

## *FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND*

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

The Fund delivered a second consecutive quarter of double-digit returns as financial markets continued to recover from lows hit earlier this year. During the three-month period ended August 31<sup>st</sup>, total return on net asset value was +27.1%, and total return on market value of Fund shares was +32.5%.

As the worst of the financial crisis appears to be behind us, prices on most securities in the Fund's portfolio rose during the quarter. Although the credit outlook for some issuers remains speculative and the prices of their securities remain depressed, many securities that suffered the biggest declines earlier in the year staged the most dramatic recoveries. That being said, while prices in general are much higher than just three months ago, they remain well below the highs reached in recent years. There should be further recovery if the markets continue to normalize as we expect.

The strong performance over the past two quarters occurred despite the negative impact of our investments in a few troubled companies. During the past quarter, Colonial Bank was shut down by regulators. At this point, we are assuming there will be no additional income earned and minimal principal recovery on our investment in its parent, Colonial BancGroup, Inc. Two additional credits, FBOP Bancorp and CIT Group, suspended distributions on the securities owned by the Fund. Both companies are currently exploring strategies to improve their financial condition.

One year ago, the world's financial system was on the brink of collapse. In the blink of an eye, we went from a world in which anyone with a pulse could get a loan to a virtual shutdown of the capital markets. Investors, large and small, appeared ready to stuff money in a mattress rather than hand it over to a bank or money market fund. Access to short-term liquidity, the life blood of business, largely disappeared, and long-term financing was virtually unobtainable. Banks simply stopped lending (not only to long-time customers, but even more troublesome, to other banks), and capital market investors were in no mood to provide new financing.

When compared to broader credit markets, the preferred market has a much greater concentration in financial companies. In addition, the majority of preferred issues are long-term and consequently tend to have more volatile prices than other fixed-income instruments. As a result, the performance of the preferred market (and the Fund) was dismal throughout the early part of the financial crisis.

After one year, and massive amounts of government intervention, we see signs of recovery and perhaps a greater sense of rationality in the markets. On more than one occasion we've expressed our opinion that market volatility was exacerbated by excessive amounts of leverage. We underestimated the extent to which price declines could trigger selling by over-leveraged investors, producing an accelerating downward price spiral. We learned some valuable lessons during this financial chaos. We improved our analytic tools (and hopefully developed a more refined sense of smell) to help us discern changes in fundamental value from a leverage-fed frenzy. We further refined our credit criteria to help us identify riskier issuers earlier in the credit cycle. And, as leveraged investors ourselves, we have a keener appreciation for liquidity in the Fund's portfolio.

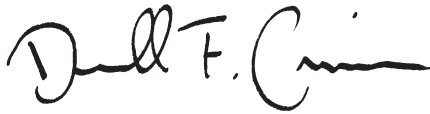
We believe these lessons will improve ongoing management of the Fund. Don't expect wholesale changes, but we would not be doing our job if we did not adapt to this new, more turbulent environment. For instance, the Fund suspended its hedging strategy last year, not because we no longer believe in hedging but because we did not think it would work in a crisis environment. At some point in the future, we anticipate reinstating the Fund's hedging strategy. Similarly, we have increased the portfolio's emphasis on liquid issues and issuers. By doing so, the Fund may give up some current income, but we believe this provides greater flexibility in managing the portfolio and its leverage for the benefit of shareholders.

In our last letter we indicated that the Fund was in the process of replacing all remaining shares of Auction Market Preferred Stock with bank debt. The switch is complete and the Fund's leverage is now comprised entirely of debt. While the breakdown in the auction preferred stock market made the change necessary, the Fund already is realizing some benefits from the new leverage. Foremost among these benefits are lower borrowing expense and greater flexibility in managing the portfolio.

All markets have endured tremendous upheaval over the past year. More change is on the horizon, as the financial system moves from crisis to recovery. The Fund will continue to assess and adapt to this new market environment. We take that responsibility seriously, and we appreciate the support that shareholders have given us.

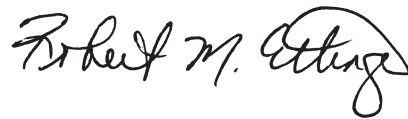
More information is always available on the Fund's website, including discussion of many of the topics in this letter. In addition, our thoughts on the economic outlook are published quarterly and posted to the site. We encourage you to visit the website at [www.fcclaymore.com](http://www.fcclaymore.com).

Sincerely,



Donald F. Crumrine  
Chairman of the Board

October 15, 2009



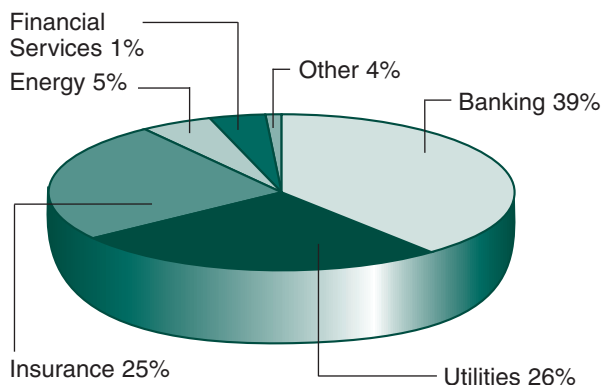
Robert M. Ettinger  
President

**PORTFOLIO OVERVIEW**  
**August 31, 2009 (Unaudited)**

**Fund Statistics on 8/31/09**

Net Asset Value	\$	12.85
Market Price	\$	11.66
Discount		9.26%
Yield on Market Price		11.32%
Common Stock Shares Outstanding		9,776,333

**Industry Categories** **% of Net Assets†**



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

A	20.5%
BBB	51.7%
BB	21.9%
Below "BB"	2.6%
Not Rated	2.0%

Below Investment Grade\* 18.7%

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

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

Banco Santander	7.7%
Liberty Mutual Group	6.0%
Capital One Financial	4.4%
PNC Financial Services	4.2%
Sovereign Bancorp	3.9%
Comerica	3.6%
Astoria Financial	3.1%
Dominion Resources	3.0%
Georgia Power	2.9%
Unum Group	2.8%

**% of Net Assets\*\*†**

Holdings Generating Qualified Dividend Income (QDI) for Individuals	27%
Holdings Generating Income Eligible for the Corporate Dividend 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.

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

**PORTFOLIO OF INVESTMENTS****August 31, 2009 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — 93.5%</b>		
<b>Banking — 38.9%</b>		
\$ 5,750,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B .....	\$ 5,773,247 <sup>(1)</sup>
	Banco Santander:	
23,000	Adj. Rate Pfd. ....	362,998 <sup>** (1)(2)</sup>
440,392	6.50% Pfd. ....	10,196,176 <sup>** (1)(2)</sup>
152,070	6.80% Pfd. ....	3,665,267 <sup>** (1)(2)</sup>
\$ 3,000,000	Barclays Bank PLC, 6.278% .....	2,133,750 <sup>** (1)(2)</sup>
26,905	BB&T Capital Trust VI, 9.60% Pfd. ....	704,373
\$ 8,218,000	Capital One Capital III, 7.686% 08/15/36 .....	6,492,220 <sup>(1)</sup>
\$ 1,500,000	Capital One Capital V, 10.25% 08/15/39 .....	1,528,818
	CIT Group, Inc.:	
33,900	5.189% Pfd., Series B .....	147,255 <sup>*†</sup>
\$ 3,375,000	6.10% 03/15/67 .....	371,250 <sup>†</sup>
13,850	6.35% Pfd., Series A .....	38,261 <sup>*†</sup>
40,000	Citizens Funding Trust I, 7.50% Pfd. 09/15/66 .....	772,900
40,000	Cobank, ACB, 7.00% Pfd., 144A**** .....	1,396,252 <sup>* (1)</sup>
\$ 10,000,000	Colonial BancGroup, 7.114%, 144A**** .....	175,000 <sup>†</sup>
6,700	Colonial Capital Trust IV, 7.875% Pfd. 10/01/33 .....	3,149 <sup>†</sup>
\$ 9,670,000	Comerica Capital Trust II, 6.576% 02/20/37 .....	6,672,300 <sup>(1)</sup>
7,000	FBOP Corporation, Adj. Rate Pfd., 144A**** .....	299,687 <sup>*†</sup>
2,000	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** .....	1,810,000 <sup>(1)</sup>
1,000	First Tennessee Bank, Adj. Rate Pfd., 144A**** .....	405,312 <sup>*</sup>
\$ 100,000	First Tennessee Capital I, 8.07% 01/06/27, Series A .....	66,526 <sup>(1)</sup>
\$ 600,000	First Union Capital II, 7.95% 11/15/29 .....	538,688 <sup>(1)</sup>
2	FT Real Estate Securities Company, 9.50% Pfd., 144A**** .....	1,125,000
	Goldman Sachs:	
\$ 4,000,000	Capital II, 5.793% .....	2,940,000 <sup>(1)</sup>
1,500	STRIPES Custodial Receipts, Pvt. ....	309,000 <sup>*</sup>
\$ 855,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** .....	802,726 <sup>(1)(2)</sup>
158,500	HSBC USA, Inc., Adj. Rate Pfd., Series D .....	3,300,366 <sup>* (1)</sup>
15,000	Keycorp Capital X, 8.00% Pfd. ....	320,475
\$ 1,000,000	Lloyds Banking Group PLC, 6.657%, 144A**** .....	430,715 <sup>** (2)</sup>
\$ 2,500,000	National City Preferred Capital Trust I, 12.00% .....	2,706,395 <sup>(1)</sup>
151,059	PFGI Capital Corporation, 7.75% Pfd. ....	3,540,445 <sup>(1)</sup>
54,995	PNC Financial Services, 9.875% Pfd., Series F .....	1,464,104 <sup>* (1)</sup>
191,525	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 .....	4,392,147 <sup>(1)</sup>
3,000	Sovereign REIT, 12.00% Pfd., Series A, 144A**** .....	2,707,500
	U.S. Bancorp, Auction Pass-Through Trust, Cl. B:	
15	Series 2006-5, Variable Rate Pfd., 144A**** .....	375 <sup>*†</sup>
15	Series 2006-6, Variable Rate Pfd., 144A**** .....	375 <sup>*†</sup>

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2009 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Preferred Securities — (Continued)</b>		
<b>Banking — (Continued)</b>		
\$ 850,000	Wachovia Capital Trust III, 5.80% .....	\$ 561,000 <sup>(1)</sup>
75,637	Wachovia Preferred Funding, 7.25% Pfd., Series A .....	1,565,119
\$ 2,800,000	Webster Capital Trust IV, 7.65% 06/15/37 .....	1,652,000
		<u>71,371,171</u>
<b>Financial Services — 0.2%</b>		
\$ 250,000	Ameriprise Financial, Inc., 7.518% 06/01/66 .....	196,250
\$ 3,000,000	Gulf Stream-Compass 2005 Composite Notes, 144A**** .....	208,590
	Lehman Brothers Holdings, Inc.:	
20,000	5.67% Pfd., Series D .....	7,400*††
85,000	7.95% Pfd. ....	8,075*††
		<u>420,315</u>
<b>Insurance — 21.1%</b>		
\$ 1,500,000	Ace Capital Trust II, 9.70% 04/01/30 .....	1,505,226 <sup>(1)(2)</sup>
\$ 4,161,000	AON Corporation, 8.205% 01/01/27 .....	3,890,535 <sup>(1)</sup>
	Arch Capital Group Ltd.:	
27,150	7.875% Pfd., Series B .....	622,346** <sup>(1)(2)</sup>
37,500	8.00% Pfd., Series A .....	912,469** <sup>(1)(2)</sup>
	AXA SA:	
\$ 600,000	6.379%, 144A**** .....	447,000** <sup>(1)(2)</sup>
\$ 1,550,000	6.463%, 144A**** .....	1,154,750** <sup>(1)(2)</sup>
66,600	Axis Capital Holdings, 7.50% Pfd., Series B .....	4,341,487 <sup>(1)(2)</sup>
160,000	Delphi Financial Group, 7.376% Pfd. 05/15/37 .....	2,760,000 <sup>(1)</sup>
\$ 5,500,000	Everest Re Holdings, 6.60% 05/15/37 .....	3,877,500 <sup>(1)</sup>
	Liberty Mutual Group:	
\$ 3,000,000	7.80% 03/15/37, 144A**** .....	2,145,000 <sup>(1)</sup>
\$ 8,400,000	10.75% 06/15/58, 144A**** .....	7,518,000
\$ 4,250,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A**** .....	4,143,274 <sup>(1)</sup>
75,000	Principal Financial Group, 6.518% Pfd., Series B .....	1,361,438*
109,000	Scottish Re Group Ltd., 7.25% Pfd. ....	268,413** <sup>(2)†</sup>
\$ 3,615,000	USF&G Capital, 8.312% 07/01/46, 144A**** .....	3,475,801 <sup>(1)</sup>
\$ 378,000	ZFS Finance USA Trust V, 6.50% 05/09/37, 144A**** .....	302,400
		<u>38,725,639</u>
<b>Utilities — 26.1%</b>		
33,700	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....	2,999,300 <sup>(1)</sup>
105,000	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27 .....	4,488,750 <sup>(1)</sup>

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2009 (Unaudited)**

<u>Shares/\$ Par</u>	<u>Value</u>	
<b>Preferred Securities — (Continued)</b>		
<b>Utilities — (Continued)</b>		
\$ 3,700,000	COMED Financing III, 6.35% 03/15/33	\$ 2,877,775
66,170	Constellation Energy Group, Inc., 8.625% Pfd. 06/15/63, Series A	1,640,354 <sup>(1)</sup>
\$ 2,000,000	Dominion Resources Capital Trust I, 7.83% 12/01/27	1,919,448 <sup>(1)</sup>
	Dominion Resources, Inc.:	
\$ 2,793,000	7.50%	2,293,137 <sup>(1)</sup>
50,000	8.375% Pfd., Series A	1,325,000 <sup>(1)</sup>
83,000	Entergy Arkansas, Inc., 6.45% Pfd.	1,722,250 <sup>*(1)</sup>
50,000	Entergy Louisiana, Inc., 6.95% Pfd.	4,584,375 <sup>*(1)</sup>
39,623	FPC Capital I, 7.10% Pfd., Series A	985,919 <sup>(1)</sup>
\$ 900,000	FPL Group Capital, Inc., 6.65% 06/15/67	784,138
55,000	Georgia Power Company, 6.50% Pfd., Series 2007A	5,285,159 <sup>*(1)</sup>
30,445	Indianapolis Power & Light Company, 5.65% Pfd.	2,442,261 <sup>*(1)</sup>
\$ 5,000,000	PECO Energy Capital Trust IV, 5.75% 06/15/33	3,581,880 <sup>(1)</sup>
\$ 4,000,000	Puget Sound Energy, Inc., 6.974% 06/01/67	3,211,576 <sup>(1)</sup>
15,000	Southern California Edison, 6.00% Pfd., Series C	1,181,720 <sup>*(1)</sup>
\$ 3,000,000	Southern Union Company, 7.20% 11/01/66	2,257,500
5,000	Union Electric Company, \$7.64 Pfd.	486,407*
\$ 5,005,000	Wisconsin Energy Corporation, 6.25% 05/15/67	3,959,611 <sup>(1)</sup>
		48,026,560
<b>Energy — 5.3%</b>		
\$ 5,600,000	Enbridge Energy Partners LP, 8.05% 10/01/37	4,731,882 <sup>(1)</sup>
	Enterprise Products Partners:	
\$ 4,000,000	7.034% 01/15/68	3,284,868 <sup>(1)</sup>
\$ 2,000,000	8.375% 08/01/66, Series A	1,737,162
		9,753,912
<b>Miscellaneous Industries — 1.9%</b>		
40,000	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	2,672,500 <sup>*(1)</sup>
\$ 1,000,000	Stanley Works, 5.902% 12/01/45	757,322 <sup>(1)</sup>
		3,429,822
<b>Total Preferred Securities</b>		
	(Cost \$209,830,556)	171,727,419

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2009 (Unaudited)**

<u>Shares/\$ Par</u>		<u>Value</u>
<b>Corporate Debt Securities — 5.2%</b>		
<b>Financial Services — 0.4%</b>		
15,000	Ameriprise Financial, Inc., 7.75% 06/15/39 .....	\$ 360,038
\$ 4,726,012	Lehman Brothers, Guaranteed Note, Variable Rate, 12/16/16, 144A**** .....	444,245††
		<u>804,283</u>
<b>Insurance — 3.5%</b>		
\$ 1,900,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** .....	1,265,288 <sup>(1)</sup>
\$ 7,000,000	UnumProvident Corporation, 7.25% 03/15/28, Senior Notes .....	5,199,152 <sup>(1)</sup>
		<u>6,464,440</u>
<b>Miscellaneous Industries — 1.3%</b>		
16,500	Corp-Backed Trust Certificates, 7.00% 11/15/28, Series Sprint .....	249,975 <sup>(1)</sup>
	Pulte Homes, Inc.:	
25,844	7.375% 06/01/46 .....	456,470
\$ 2,160,000	7.875% 06/15/32 .....	1,717,200 <sup>(1)</sup>
		<u>2,423,645</u>
<b>Total Corporate Debt Securities</b>		
(Cost \$16,926,186) .....		<u>9,692,368</u>
<b>Money Market Fund — 0.1%</b>		
116,636	BlackRock Provident Institutional, T-Fund .....	116,636
<b>Total Money Market Fund</b>		
(Cost \$116,636) .....		<u>116,636</u>

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2009 (Unaudited)**

		<u>Value</u>
<b>Total Investments</b> (Cost \$226,873,378 <sup>***</sup> ) .....	98.8%	\$ 181,536,423
<b>Other Assets And Liabilities</b> (Net) .....	1.2%	<u>2,112,589</u>
<b>Net Assets before loan</b> .....	<u>100.0%†</u>	<u>\$ 183,649,012</u>
<b>Loan Principal Balance</b> .....		<u>(58,000,000)</u>
<b>Total Net Assets Available To Common Stock</b> .....		<u><u>\$ 125,649,012</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 August 31, 2009, these securities amounted to \$32,929,790 or 17.9% of net assets before the loan. These securities have been determined to be liquid under the guidelines established by the Board of Directors.

<sup>(1)</sup> All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$144,993,570 at August 31, 2009.

<sup>(2)</sup> 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.

**ABBREVIATIONS:**

**Pfd.** — Preferred Securities

**Pvt.** — Private Placement Securities

**REIT** — Real Estate Investment Trust

**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 August 31, 2009 (Unaudited)**

	<u>Value</u>
<b>OPERATIONS:</b>	
Net investment income . . . . .	\$ 10,517,353
Net realized gain/(loss) on investments sold during the period . . . . .	(17,204,121)
Change in net unrealized appreciation/depreciation of investments . . . . .	54,623,114
Distributions to AMPS* Shareholders from net investment income, including changes in accumulated undeclared distributions . . . . .	<u>(611,215)</u>
<b>Net increase in net assets resulting from operations . . . . .</b>	<b>47,325,131</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup> . . . . .	<u>(9,678,570)</u>
<b>Total Distributions to Common Stock Shareholders . . . . .</b>	<b>(9,678,570)</b>
<b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD . . . . .</b>	<b><u><u>\$ 37,646,561</u></u></b>
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>	
Beginning of period . . . . .	\$ 88,002,451
Net increase in net assets during the period . . . . .	<u>37,646,561</u>
End of period . . . . .	<b><u><u>\$ 125,649,012</u></u></b>

\* Auction Market Preferred Stock.

<sup>(1)</sup> These tables summarize the nine months ended August 31, 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 August 31, 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 . . . . . 1.07

Net realized and unrealized gain/(loss) on investments . . . . . 3.83

**DISTRIBUTIONS TO AMPS\* SHAREHOLDERS:**

From net investment income . . . . . (0.06)

Total from investment operations . . . . . 4.84

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income . . . . . (0.99)

Total distributions to Common Stock Shareholders . . . . . (0.99)

Net asset value, end of period . . . . . \$ 12.85

Market value, end of period . . . . . \$ 11.66

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

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

Net investment income† . . . . . 14.73%\*\*

Net investment income, including payments to AMPS Shareholders† . . . . . 13.87%\*\*

Operating expenses including interest expense . . . . . 3.29%\*\*

Operating expenses excluding interest expense . . . . . 1.85%\*\*

**SUPPLEMENTAL DATA:††**

Portfolio turnover rate . . . . . 28%\*\*\*

Net assets before loan, end of period (in 000's) . . . . . \$ 183,649

Ratio of operating expenses including interest expense<sup>(2)</sup> to net assets before loan and AMPS . . . . . 2.00%\*\*

Ratio of operating expenses excluding interest expense<sup>(2)</sup> to net assets before loan and AMPS . . . . . 1.12%\*\*

<sup>(1)</sup> These tables summarize the nine months ended August 31, 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> 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.

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

**FINANCIAL HIGHLIGHTS (Continued)****Per Share of Common Stock (Unaudited)**

	<u>Total Dividends Paid</u>	<u>Net Asset Value</u>	<u>NYSE Closing Price</u>	<u>Dividend Reinvestment 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
March 31, 2009 .....	0.1100	8.02	6.70	6.80
April 30, 2009 .....	0.1100	8.57	7.65	7.72
May 29, 2009 .....	0.1100	10.39	9.06	9.46
June 30, 2009 .....	0.1100	11.21	10.50	10.58
July 31, 2009 .....	0.1100	12.15	10.99	11.45
August 31, 2009 .....	0.1100	12.85	11.66	11.75

<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)**

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

At August 31, 2009 the aggregate cost of securities for federal income tax purposes was \$227,755,545, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$10,150,504 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$56,369,626.

### **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)

In April 2009, FASB issued FASB Staff Position No. 157-4, "Determining Fair Value when the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", ("FSP 157-4"). FSP 157-4 is effective for fiscal years and interim periods ending after June 15, 2009. FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 requires entities to describe the inputs and valuation techniques used to measure fair value and changes in those techniques and related inputs during the period. FSP 157-4 expands the three-level hierarchy disclosure and the level three roll forward disclosure for each major security type as described in paragraph 19 of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

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

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 August 31, 2009 is as follows:

	Total Value at August 31, 2009	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$ 71,371,171	\$ 27,095,085	\$ 43,976,399	\$ 299,687
Financial Services	420,315	15,475	196,250	208,590
Insurance	38,725,639	5,924,666	32,800,973	—
Utilities	48,026,560	3,951,273	44,075,287	—
Energy	9,753,912	—	9,753,912	—
Miscellaneous Industries	3,429,822	—	3,429,822	—
Corporate Debt Securities	9,692,368	1,066,483	8,181,640	444,245
Money Market Fund	116,636	116,636	—	—
<b>Total Investments</b>	<b><u>\$ 181,536,423</u></b>	<b><u>\$ 38,169,618</u></b>	<b><u>\$ 142,414,283</u></b>	<b><u>\$ 952,522</u></b>

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

	Total Investments	Preferred Securities		
		Banking	Financial Services	Corporate Debt Securities
<b>Balance as of 11/30/08</b>	\$ 1,295,944	\$ —	\$ 962,760	\$ 333,184
Accrued discounts/premiums	—	—	—	—
Realized gain/(loss)	—	—	—	—
Change in unrealized appreciation/ (depreciation)	(4,018,422)	(3,375,313)	(754,170)	111,061
Net purchases/(sales)	—	—	—	—
Transfers in and/or out of Level 3	3,675,000	3,675,000	—	—
<b>Balance as of 8/31/09</b>	<b>\$ 952,522</b>	<b>\$ 299,687</b>	<b>\$ 208,590</b>	<b>\$ 444,245</b>

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

**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 8/31/09**

	<b>Net Investment Income</b>	<b>Net Realized Capital Gains</b>	<b>Return of Capital</b>
Calendar 2009 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](mailto: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

August 31, 2009

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