

FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INC
Form DEF 14A
February 24, 2011

**SCHEDULE 14A
PROXY STATEMENT**

PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by Registrant

Filed by Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement

- Confidential for Use of the Commission Only as permitted by Rule 14a-6(e)(2)

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11c or Rule 14a-12

Flaherty & Crumrine/Claymore Total Return Fund Incorporated

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED (NYSE: PFD)
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND INCORPORATED (NYSE: PFO)
FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED (NYSE: FFC)
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)

301 E. Colorado Boulevard, Suite 720
Pasadena, California 91101

NOTICE OF ANNUAL MEETINGS OF SHAREHOLDERS

To Be Held on April 15, 2011

To the Shareholders:

Notice is hereby given that the Annual Meetings of Shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated, Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated and Flaherty & Crumrine/Claymore Total Return Fund Incorporated (each, a Fund and collectively, the Funds), each a Maryland corporation, will be held at the offices of Flaherty & Crumrine Incorporated, 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101 at 8:30 a.m. PT, on April 15, 2011, for the following purposes:

Each Fund:

1. To elect Directors of each Fund (Proposal 1).
2. To transact such other business as may properly come before the Annual Meetings or any adjournments thereof.

Your vote is important!

The Board of Directors of each Fund has fixed the close of business on January 21, 2011 as the record date for the determination of shareholders of each Fund entitled to notice of and to vote at the Annual Meetings and any adjournments or postponements thereof.

By Order of the Boards of Directors,

February 25, 2011

CHAD C. CONWELL
Secretary

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 15, 2011.

The notice of Annual Meetings of Shareholders, joint proxy statement and proxy cards for the Funds are available to you on each Fund's website - www.preferredincome.com for PFD and PFO and www.fcclaymore.com for FFC and FLC. You are encouraged to review all of the information contained in the proxy materials before voting.

To obtain directions to attend the Annual Meetings and vote in person, please call 1-626-795-7300.

SEPARATE PROXY CARDS ARE ENCLOSED FOR EACH FUND IN WHICH YOU OWN SHARES. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETINGS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD(S). The proxy card(s) should be returned in the enclosed envelope, which needs no postage if mailed in the continental United States. Instructions for the proper execution of proxies are set forth on the inside cover.

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and may minimize the time and expense to the Fund(s) involved in validating your vote if you fail to sign your proxy card(s) properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card(s).
2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. All Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form registration. For example:

Registration

Valid Signature

Corporate Accounts

- | | |
|---------------------------------------|---------------------|
| (1) ABC Corp. | ABC Corp. |
| (2) ABC Corp. | John Doe, Treasurer |
| (3) ABC Corp. c/o John Doe, Treasurer | John Doe |
| (4) ABC Corp. Profit Sharing Plan | John Doe, Trustee |

Trust Accounts

- | | |
|--|----------------------|
| (1) ABC Trust | Jane B. Doe, Trustee |
| (2) Jane B. Doe, Trustee
u/t/d 12/28/78 | Jane B. Doe |

Custodian or Estate Accounts

- | | |
|--|------------------------------|
| (1) John B. Smith, Cust.,
f/b/o John B. Smith, Jr. UGMA | John B. Smith |
| (2) John B. Smith, Executor,
Estate of Jane Smith | John B. Smith, Jr., Executor |
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**FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED (NYSE: PFD)
FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND INCORPORATED (NYSE:
PFO)
FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND
INCORPORATED (NYSE:FFC)
FLAHERTY & CRUMRINE/CLAYMORE TOTAL RETURN FUND INCORPORATED (NYSE: FLC)**

301 E. Colorado Boulevard, Suite 720
Pasadena, California 91101

ANNUAL MEETINGS OF SHAREHOLDERS

April 15, 2011

JOINT PROXY STATEMENT

This document is a joint proxy statement (Joint Proxy Statement) for Flaherty & Crumrine Preferred Income Fund Incorporated (Preferred Income Fund or PFD), Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated (Preferred Income Opportunity Fund or PFO), Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated (Preferred Securities Income Fund or FFC) and Flaherty & Crumrine/Claymore Total Return Fund Incorporated (Total Return Fund or FLC) (each a Fund and collectively, the Funds). This Joint Proxy Statement is furnished in connection with the solicitation of proxies by each Fund's Board of Directors (each, a Board and collectively, the Boards) for use at the Annual Meeting of Shareholders of each Fund to be held on April 15, 2011, at 8:30 a.m. PT, at the offices of Flaherty & Crumrine Incorporated, 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101 and at any adjournments or postponements thereof (each a Meeting and collectively, the Meetings).

A Notice of Annual Meetings of Shareholders and proxy card for each Fund of which you are a shareholder accompany this Joint Proxy Statement. Proxy solicitations will be made, beginning on or about February 25, 2011, primarily by mail, but proxy solicitations may also be made by telephone, telefax or personal interviews conducted by officers of each Fund, Flaherty & Crumrine Incorporated (Flaherty & Crumrine), the investment adviser of each Fund, Guggenheim Funds Distributors, Inc., the servicing agent of FFC and FLC, and BNY Mellon Investment Servicing (US) Inc. (BNY Mellon), the transfer agent and administrator of each Fund. Costs of proxy solicitation and expenses incurred in connection with the preparation of this Joint Proxy Statement and its enclosures will be shared proportionally by the Funds. Each Fund also will reimburse brokerage firms and others for their expenses in forwarding solicitation material to the beneficial owners of its shares. This Joint Proxy Statement and form of proxy are first being sent to shareholders on or about February 25, 2011.

THE ANNUAL REPORT OF EACH FUND, INCLUDING AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010, IS AVAILABLE UPON REQUEST, WITHOUT CHARGE, BY WRITING TO BNY MELLON SHAREOWNER SERVICES, P.O. BOX 358035, PITTSBURGH, PENNSYLVANIA 15252-8035, OR CALLING 1-866-351-7446. EACH FUND'S ANNUAL REPORT IS ALSO AVAILABLE ON THE FUNDS' WEBSITES - WWW.PREFERREDINCOME.COM FOR PFD AND PFO AND WWW.FCCLAYMORE.COM FOR FFC AND FLC - THE SECURITIES AND EXCHANGE COMMISSION'S (SEC) WEBSITE (WWW.SEC.GOV) OR, FOR FFC AND FLC ONLY, BY CALLING GUGGENHEIM FUNDS DISTRIBUTORS, INC. AT 1-866-233-4001.

**Important Notice Regarding the Availability of Proxy Materials for the
Shareholder Meeting to Be Held on April 15, 2011.**

The notice of Annual Meetings of Shareholders, joint proxy statement and proxy cards for the Funds are available to you on each Fund's website - www.preferredincome.com for PFD and PFO and www.fcclaymore.com for FFC and FLC. You are encouraged to review all of the information contained in the proxy materials before voting.

To obtain directions to attend the Annual Meetings and vote in person, please call 1-626-795-7300.

SEPARATE PROXY CARDS ARE ENCLOSED FOR EACH FUND IN WHICH YOU OWN SHARES. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETINGS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD(S). The proxy card(s) should be returned in the enclosed envelope, which needs no postage if mailed in the continental United States. Instructions for the proper execution of proxies are set forth on the inside cover.

If the enclosed proxy card is properly executed and returned in time to be voted at the relevant Meeting, the Shares (as defined below) represented thereby will be voted in accordance with the instructions marked thereon. Unless instructions to the contrary are marked thereon, a proxy will be voted FOR the election of the nominees for Director. Any shareholder who has given a proxy has the right to revoke it at any time prior to its exercise either by attending the relevant Meeting and voting his or her Shares in person or by submitting a letter of revocation or a later-dated proxy to the appropriate Fund delivered at the above address prior to the date of the Meeting.

Under the Bylaws of each Fund, the presence in person or by proxy of the holders of a majority of the outstanding Shares of the Fund entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business (a Quorum) at that Fund's Meeting. In the event that a Quorum is not present at a Meeting, or in the event that a Quorum is present but sufficient votes to approve any of the proposals are not received, the persons named as proxies may propose one or more adjournments of the Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of those Shares represented at the Meeting in person or by proxy. If a Quorum is present, the persons named as proxies will vote those proxies which they are entitled to vote

FOR a proposal in favor of such an adjournment with respect to that proposal and will vote those proxies required to be voted AGAINST a proposal against any such adjournment with respect to that proposal. A shareholder vote may be taken on a proposal in the Joint Proxy Statement prior to any such adjournment if sufficient votes have been received for approval of that proposal.

Each Fund has one class of capital stock outstanding: common stock, par value \$0.01 per share (the Common Stock or the Shares). Each Share is entitled to one vote at the Meeting with respect to matters to be voted on, with pro rata voting rights for any fractional Shares. On the record date, January 21, 2011, the following number of Shares of each Fund were issued and outstanding:

Name of Fund	Common Stock Outstanding
Preferred Income Fund (PFD)	10,767,784
Preferred Income Opportunity Fund (PFO)	12,003,099
Preferred Securities Income Fund (FFC)	42,866,396
Total Return Fund (FLC)	9,807,738

To the knowledge of each Fund and its Board, the following shareholder(s), or group as that term is defined in Section 13(d) of the Securities Exchange Act of 1934, as amended (the 1934 Act), is the beneficial owner or owner of record of more than 5% of the relevant Fund's outstanding Shares as of January 21, 2011:

Name and Address of Beneficial/Record Owner	Title of Class	Amount and Nature of Ownership	Percent of Class
Cede & Co.** Depository Trust Company 55 Water Street, 25 th Floor	Common Stock	PFD 10,331,655 (record)	95.95%
		PFO 11,531,381 (record)	96.07%
		FFC 42,786,996 (record)	99.81%

New York, NY 10041		FLC	9,796,788 (record)	99.89%
First Trust Portfolios L.P. ¹	Common Stock	FFC	2,384,528 (beneficial)	5.60%
First Trust Advisors L.P.				
The Charger Corporation				
120 East Liberty Drive, Suite 400				
Wheaton, IL 60187				

Name and Address of Beneficial/Record Owner	Title of Class	Amount and Nature of Ownership	Percent of Class
Claymore Securities Defined Portfolios, Series 305, 352, 390, 434, 453, 494, 590, 592, 596, 601, 614, 621, 635, 644, 651, 652, 661, 664, 672, 683, 713; and Guggenheim Defined Portfolios, Series 742 ² 2455 Corporate West Drive Lisle, IL 60532	Common Stock	FLC 672,476 (beneficial)	6.86%
Spectrum Asset Management, Inc. 2 High Ridge Park Stamford, CT 06905	Common Stock	FFC 2,960,500 (beneficial)	6.93%

- * As of January 21, 2011, the Directors and officers, as a group, owned less than 1% of the Shares of each Fund.
- 1 Information obtained from a Schedule 13G filed by First Trust Portfolios L.P. (FT Portfolios) First Trust Advisors L.P. (FT Advisors) and The Charger Corporation (Charger) with the SEC reporting share ownership as of December 31, 2010. Based on that filing, FT Portfolios, FT Advisors and Charger have the shared power to vote or direct the vote or dispose or direct the disposition of 2,384,528 Shares of Common Stock.
 - 2 Information obtained from a Schedule 13G/A filed by Guggenheim Funds Distributors, Inc. with the SEC reporting share ownership as of December 31, 2010. Based on that filing, Claymore Securities Defined Portfolios and Guggenheim Defined Portfolios, Series 742 has the sole power to vote or direct the vote or dispose or direct the disposition of 672,476 Shares of Common Stock.
 - 3 Information obtained from a Schedule 13G filed by Spectrum Asset Management, Inc. (Spectrum) with the SEC reporting share ownership as of December 31, 2010. Based on that filing, Spectrum and Principal Financial Group Inc. (Principal) have the shared power to vote or direct the vote or dispose or direct the disposition of 2,960,500 Shares of Common Stock.

This Joint Proxy Statement is being used in order to reduce the preparation, printing, handling and postage expenses that would result from the use of a separate proxy statement for each Fund. Shareholders of each Fund will vote as a single class. Shareholders of each Fund will vote separately for each of PFD, PFO, FFC and FLC on the proposal on which shareholders of that Fund are entitled to vote. Separate proxy cards are enclosed for each Fund in which a shareholder is a record owner of Shares. Thus, if a proposal is approved by shareholders of one or more Funds and not approved by shareholders of one or more other Funds, the proposal will be implemented for the Fund or Funds that approved the proposal and will not be implemented for any Fund that did not approve the proposal. It is therefore essential that shareholders complete, date and sign each enclosed proxy card. *Shareholders of each Fund are entitled to vote on the proposal pertaining to that Fund.*

PROPOSAL 1: ELECTION OF DIRECTORS

At the Meetings, shareholders are being asked to consider the election of Directors of each Fund. The Board of each Fund 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 and until their successors are duly elected and qualified.

Nominees for the Boards of Directors

Each nominee named below has consented to serve as a Director if elected at the relevant Meeting. If a designated nominee declines or otherwise becomes unavailable for election, however, the proxy confers discretionary power on the persons named therein to vote in favor of a substitute nominee or nominees.

Mr. Gale and Ms. Hogan, each a Class I Director of PFD, have each been nominated for a three-year term to expire at PFD's 2014 Annual Meeting of Shareholders and until their successors are duly elected and qualified. Mr. Gust and Ms. Hogan, each a Class III Director of PFO, have each been nominated for a three-year term to expire

at PFO's 2014 Annual Meeting of Shareholders and until their successors are duly elected and qualified. Mr. Gale, a Class I Director of FFC and FLC, has been nominated for a three-year term to expire at each Fund's 2014 Annual Meeting of Shareholders and until his successor is duly elected and qualified. Shareholders of each Fund's Common Stock are entitled to elect the nominees for election to the Board of the relevant Fund.

Information About Each Director's Experience, Qualifications, Attributes or Skills

Directors of the Funds, together with information as to their positions with the Funds, principal occupations and other board memberships for the past five years, are shown below.

Name, Address and Age	Current Position(s) Held with Funds	Term of Office and Length of Time Served**	Principal Occupation During Past Five Years	Number of Funds in Fund Complex Overseen by Director*	Other Public Company Board Memberships During Past 5 Years
<u>Non-Interested Directors:</u>					
David Gale Delta Dividend Group, Inc. 220 Montgomery Street Suite 426 San Francisco, CA 94104 Age: 61	Director	Class I Director PFD since 1997 PFO since 1997 FFC since inception FLC since inception	President of Delta Dividend Group, Inc. (investments)	4	Metromedia International Group, Inc.
Morgan Gust 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 63	Director and Nominating and Governance Committee Chairman	Class III Director PFD since inception PFO since inception Class II Director FFC since inception FLC since inception	Owner and operator of various entities engaged in agriculture and real estate; Former President of Giant Industries, Inc. (petroleum refining and marketing) from March 2002 through June 2007	4	CoBiz Financial, Inc. (financial services)
Karen H. Hogan 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 49	Director	Class I Director PFD since 2005 Class III Director PFO since 2005 Class II Director FFC since 2005 FLC since 2005	Active Committee Member and Volunteer to several non-profit organizations; from September 1985 to January 1997, Senior Vice President of Preferred Stock	4	None

Origination at
 Lehman Brothers and
 Previously, Vice
 President of New
 Product Development

<p>Robert F. Wulf P.O. Box 753 Neskowin, OR 97149 Age: 73</p>	<p>Director and Audit Committee Chairman</p>	<p>Class II Director PFD since inception PFO since inception</p> <p>Class III Director FFC since inception FLC since inception</p>	<p>Financial Consultant; Trustee, University of Oregon Foundation; Trustee, San Francisco Theological Seminary</p>	<p>4</p>	<p>None</p>
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Name, Address and Age	Current Position(s) Held with Funds	Term of Office and Length of Time Served**	Principal Occupation During Past Five Years	Number of Funds in Fund Complex Overseen by Director*	Other Public Company Board Memberships During Past 5 Years
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Interested Director:

Donald F. Crumrine ⁽¹⁾ 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 63	Director, Chairman of the Board and Chief Executive Officer	Class II Director PFD since inception PFO since inception	Chairman of the Board and Director of Flaherty & Crumrine	4	None
		Class III Director FFC since inception FLC since inception			

* The Funds in the fund complex are: Flaherty & Crumrine Preferred Income Fund Incorporated, Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated, Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated and Flaherty & Crumrine/Claymore Total Return Fund Incorporated.

** The Class I Directors of PFD, and the Class I Director of FFC and FLC and the Class III Directors of PFO will serve until each Fund's Annual Meeting of Shareholders in 2014 and until their successors are duly elected and qualified. The Class II Directors of PFO and the Class III Directors of PFD, FFC and FLC will serve until each Fund's 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified. The Class I Director of PFO, the Class II Directors of PFD, FFC and FLC will serve until each Fund's Annual Meeting of Shareholders in 2012 and until their successors are duly elected and qualified.

(1) Interested person of the Funds as defined in the Investment Company Act of 1940 (the 1940 Act). Mr. Crumrine is considered an interested person because of his affiliation with Flaherty & Crumrine.

Each Director has been a Director of the Funds for at least five years. Additional information about each Director follows (supplementing the information provided in the table above) that describes some of the specific experiences, qualifications, attributes or skills that each Director possesses which the Boards believe have prepared them to be effective Directors. The Boards believe that Directors need to have the ability to critically review, evaluate, question and discuss information provided to them, and to interact effectively with Fund management, service providers and counsel, in order to exercise effective business judgment in the performance of their duties; the Boards believe that their members satisfy this standard. Experience relevant to having this ability may be achieved through a Director's educational background; business, professional training or practice (e.g., accounting or law); public service or academic positions; experience from service as a board member (including the Boards of the Funds) or as an executive of investment funds, public companies or significant private or not-for-profit entities or other organizations; and/or other life experiences. The charters for the Boards' Nominating and Governance Committees contain certain other factors considered by the Committees in identifying and evaluating potential Director nominees. To assist them in evaluating matters under federal and state law, the Independent Directors (defined below) are counseled by their own independent legal counsel, who participates in Board meetings and interacts with Flaherty & Crumrine, and also may

benefit from information provided by the Funds and Flaherty & Crumrine's counsel; both counsel to the Independent Directors and counsel to the Funds and Flaherty & Crumrine have significant experience advising funds and fund directors. The Boards and their committees have the ability to engage other experts as appropriate. The Boards evaluate their performance on an annual basis.

Donald F. Crumrine Mr. Crumrine has been the Chairman of the Boards since each Fund's inception. Mr. Crumrine has over 35 years of experience managing portfolios of preferred securities. He co-founded Flaherty & Crumrine in 1983, after spending twelve years at Scudder, Stevens & Clark, to focus on managing preferred portfolios and associated hedges. Mr. Crumrine is actively involved in the day-to-day management of all Flaherty & Crumrine client portfolios, including those of the Funds, and directs client service and marketing efforts at Flaherty & Crumrine.

David Gale In addition to his tenure as a Director of the Funds, Mr. Gale has been President and Chief Executive Officer of Delta Dividend Group, Inc, a San Francisco-based investment management firm, since 1992. Prior to joining Delta Dividend Group, Inc., Mr. Gale was a Principal with Morgan Stanley from

February 1983 to January 1990, and a Managing Director of Lehman Brothers Holdings Inc. from January 1990 to January 1992. Mr. Gale also served as a director of Metromedia International Group, Inc., a telecommunications company from 2005 through August 30, 2008.

Morgan Gust In addition to his tenure as a Director of the Funds, Mr. Gust is the owner and operator of various entities engaged in agriculture and real estate. From 1990 to 2007, Mr. Gust served in various capacities, including President, Executive Vice President, General Counsel and Corporate Secretary, of Giant Industries, Inc., a petroleum refining and marketing company listed on the New York Stock Exchange.

Karen H. Hogan In addition to her tenure as a Director of the Funds, Ms. Hogan has served as a board member and committee member of charitable and non-profit organizations. From September 1985 to January 1997, Ms. Hogan served as Senior Vice President of Preferred Stock Origination, and previously Vice President of New Product Development, at Lehman Brothers Holdings Inc.

Robert F. Wulf In addition to his tenure as a Director of the Funds, Mr. Wulf has worked as a financial consultant for over 26 years. Mr. Wulf also serves as a board member of two non-profit organizations.

Board Composition and Leadership Structure

The 1940 Act requires that at least 40% of the Funds' Directors not be interested persons (as defined in the 1940 Act) of the Funds, and therefore not affiliated with Flaherty & Crumrine (Independent Directors). To rely on certain exemptive rules under the 1940 Act, a majority of the Funds' Directors must be Independent Directors and, for certain important matters, such as the approval of investment advisory agreements or transactions with affiliates, the 1940 Act or the rules thereunder require the approval of a majority of the Independent Directors. Currently, four of the Funds' five Directors are Independent Directors. The Chairman of the Boards is an interested person of the Funds. The four Independent Directors interact directly with the Chairman and other senior management of Flaherty & Crumrine at scheduled meetings and between meetings as appropriate. Independent Directors have been designated to chair the Audit Committee and the Nominating and Corporate Governance Committee, and the Independent Directors rotate the responsibility for chairing meetings of Independent Directors. In addition, from time to time one or more Independent Directors may be designated, formally or informally, to take the lead in addressing with management or their independent legal counsel matters or issues of concern to the Boards. As a result, the Boards have determined that their leadership structures, in which no individual Independent Director has been designated to lead all the Independent Directors, are appropriate in light of the Boards' size and the cooperative and dynamic working relationship among the Independent Directors and the Independent Directors' open lines of communication with Fund management. The Boards have determined that their leadership structures, in which the Chairman of the Boards is an interested person of the Funds and 80% of the Directors are Independent Directors, are appropriate in light of the services that Flaherty & Crumrine provides to the Funds and potential conflicts of interest that could arise from these relationships.

Boards' Oversight Role in Management

The Boards' role in management of the Funds is oversight. As is the case with virtually all investment companies (as distinguished from operating companies), service providers to the Funds, primarily Flaherty & Crumrine, have responsibility for the day-to-day management of the Funds, which includes responsibility for risk management (including management of investment performance and investment risk, valuation risk, issuer and counterparty credit risk, compliance risk and operational risk). As part of its oversight, the Boards, acting at their scheduled meetings, or the Chairman, acting between Board meetings, regularly interacts with and receives reports from senior personnel of service providers, including the Funds' and Flaherty & Crumrine's Chief Compliance Officer and portfolio management personnel. The Boards' Audit Committees (which consist of all the Independent Director) meet during

their scheduled meetings, and between meetings the Audit Committee chairs maintain contact, with the Funds independent registered public accounting firm and the Funds Chief Financial Officer. The Boards also receive periodic presentations from senior personnel of Flaherty & Crumrine regarding risk management generally, as well as periodic presentations regarding specific operational, compliance or investment areas, such as business continuity, personal trading, valuation and credit. The Boards have adopted policies and procedures designed to address certain risks to the Funds. In addition, Flaherty & Crumrine and other service providers to the Funds have adopted a variety of policies, procedures and controls designed to address particular risks to the Funds.

Different processes, procedures and controls are employed with respect to different types of risks. However, it is not possible to eliminate all of the risks applicable to the Funds. The Boards also receive reports from counsel to the Funds and Flaherty & Crumrine and the Independent Directors own independent legal counsel regarding regulatory, compliance and governance matters. The Boards oversight role does not make the Boards guarantors of the Funds investments or activities.

Beneficial Ownership of Shares in Funds and Fund Complex for each Director and Nominee for Election as Director

Set forth in the table below is the dollar range of equity securities in each Fund and the aggregate dollar range of equity securities in the Flaherty & Crumrine Fund Family beneficially owned by each Director.

Name of Director or Nominee	Dollar Range of Equity Securities Held in Fund*(1)				Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies*(2)
	PFD	PFO	FFC	FLC	Total
NON-INTERESTED DIRECTORS:					
David Gale	D	D	D	D	E
Morgan Gust	D	C	C	C	E
Karen H. Hogan	B	B	B	B	C
Robert F. Wulf	C	B	C	C	D
INTERESTED DIRECTOR:					
Donald F. Crumrine	E ⁽³⁾	E ⁽³⁾	E ⁽³⁾	E ⁽³⁾	E ⁽³⁾

* Key to Dollar Ranges

- A. None
- B. \$1 - \$10,000
- C. \$10,001 - \$50,000
- D. \$50,001 - \$100,000
- E. over \$100,000

All shares were valued as of January 21, 2011.

- (1) This information has been furnished by each Director as of January 21, 2011. Beneficial Ownership is determined in accordance with Rule 16a-1(a)(2) under the 1934 Act.
- (2) The Directors, Nominees and executive officers of each Fund, as a group, own less than 1% of each Fund.
- (3) Includes shares of the Fund held by Flaherty & Crumrine, of which the reporting person is a shareholder and director.

Prior to January 26, 2010, each Director of each Fund who is not a director, officer or employee of Flaherty & Crumrine or any of its affiliates received from each Fund a fee of \$9,000 per annum plus \$500 for each in-person meeting attended, and \$150 for each telephone meeting attended. In addition, prior to February 1, 2010, the Audit Committee Chairman received from each Fund an annual fee of \$2,500. As of January 26, 2010, each Director of each Fund who is not a director, officer or employee of Flaherty & Crumrine or any of its affiliates receives from each Fund a fee of \$9,000 per annum plus \$750 for each in-person meeting attended, and \$250 for each telephone meeting attended. In addition, as of February 1, 2010, the Audit Committee Chairman receives from each Fund an annual fee of \$3,000. Each Director of each Fund is reimbursed for travel and out-of-pocket expenses associated with attending Board and committee meetings. During the fiscal year ended November 30, 2010, the Board of Directors held seven meetings for PFD (three of which were held by telephone conference call), seven meetings for PFO (three of which were held by telephone conference call), six meetings for FFC (two of which were held by telephone conference call) and six meetings for FLC (two of which were held by telephone conference call). Each Director of each Fund attended at least 75% of the meetings of Directors and of any Committee of which he or she is

a member. The aggregate remuneration paid to the Directors of each Fund for the fiscal year ended November 30, 2010 is set forth below:

	Annual Director Fees	Board Meeting and Committee Meeting Fees	Travel and Out-of-Pocket Expenses*
PFD	\$36,000	\$32,167	\$2,716
PFO	\$36,000	\$32,167	\$2,716
FFC	\$36,000	\$31,567	\$2,716
FLC	\$36,000	\$31,567	\$2,716

* Includes reimbursement for travel and out-of-pocket expenses for both interested and Independent Directors.

Officers of the Funds

The following table provides information concerning each of the officers of the Funds.

Name, Address and Age	Current Position(s) Held with Funds	Term of Office and Length of Time Served**	Principal Occupation During Past Five Years
Robert M. Ettinger 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 52	President	PFD since 2002 PFO since 2002 FFC since inception FLC since inception	President and Director of Flaherty & Crumrine
R. Eric Chadwick 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 35	Chief Financial Officer, Vice President and Treasurer	PFD since 2004 PFO since 2004 FFC since 2004 FLC since 2004	Director of Flaherty & Crumrine since June 2006; Vice President of Flaherty & Crumrine
Chad C. Conwell 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 38	Chief Compliance Officer, Vice President and Secretary	PFD since 2005 PFO since 2005 FFC since 2005 FLC since 2005	Chief Compliance Officer and Vice President of Flaherty & Crumrine since 2005
Linda M. Puchalski 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 54	Assistant Treasurer	PFD since 2010 PFO since 2010 FFC since 2010 FLC since 2010	Administrator of Flaherty & Crumrine Since July 2004

Bradford S. Stone 47 Maple Street Suite 403 Summit NJ 07901 Age: 51	Vice President and Assistant Treasurer	PFD since 2003 PFO since 2003 FFC since 2003 FLC since inception	Director of Flaherty & Crumrine since June 2006; Vice President of Flaherty & Crumrine
Laurie C. Lodolo 301 E. Colorado Boulevard Suite 720 Pasadena, CA 91101 Age: 47	Assistant Compliance Officer, Assistant Treasurer and Assistant Secretary	PFD since 2004 PFO since 2004 FFC since 2004 FLC since 2004	Assistant Compliance Officer and Secretary of Flaherty & Crumrine

Audit Committee Report

The role of each Fund's Audit Committee is to assist the Board of Directors in its oversight of: (i) the integrity of each Fund's financial statements and the independent audit thereof; (ii) each Fund's accounting and financial reporting policies and practices, its internal controls and, as appropriate, the internal controls of certain service providers; (iii) each Fund's compliance with legal and regulatory requirements; and (iv) the independent auditor's qualifications, independence and performance. Each Fund's Audit Committee is also required to prepare an audit committee report pursuant to the rules of the SEC for inclusion in each Fund's annual proxy statement. Each Audit Committee operates pursuant to a charter (the "Audit Committee Charter" or "Charter") that was most recently reviewed and approved by the Board of Directors of each Fund on January 25, 2011 and which is available on PFD and PFO's website at www.preferredincome.com and FFC and FLC's website at www.fcclaymore.com. As set forth in the Charter, management is responsible for the (i) preparation, presentation and integrity of each Fund's financial statements, (ii) maintenance of appropriate accounting and financial reporting principles and policies and (iii) maintenance of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Funds' independent registered public accounting firm, KPMG LLP (the "independent accountants" or "KPMG"), is responsible for planning and carrying out proper audits and reviews of each Fund's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

In performing its oversight function, at a meeting held on January 24, 2011, the Audit Committee reviewed and discussed with management of each Fund and the independent accountants, the audited financial statements of each Fund as of and for the fiscal year ended November 30, 2010, and discussed the audit of such financial statements with the independent accountants.

In addition, the Audit Committee discussed with the independent accountants the accounting principles applied by each Fund and such other matters brought to the attention of the Audit Committee by the independent accountants required by Statement of Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU Section 380), as adopted by the Public Accounting Oversight Board in Rule 3200T. The Audit Committee also received from the independent accountants the written disclosures and statements required by the SEC's independence rules, delineating relationships between the independent accountants and each Fund and discussed the impact that any such relationships might have on the objectivity and independence of the independent accountants.

As set forth above, and as more fully set forth in each Fund's Audit Committee Charter, the Audit Committee has significant duties and powers in its oversight role with respect to the Fund's financial reporting procedures, internal control systems, and the independent audit process.

The members of the Audit Committee are not, and do not represent themselves to be, professionally engaged in the practice of auditing or accounting and are not employed by each Fund for accounting, financial management or internal control. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not provide assurance that the audit of each Fund's financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on its consideration of the audited financial statements and the discussions referred to above with management and the independent accountants, and subject to the limitations on the responsibilities and role of the Audit Committee

set forth in the Charter and those discussed above, the Audit Committee of each Fund recommended to the Board of Directors of each Fund that the audited financial statements be included in each Fund's Annual Report for the fiscal year ended November 30, 2010.

This report was submitted by the Audit Committee of each Fund's Board of Directors

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf (Chairman)

January 24, 2011

Each Audit Committee was established in accordance with Section 3(a)(58)(A) of the 1934 Act. Each Audit Committee met four times in connection with its Board of Directors' regular