \$6 million. One consequence of this deleveraging has been a reduction in the amount of income available for distribution to shareholders as dividends, and in December, the Fund reduced its dividend by 10.2%. Leverage remains an important part of the Fund's strategy for producing high current income and we have provided a more complete description on the Fund's website in a Leverage Update dated April 20, 2009.

We are optimistic about the future. By no means are we out of the woods—there are many substantial challenges ahead. A wise friend used to counsel against betting on the end of the world, pointing out that it just doesn't happen that often (and if it does, there will be bigger issues to worry about!). Much of our optimism stems from just how far prices have fallen; the likelihood of more defaults is higher than in the past, but market prices imply widespread business failures, and we will take the other side of that bet.

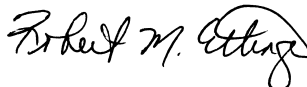
We hope you'll visit the Fund's website, [www.fcclaymore.com](http://www.fcclaymore.com). Our most recent Economic Update breaks down the economic data in a useful and informative way. The website also keeps shareholders up-to-date on various issues affecting the Fund.

Sincerely,



Donald F. Crumrine  
Chairman of the Board

April 20, 2009



Robert M. Ettinger  
President

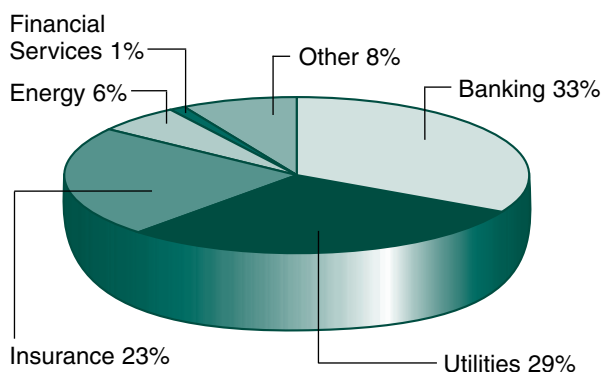
**PORTFOLIO OVERVIEW**  
**February 28, 2009 (Unaudited)**

**Fund Statistics on 2/28/09**

|                                 |    |           |
|---------------------------------|----|-----------|
| Net Asset Value                 | \$ | 7.86      |
| Market Price                    | \$ | 6.95      |
| Discount                        |    | 11.58%    |
| Yield on Market Price           |    | 18.99%    |
| Common Stock Shares Outstanding |    | 9,776,333 |

**Industry Categories**

**% of Net Assets†**



**Moody's Ratings**      **% of Net Assets†**

|                         |       |
|-------------------------|-------|
| AA                      | 5.0%  |
| A                       | 16.7% |
| BBB                     | 45.8% |
| BB                      | 24.2% |
| Below "BB"              | 1.2%  |
| Not Rated               | 2.2%  |
| Below Investment Grade* | 18.9% |

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

**Top 10 Holdings by Issuer**      **% of Net Assets†**

|                        |      |
|------------------------|------|
| Liberty Mutual Group   | 5.5% |
| Banco Santander        | 5.0% |
| AON Corp               | 4.3% |
| PNC Financial Services | 4.0% |
| Astoria Financial      | 3.7% |
| Unum Group             | 3.4% |
| Georgia Power          | 3.4% |
| Sovereign Bancorp      | 3.3% |
| Axis Capital           | 3.1% |
| Entergy Louisiana      | 3.1% |

**% of Net Assets\*\*†**

|   |     |
|---|-----|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals                     | 28% |
| Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD) | 22% |

\*\* 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.

† Net Assets includes assets attributable to the use of leverage.

**PORTFOLIO OF INVESTMENTS****February 28, 2009 (Unaudited)**

| <u>Shares/\$ Par</u>                |   | <u>Value</u>                    |
|-------------------------------------|---|---------------------------------|
| <b>Preferred Securities — 84.4%</b> |   |                                 |
| <b>Banking — 32.6%</b>              |   |                                 |
| \$ 5,750,000                        | Astoria Capital Trust I, 9.75% 11/01/29, Series B .....                   | \$ 5,132,571 <sup>(1)</sup>     |
|                                     | Banco Santander:  |                                 |
| 382,842                             | 6.50% Pfd. ....   | 5,072,656 <sup>** (1) (2)</sup> |
| 152,420                             | 6.80% Pfd. ....   | 1,861,048 <sup>** (1) (2)</sup> |
|                                     | Bank of America Corporation:  |                                 |
| 80,000                              | Adj. Rate Pfd., Series 5 .....  | 413,600 <sup>* (1)</sup>        |
| 160,000                             | 6.25% Pfd. ....   | 1,104,000 <sup>* (1)</sup>      |
| \$ 8,218,000                        | Capital One Capital III, 7.686% 08/15/36 .....                            | 3,735,138 <sup>(1)</sup>        |
| \$ 10,000,000                       | CBG Florida REIT Corporation, 7.114%, 144A**** .....                      | 1,011,880                       |
|                                     | CIT Group, Inc.:  |                                 |
| 13,900                              | 5.189% Pfd., Series B .....   | 388,331 <sup>* (1)</sup>        |
| \$ 3,375,000                        | 6.10% 03/15/67 .....  | 750,397                         |
| 63,850                              | 6.35% Pfd., Series A .....  | 287,485 <sup>* (1)</sup>        |
| 40,000                              | Citizens Funding Trust I, 7.50% Pfd. 09/15/66 .....                       | 282,500 <sup>(1)</sup>          |
| 40,000                              | Cobank, ACB, 7.00% Pfd., 144A**** .....                                   | 1,073,840 <sup>* (1)</sup>      |
| 7,200                               | Colonial Capital Trust IV, 7.875% Pfd. 10/01/33 .....                     | 18,324                          |
| \$ 7,000,000                        | Comerica Capital Trust II, 6.576% 02/20/37 .....                          | 2,217,383                       |
| 7,000                               | FBOP Corporation, Adj. Rate Pfd., 144A**** .....                          | 1,601,250*                      |
| \$ 400,000                          | First Empire Capital Trust I, 8.234% 02/01/27 .....                       | 264,493 <sup>(1)</sup>          |
| \$ 1,900,000                        | First Hawaiian Capital I, 8.343% 07/01/27, Series B .....                 | 1,552,283 <sup>(1) (2)</sup>    |
| 2,000                               | First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** ..... | 420,000 <sup>(1)</sup>          |
| 1,000                               | First Tennessee Bank, Adj. Rate Pfd., 144A**** .....                      | 350,000*                        |
| \$ 100,000                          | First Tennessee Capital I, 8.07% 01/06/27, Series A .....                 | 57,008 <sup>(1)</sup>           |
| \$ 600,000                          | First Union Capital II, 7.95% 11/15/29 .....                              | 499,491 <sup>(1)</sup>          |
| 2                                   | FT Real Estate Securities Company, 9.50% Pfd., 144A**** .....             | 870,000                         |
|                                     | Goldman Sachs:  |                                 |
| 17,500                              | Cabco Trust Capital I, Adj. Rate Pfd. 02/15/34 .....                      | 167,344 <sup>(1)</sup>          |
| 1,500                               | STRIPES Custodial Receipts, Pvt. ....                                     | 15*                             |
| \$ 855,000                          | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** .....                 | 659,604 <sup>(1) (2)</sup>      |
| 164,000                             | HSBC USA, Inc., Adj. Rate Pfd., Series D .....                            | 1,978,250*                      |
| 82,000                              | Keycorp Capital IX, 6.75% Pfd. 12/15/66 .....                             | 839,885 <sup>(1)</sup>          |
| \$ 1,000,000                        | Lloyds Banking Group PLC, 6.657%, 144A**** .....                          | 198,794 <sup>** (2)</sup>       |
|                                     | Merrill Lynch:  |                                 |
| 20,000                              | Fixed Income Pass-Through 2007-A, Cl. B, Adj. Rate Pfd., 144A**** .....   | 200*†                           |
| 3,000                               | Series II STRIPES Custodial Receipts, Pvt. ....                           | 7,530*†                         |
| \$ 2,500,000                        | National City Preferred Capital Trust I, 12.00% .....                     | 1,928,475                       |
| 151,059                             | PFGI Capital Corporation, 7.75% Pfd. ....                                 | 2,752,114 <sup>(1)</sup>        |
| 54,995                              | PNC Financial Services, 9.875% Pfd., Series F .....                       | 885,420 <sup>* (1)</sup>        |
| \$ 1,000,000                        | Regions Financing Trust II, 6.625% 05/15/47 .....                         | 312,951                         |

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2009 (Unaudited)

| <u>Shares/\$ Par</u>                      |  | <u>Value</u>                  |
|---|--|-------------------------------|
| <b>Preferred Securities — (Continued)</b> |  |                               |
| <b>Banking — (Continued)</b>              |  |                               |
| 93,100                                    | Sovereign Bancorp, 7.30% Pfd., Series C .....            | \$ 1,032,479 <sup>(1)</sup>   |
| 191,525                                   | Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 .....     | 2,291,118                     |
| 2,000                                     | Sovereign REIT, 12.00% Pfd., Series A, 144A**** .....    | 1,285,000                     |
|   | U.S. Bancorp, Auction Pass-Through Trust, Cl. B:         |                               |
| 15  | Series 2006-5, Variable Rate Pfd., 144A**** .....        | 375*†                         |
| 15  | Series 2006-6, Variable Rate Pfd., 144A**** .....        | 375*†                         |
| \$ 850,000                                | Wachovia Capital Trust III, 5.80% .....                  | 280,595                       |
| 75,637                                    | Wachovia Preferred Funding, 7.25% Pfd., Series A .....   | 896,480                       |
| \$ 2,800,000                              | Webster Capital Trust IV, 7.65% 06/15/37 .....           | 1,139,656                     |
|   |  | <u>45,620,338</u>             |
| <b>Financial Services — 0.2%</b>          |  |                               |
| \$ 3,000,000                              | Gulf Stream-Compass 2005 Composite Notes, 144A**** ..... | 189,870                       |
|   | Lehman Brothers Holdings, Inc.:                          |                               |
| 20,000                                    | 5.67% Pfd., Series D .....                               | 5,120*††                      |
| 85,000                                    | 7.95% Pfd. ....  | 340*††                        |
|   |  | <u>195,330</u>                |
| <b>Insurance — 16.5%</b>                  |  |                               |
| \$ 9,511,000                              | AON Capital Trust A, 8.205% 01/01/27 .....               | 6,000,690 <sup>(1)</sup>      |
|   | Arch Capital Group Ltd.:                                 |                               |
| 27,150                                    | 7.875% Pfd., Series B .....                              | 461,075 <sup>** (1) (2)</sup> |
| 42,900                                    | 8.00% Pfd., Series A .....                               | 757,721 <sup>** (1) (2)</sup> |
|   | Axis Capital Holdings:                                   |                               |
| 19,433                                    | 7.25% Pfd., Series A .....                               | 307,479 <sup>** (1) (2)</sup> |
| 66,600                                    | 7.50% Pfd., Series B .....                               | 4,027,222 <sup>(1) (2)</sup>  |
| 160,000                                   | Delphi Financial Group, 7.376% Pfd. 05/15/37 .....       | 1,634,000 <sup>(1)</sup>      |
| \$ 5,500,000                              | Everest Re Holdings, 6.60% 05/15/37 .....                | 1,962,185 <sup>(1)</sup>      |
|   | Liberty Mutual Group:                                    |                               |
| \$ 6,200,000                              | 7.80% 03/15/37, 144A**** .....                           | 2,483,243                     |
| \$ 1,000,000                              | 10.75% 06/15/58, 144A**** .....                          | 530,661                       |
| \$ 1,500,000                              | MetLife Capital Trust X, 9.25% 04/08/38, 144A**** .....  | 1,001,360 <sup>(1)</sup>      |
| \$ 300,000                                | PartnerRe Finance II, 6.44% 12/01/66 .....               | 115,626 <sup>(1) (2)</sup>    |
| 109,000                                   | Scottish Re Group Ltd., 7.25% Pfd. ....                  | 268,412 <sup>** (2) †</sup>   |
| \$ 3,615,000                              | USF&G Capital, 8.312% 07/01/46, 144A**** .....           | 2,944,183 <sup>(1)</sup>      |
| \$ 1,500,000                              | ZFS Finance USA Trust V, 6.50% 05/09/37, 144A**** .....  | 593,197 <sup>(1)</sup>        |
|   |  | <u>23,087,054</u>             |

**PORTFOLIO OF INVESTMENTS (Continued)****February 28, 2009 (Unaudited)**

| <u>Shares/\$ Par</u>  | <u>Value</u>              |
|---|---------------------------|
| <b>Preferred Securities — (Continued)</b>                                     |                           |
| <b>Utilities — 29.2%</b>  |                           |
| 33,700 Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....        | \$ 3,456,356*             |
| 105,000 Calenergy Capital Trust III, 6.50% Pfd. 09/01/27 .....                | 3,878,700 <sup>(1)</sup>  |
| \$ 2,375,000 COMED Financing III, 6.35% 03/15/33 .....                        | 1,292,318                 |
| 66,170 Constellation Energy Group, Inc., 8.625% Pfd. 06/15/63, Series A ..... | 1,224,145 <sup>(1)</sup>  |
| \$ 2,000,000 Dominion Resources Capital Trust I, 7.83% 12/01/27 .....         | 1,611,036 <sup>(1)</sup>  |
| \$ 2,250,000 Dominion Resources, Inc., 7.50% .....                            | 1,464,307 <sup>(1)</sup>  |
| 83,000 Entergy Arkansas, Inc., 6.45% Pfd. ....                                | 1,685,938*                |
| 50,000 Entergy Louisiana, Inc., 6.95% Pfd. ....                               | 4,310,940*                |
| 55,623 FPC Capital I, 7.10% Pfd., Series A .....                              | 1,316,179 <sup>(1)</sup>  |
| 55,000 Georgia Power Company, 6.50% Pfd., Series 07-A .....                   | 4,702,500* <sup>(1)</sup> |
| 30,445 Indianapolis Power & Light Company, 5.65% Pfd. ....                    | 2,168,256*                |
| \$ 5,000,000 PECO Energy Capital Trust IV, 5.75% 06/15/33 .....               | 3,651,955 <sup>(1)</sup>  |
| \$ 6,050,000 Puget Sound Energy, Inc., 6.974% 06/01/67 .....                  | 3,388,000                 |
| 15,000 Southern California Edison, 6.00% Pfd., Series C .....                 | 1,127,813* <sup>(1)</sup> |
| \$ 1,400,000 Southern Union Company, 7.20% 11/01/66 .....                     | 707,000                   |
| 5,000 Union Electric Company, \$7.64 Pfd. ....                                | 505,625*                  |
| \$ 4,500,000 Wisconsin Energy Corporation, 6.25% 05/15/67 .....               | 2,748,834 <sup>(1)</sup>  |
| 85,137 Wisconsin Power & Light Company, 6.50% Pfd. ....                       | 1,585,677* <sup>(1)</sup> |
|   | <u>40,825,579</u>         |
| <b>Energy — 3.9%</b>  |                           |
| \$ 4,900,000 Enbridge Energy Partners LP, 8.05% 10/01/37 .....                | 2,925,398 <sup>(1)</sup>  |
| \$ 4,000,000 Enterprise Products Partners, 7.034% 01/15/68 .....              | 2,583,700 <sup>(1)</sup>  |
|   | <u>5,509,098</u>          |
| <b>Miscellaneous Industries — 2.0%</b>  |                           |
| 40,000 Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** .....              | 2,735,000*                |
|   | <u>2,735,000</u>          |
| <b>Total Preferred Securities</b>   |                           |
| (Cost \$214,732,053) .....  | <u>117,972,399</u>        |

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2009 (Unaudited)

| <u>Shares/\$ Par</u>                     | <u>Value</u>   |
|--|--|
| <b>Corporate Debt Securities — 10.6%</b> |  |
| <b>Financial Services — 0.3%</b>         |  |
| \$ 4,726,012                             | Lehman Brothers, Guaranteed Note, Variable Rate, 12/16/16, 144A**** . . . . . \$ 393,204††     |
|  | <u>393,204</u>   |
| <b>Insurance — 6.8%</b>                  |  |
| 15,000                                   | AAG Holding Company, Inc., 7.25% Pfd. . . . . 192,150 <sup>(1)</sup>                           |
| \$ 7,577,000                             | Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** . . . . . 4,621,561                        |
| \$ 7,000,000                             | UnumProvident Corporation, 7.25% 03/15/28, Senior Notes . . . . . 4,744,411                    |
|  | <u>9,558,122</u>   |
| <b>Energy — 2.1%</b>                     |  |
| \$ 4,000,000                             | Noble Energy, Inc., 7.25% 08/01/97 . . . . . 2,987,872 <sup>(1)</sup>                          |
|  | <u>2,987,872</u>   |
| <b>Miscellaneous Industries — 1.4%</b>   |  |
| 16,500                                   | Corp-Backed Trust Certificates, 7.00% 11/15/28, Series Sprint . . . . . 176,880 <sup>(1)</sup> |
|  | Pulte Homes, Inc.:   |
| 25,844                                   | 7.375% 06/01/46 . . . . . 307,867  |
| \$ 2,160,000                             | 7.875% 06/15/32 . . . . . 1,468,800  |
|  | <u>1,953,547</u>   |
| <b>Total Corporate Debt Securities</b>   |  |
|  | (Cost \$26,959,003) . . . . . <u>14,892,745</u>  |
| <b>Money Market Fund — 3.0%</b>          |  |
| 4,150,793                                | BlackRock Provident Institutional, T-Fund . . . . . 4,150,793                                  |
| <b>Total Money Market Fund</b>           |  |
|  | (Cost \$4,150,793) . . . . . <u>4,150,793</u>  |

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2009 (Unaudited)**

|   |                |                             |
|---|----------------|-----------------------------|
| <b>Total Investments</b> (Cost \$245,841,849 <sup>***</sup> ) ..... | 98.0%          | \$ 137,015,937              |
| <b>Other Assets And Liabilities</b> (Net) .....                     | 2.0%           | <u>2,839,998</u>            |
| <b>Net Assets before loan and AMPS</b> .....                        | <u>100.0%†</u> | <u>\$ 139,855,935</u>       |
| <b>Loan Principal Balance</b> .....                                 |                | <u>(23,500,000)</u>         |
| <b>Auction Market Preferred Stock (AMPS) Redemption Value</b> ..... |                | <u>(39,500,000)</u>         |
| <b>Total Net Assets Available To Common Stock</b> .....             |                | <u><u>\$ 76,855,935</u></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. At February 28, 2009, these securities amounted to \$22,963,597 or 16.4% of net assets before the loan and AMPS. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

(1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$72,387,988 at February 28, 2009.

(2) Foreign Issuer.

† Non-income producing.

†† The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

‡ The percentage shown for each investment category is the total value of that category as a percentage of total net assets before the loan and AMPS.

**ABBREVIATIONS:**

**Cabco** — Corporate Asset-Backed Corporation

**Pfd.** — Preferred Securities

**Pvt.** — Private Placement Securities

**STRIPES** — Structured Residual Interest Preferred Enhanced Securities

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**  
**For the period from December 1, 2008 through February 28, 2009 (Unaudited)**

|   | <u>Value</u>                         |
|---|--------------------------------------|
| <b>OPERATIONS:</b>  |                                      |
| Net investment income . . . . .   | \$ 3,607,344                         |
| Net realized gain/(loss) on investments sold during the period . . . . .  | (2,361,863)                          |
| Change in net unrealized appreciation/depreciation of investments . . . . .   | (8,865,843)                          |
| Distributions to AMPS* Shareholders from net investment income,<br>including changes in accumulated undeclared distributions. . . . . | <u>(299,964)</u>                     |
| <b>Net decrease in net assets resulting from operations . . . . .</b>   | <b><u>(7,920,326)</u></b>            |
| <b>DISTRIBUTIONS:</b>   |                                      |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup> . . . . .                                       | <u>(3,226,190)</u>                   |
| <b>Total Distributions to Common Stock Shareholders . . . . .</b>   | <b><u>(3,226,190)</u></b>            |
| <b>NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK<br/>FOR THE PERIOD . . . . .</b>  | <b><u><u>\$ (11,146,516)</u></u></b> |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>  |                                      |
| Beginning of period . . . . .   | \$ 88,002,451                        |
| Net decrease in net assets during the period. . . . .   | <u>(11,146,516)</u>                  |
| End of period . . . . .   | <u><u>\$ 76,855,935</u></u>          |

\* Auction Market Preferred Stock.

<sup>(1)</sup> These tables summarize the three months ended February 28, 2009 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2008.

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

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>**

For the period from December 1, 2008 through February 28, 2009 (Unaudited)

For a Common Stock share outstanding throughout the period.

**PER SHARE OPERATING PERFORMANCE:**

Net asset value, beginning of period . . . . . \$ 9.00

**INVESTMENT OPERATIONS:**

Net investment income . . . . . 0.37  
 Net realized and unrealized gain/(loss) on investments . . . . . (1.15)

**DISTRIBUTIONS TO AMPS\* SHAREHOLDERS:**

From net investment income . . . . . (0.03)  
 Total from investment operations . . . . . (0.81)

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income . . . . . (0.33)  
 Total distributions to Common Stock Shareholders . . . . . (0.33)

Net asset value, end of period . . . . . \$ 7.86

Market value, end of period . . . . . \$ 6.95

Common Stock shares outstanding, end of period . . . . . 9,776,333

**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

Net investment income† . . . . . 15.08%\*\*  
 Operating expenses including interest expense . . . . . 3.92%\*\*  
 Operating expenses excluding interest expense . . . . . 1.93%\*\*

**SUPPLEMENTAL DATA:††**

Portfolio turnover rate . . . . . 4%\*\*\*  
 Total net assets before loan and AMPS, end of period (in 000's) . . . . . \$ 139,856  
 Ratio of operating expenses including interest expense<sup>(2)</sup> to net assets before loan  
 and AMPS . . . . . 2.21%\*\*  
 Ratio of operating expenses excluding interest expense to net assets before loan  
 and AMPS . . . . . 1.09%\*\*

(1) These tables summarize the three months ended February 28, 2009 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2008.

(2) Does not include distributions to AMPS Shareholders.

\* Auction Market Preferred Stock.

\*\* Annualized.

\*\*\* Not annualized.

† The net investment income ratios reflect income net of operating expenses, including interest expense, and payments to AMPS Shareholders.

†† Information presented under heading Supplemental Data includes AMPS and loan principal balance.

**FINANCIAL HIGHLIGHTS (Continued)**

**Per Share of Common Stock (Unaudited)**

|                         | <u>Total<br/>Dividends<br/>Paid</u> | <u>Net Asset<br/>Value</u> | <u>NYSE<br/>Closing Price</u> | <u>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></u> |
|-------------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 31, 2008 ..... | \$0.1100                            | \$9.52                     | \$8.05                        | \$8.44   |
| January 30, 2009 .....  | 0.1100                              | 8.94                       | 8.39                          | 8.27   |
| February 27, 2009 ..... | 0.1100                              | 7.86                       | 6.95                          | 6.35   |

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

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### 1. Aggregate Information for Federal Income Tax Purposes

At February 28, 2009 the aggregate cost of securities for federal income tax purposes was \$246,724,016, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$2,236,525 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$111,944,604.

### 2. Additional Accounting Standards

#### Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157")

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157") effective for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. The Fund has adopted SFAS 157 as of December 1, 2007. The three levels of the fair value hierarchy under SFAS 157 are described below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Fund's net assets as of February 28, 2009 is as follows:

| Valuation Inputs                                    | Investments<br>in Securities<br>(Market Value) | Other Financial<br>Instruments<br>(Unrealized<br>Appreciation/<br>Depreciation)* |
|---|--|--|
| Level 1 – Quoted Prices . . . . .                   | \$ 27,941,245                                  | \$ —   |
| Level 2 – Other Significant Observable Inputs . . . | 108,491,618                                    | —  |
| Level 3 – Significant Unobservable Inputs . . . . . | 583,074  | —  |
| <b>Total</b> . . . . .                              | <b>\$137,015,937</b>                           | <b>\$ —</b>  |

\* Other financial instruments are derivative instruments not reflected in the Portfolio of Investments, such as futures, forwards and swaps which are valued at the unrealized appreciation/depreciation on the investment. As of February 28, 2009 the Fund does not have any other financial instruments.

**NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)**

Following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

|  | Investments<br>in Securities<br>(Market Value) | Other Financial<br>Instruments<br>(Unrealized<br>Appreciation/<br>Depreciation) |
|--|--|---|
| <b>Balance as of 11/30/08</b> . . . . .            | \$ 1,295,944                                   | \$ —  |
| Accrued discounts/premiums . . . . .               | —  | —   |
| Realized gain/(loss) . . . . .                     | —  | —   |
| Change in unrealized appreciation/(depreciation) . | (712,870)                                      | —   |
| Net purchases/(sales) . . . . .                    | —  | —   |
| Transfers in and/or out of Level 3 . . . . .       | —  | —   |
| <b>Balance as of 2/28/09</b> . . . . .             | <b>\$ 583,074</b>                              | <b>\$ —</b>   |

**3. Section 19 Notices**

Section 19 of the Investment Company Act of 1940 requires registered investment companies to include a notice with the payment of a dividend if a portion of that dividend may come from sources other than undistributed net income (other sources could include realized gains from the sale of securities and non-taxable return of capital). Copies of the Section 19 notices for the Fund are available on the website at [www.fcclaymore.com](http://www.fcclaymore.com).

The amounts and sources of distributions reported below are only estimates and are not being provided for tax reporting purposes. Form 1099-DIV will be sent to shareholders in January 2010 reporting the amount and tax characterization of distributions for the 2009 calendar year.

|   | Source of Distributions as of 2/28/09 |                                  |                         |                              |
|---|---------------------------------------|----------------------------------|-------------------------|------------------------------|
|   | Net<br>Investment<br>Income           | Net<br>Realized<br>Capital Gains | Return<br>of<br>Capital | Total Per<br>Common<br>Share |
| Calendar 2009 Distributions . . . . .       | \$0.2156                              | \$0.00                           | \$0.0044                | \$0.220                      |
| Percentage of Total Distributions . . . . . | 98.0%                                 | 0.0%                             | 2.0%                    | —                            |

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## 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 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 —

PNC Global Investment Servicing  
(U.S.) 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

# Quarterly Report

February 28, 2009

[www.fcclaymore.com](http://www.fcclaymore.com)