

Flaherty & Crumrine/CLAYMORE PREFERRED SECURITIES INCOME FUND INC  
Form N-CSRS  
July 30, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21129

FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED  
(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720  
PASADENA, CA 91101  
(Address of principal executive offices) (Zip code)

Donald F. Crumrine  
Flaherty & Crumrine Incorporated  
301 E. Colorado Boulevard, Suite 720  
PASADENA, CA 91101  
(Name and address of agent for service)

registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: NOVEMBER 30

Date of reporting period: MAY 31, 2009

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND

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To the Shareholders of Flaherty & Crumrine/Claymore Preferred Securities Income Fund:

As can be seen in the table below, the net asset value of the Fund rose substantially during the most recent fiscal quarter. A variety of factors contributed to the strength and, despite a dramatic recovery in the prices of preferred securities, we believe the sector remains undervalued relative to other market segments.

TOTAL RETURN ON NET ASSET VALUE(1)  
FOR PERIODS ENDED MAY 31, 2009

	ACTUAL RETURNS			AVERAGE ANNUALIZED RETURNS		
	THREE MONTHS	SIX MONTHS	ONE YEAR	THREE YEARS	FIVE YEARS	LIFE OF FUND (2)
Flaherty & Crumrine/Claymore Preferred Securities Income Fund .....	46.8%	28.9%	-31.8%	-15.7%	-8.0%	-4.3%
Lipper Domestic Investment Grade Funds(3) .....	10.9%	13.5%	-5.9%	1.1%	2.6%	3.3%

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- (1) Based on monthly data provided by Lipper Inc. in each calendar month during the relevant period. Distributions are assumed to be reinvested at NAV in accordance with Lipper's practice, which differs from the methodology used in the footnotes to the financial statements.
- (2) Since inception on January 29, 2003.
- (3) Reflects the equally-weighted average performance returns of all closed-end funds in Lipper's Domestic Investment-Grade funds category in each month during the period. The category currently includes closed-end funds in the U.S. Mortgage and Corporate Debt BBB Rated sub-categories and has included other sub-categories in prior periods. Although the investment strategies used by the Fund differ significantly from the strategies used by these other fixed-income funds, the Fund seeks to accomplish a similar objective.

After several quarters of sharply declining prices, the preferred market was poised for a rebound. But even with eye-popping appreciation over the past few months, prices on the vast majority of preferred securities remain well below the highs of last year.

The state of the market appeared to hit rock bottom in early March, when the financial system was rumored to be on the brink of collapse. Since that time cooler heads have prevailed and the rumors appear to have been greatly exaggerated. Many financial companies have taken steps to strengthen their balance sheets and a few have already returned funds received from the government for emergency assistance.

We have recently watched with fascination the stunning reversal of a long-term trend. Over the past decade, large and mid-sized financial companies in need of new capital often chose to issue preferred and hybrid securities rather than sell common stock. This strategy seemed to satisfy both their common shareholders and regulators; investors, including FFC, became quite comfortable purchasing these securities. Hundreds of billions of dollars of this "senior equity" has been issued. Recently (and dramatically), the emphasis has flip-flopped, and many financial companies have been taking steps to replace

preferred securities with common stock, or have simply sold additional common stock.

These steps are very beneficial to owners of preferred securities and have been the main driver of the recent recovery in preferred prices. Prices have improved as issuers typically pay above-market levels in order to exchange a sufficient amount of preferred securities for common stock. The credit quality of preferred securities that remain outstanding improves because common stock ranks junior to preferred securities, so the more common stock a company has outstanding (relative to preferred), the greater the protection against adversity. This trend is important to the Fund, so we've posted a more detailed discussion in the "Discussion Topics" below.

The Fund's holdings in financial issuers (mostly banks and insurance companies) were responsible for much of its poor performance over the past year, and they were the primary contributors to its positive performance over this past quarter. The extraordinary steps taken by the various federal government entities appear to be helping, but the ultimate recovery of the financial sector will hinge on a broad economic recovery. We discuss the economic outlook on the Fund's website, [www.fcclaymore.com](http://www.fcclaymore.com).

We don't want to neglect the non-financial portion of the portfolio, but for most of these holdings things have been blissfully uneventful for some time. The Fund is required to maintain at least 25% of the portfolio in the utility industry, but since the industry comprises only 5% of the entire preferred universe, we tend to have greater concentrations in certain credits. By overweighting utilities, the Fund outperformed the broader preferred market when financials were collapsing, but it also meant the Fund underperformed during the past quarter. All things considered, however, utilities have been a good thing to own.

Unfortunately, the Fund does have a few investments in companies that have stopped making dividend or interest payments on their securities. These positions are identified in the portfolio listing as "non-income producing". The prices of these securities have declined to reflect the market consensus on the outlook for the issuers, and thus are fully reflected in the net asset value of the Fund. In addition, as discussed below, we take these situations into consideration when determining the amount of the Fund's monthly distribution to shareholders.

In an important development, the Fund announced recently the redemption of all remaining shares of its auction market preferred stock (AMPS), the final step in conversion of preferred stock leverage to bank debt. As discussed in the past, we have been moving in this direction for some time, but before we could redeem 100% of the AMPS, some obstacles had to be overcome. In recent days, the last of these were addressed and the new debt terms have been finalized.

Replacing AMPS with bank debt should benefit the Fund in several ways. Initially, and we expect over the long run, the bank loan will be less expensive than the AMPS. This will especially be true if (and when) short term interest rates increase. In addition, we should have greater flexibility managing assets of the Fund, and while we don't envision doing anything differently from the way we do things now, there are likely to be instances when the additional flexibility will be important.

More information is always available on the Fund's website, including discussion of many of the topics in this letter. This calendar year, we have written about preferred securities valuations, the Citicorp exchange offer, the U.S. government's Capital Assistance Plan, the results of the "stress tests" of key financial institutions and, most recently, our interest rate hedging strategy. We encourage you to visit the website at [www.fcclaymore.com](http://www.fcclaymore.com).

Sincerely,

/s/ Donald F. Crumrine  
 Donald F. Crumrine  
 Chairman of the Board

/s/ Robert M. Ettinger  
 Robert M. Ettinger  
 President

July 20, 2009

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DISCUSSION TOPICS

THE FUND'S PORTFOLIO RESULTS AND COMPONENTS OF TOTAL RETURN ON NAV

As the table below demonstrates, the preferred market performed very well during the first six months of the Fund's fiscal year ending May 31st, although the recovery didn't actually begin until early March. While no index comprehensively reflects the preferred market, Merrill Lynch publishes four different indices which attempt to measure performance of some sectors of the investment-grade preferred securities market: the Merrill Lynch 8% Capped DRD Preferred Stock Index (which includes traditional tax-advantaged preferred stocks); the Merrill Lynch 8% Capped Hybrid Preferred Securities Index (which includes fully-taxable, exchange-traded preferred securities); the Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index (which includes fully-taxable capital securities); and the Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index (which includes both tax-advantaged and taxable preferred securities with adjustable dividends). Set forth below are the six month total returns for these indices:

TOTAL RETURNS OF MERRILL LYNCH PREFERRED SECURITIES INDICES\*  
 FOR THE SIX MONTHS ENDED MAY 31, 2009

Merrill Lynch 8% Capped DRD Preferred Stock Index(SM) .....	+3.8%
Merrill Lynch 8% Capped Hybrid Preferred Securities Index(SM) .....	+12.3%
Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index(SM) ...	+17.7%
Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index(SM) ....	+31.3%

\* The Merrill Lynch 8% Capped DRD Preferred Stock Index(SM) includes investment grade preferred securities issued by both corporations and government agencies that qualify for the corporate dividend received deduction with issuer concentration capped at a maximum of 8%. The Merrill Lynch 8% Capped Hybrid Preferred Securities Index(SM) includes taxable, fixed-rate, U.S. dollar-denominated investment-grade, preferred securities listed on a U.S. exchange with issuer concentration capped at 8%. The Merrill Lynch 8% Capped Corporate U.S. Capital Securities Index(SM) includes investment grade fixed rate or fixed-to-floating rate \$1,000 par securities that receive some degree of equity credit from the rating agencies or their regulators with issuer concentration capped at a maximum

of 8%. The Merrill Lynch Adjustable Preferred Stock, 7% Constrained Index(SM) includes adjustable rate preferred securities issued by US corporations and government agencies with issuer concentration capped at a maximum of 7%. All index returns include interest and dividend income and, unlike the Fund's returns, are unmanaged and do not reflect any expenses.

As the following table demonstrates, the Fund's total return on its securities portfolio (before leverage) outperformed these indices, with the exception of the Merrill index measuring adjustable rate preferreds. However, adjustable rate preferred securities constitute only approximately 3% of the entire preferred market, about the same weighting as these securities are held in the Fund. In contrast to the experience last year, the strategy of using leverage to increase current income has magnified the positive returns over the Fund's fiscal year-to-date, and, even net of its expenses, caused the NAV of the Fund to outperform these unleveraged indices (except for adjustable rate preferreds).

The following table reflects performance of each investment tool used by the Fund to achieve its objective, namely: (a) investing in a portfolio of securities; (b) hedging that portfolio of securities against significant increases in long-term interest rates (although no hedges were in place over the Fund's fiscal year-to-date (see the following discussion on interest rate hedging)); and (c) issuing auction-rate preferred stock or utilizing debt to leverage and enhance returns to Common Stock shareholders. The table then adjusts for the

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impact of the Fund's operating expenses excluding the cost of leverage to arrive at a total return on NAV (which factors in all of these items).

COMPONENTS OF FFC'S TOTAL RETURN ON NAV  
FOR THE SIX MONTHS ENDED MAY 31, 2009

Total Return on Unleveraged Securities	
Portfolio (including principal and income) .....	+19.1%
Return from Interest Rate Hedging Strategy .....	0.0%
Impact of Leverage .....	+10.5%
Expenses .....	-0.7%
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TOTAL RETURN ON NAV .....	+28.9%

TOTAL RETURN ON MARKET PRICE OF FUND SHARES

While our focus is primarily on managing the Fund's investment portfolio, an investor's actual return is comprised of monthly dividend payments plus changes in the Fund's market price. The improvement in investor psychology impacting valuation of the Fund's securities has also favorably affected the relationship between the intrinsic value of the Fund (its NAV) and its market price. Over the Fund's fiscal year-to-date through May 31st, the excellent return on NAV plus the narrowing of the Fund's market price discount to NAV combined to produce a total return on MARKET VALUE of +32.8%. During the 2nd fiscal quarter alone, total return on MARKET VALUE was +44.3%.

FLAHERTY & CRUMRINE/CLAYMORE PREFERRED SECURITIES INCOME FUND (FFC)  
PREMIUM/DISCOUNT OF MARKET PRICE TO NAV THROUGH 6/30/2009

## (PERFORMANCE GRAPH)

Date	Prem/Disc
----	-----
1/31/2003	0.05163728
2/7/2003	0.051572327
2/14/2003	0.053451178
2/21/2003	0.051217464
2/28/2003	0.044657763
3/7/2003	0.041666667
3/14/2003	0.046346555
3/21/2003	0.052295918
3/28/2003	0.049979
4/4/2003	0.054522401
4/11/2003	0.051745898
4/18/2003	0.040867389
4/25/2003	0.028547787
5/2/2003	0.026380874
5/9/2003	0.01012966
5/16/2003	-0.015760441
5/23/2003	-0.042741625
5/30/2003	-0.023210832
6/6/2003	-0.024504084
6/13/2003	-0.041221374
6/20/2003	-0.013586957
6/27/2003	-0.005076142
7/4/2003	0.002740799
7/11/2003	0.001183432
7/18/2003	0.001592991
7/25/2003	-0.002
8/1/2003	-0.004
8/8/2003	0.007272727
8/15/2003	-0.004008016
8/22/2003	-0.003990423
8/29/2003	-0.002773376
9/5/2003	-0.001988862
9/12/2003	-0.007911392
9/19/2003	-0.020678892
9/26/2003	-0.022806339
10/3/2003	-0.010861133
10/10/2003	0.004705882
10/17/2003	0.011705033
10/24/2003	0.012066952
10/31/2003	0.010497667
11/7/2003	0.043065982
11/14/2003	0.022550544
11/21/2003	0.010046368
11/28/2003	0.035742036
12/5/2003	0.025404157
12/12/2003	0.071227364
12/19/2003	0.062301587
12/26/2003	0.067776457
1/2/2004	0.073170732
1/9/2004	0.053003534
1/16/2004	0.051401869
1/23/2004	0.051191872
1/30/2004	0.046292664
2/6/2004	0.058039216

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2/13/2004	0.056360078
2/20/2004	0.061119874
2/27/2004	0.057008981
3/5/2004	0.049922601
3/12/2004	0.054116738
3/19/2004	0.063608327
3/26/2004	0.083951581
4/2/2004	0.075620323
4/9/2004	0.054653465
4/16/2004	0.038507822
4/23/2004	-0.003667482
4/30/2004	-0.00163332
5/7/2004	-0.008431703
5/14/2004	0.024070946
5/21/2004	0.003781513
5/28/2004	0.020416667
6/4/2004	0.016666667
6/11/2004	0.020929259
6/18/2004	0.015513627
6/25/2004	0.00295733
7/2/2004	0.014333895
7/9/2004	0.01888376
7/16/2004	0.024471174
7/23/2004	0.018867925
7/30/2004	0.03394803
8/6/2004	0.03327787
8/13/2004	0.036039768
8/20/2004	0.036636137
8/27/2004	0.045624222
9/3/2004	0.046511628
9/10/2004	0.043174342
9/17/2004	0.034623218
9/24/2004	0.025162338
10/1/2004	0.041495481
10/8/2004	0.049448304
10/15/2004	0.051731161
10/22/2004	0.047247329
10/29/2004	0.060705496
11/5/2004	0.043978627
11/12/2004	0.056239737
11/19/2004	0.064197531
11/26/2004	0.063218391
12/3/2004	0.037860082
12/10/2004	0.032179226
12/17/2004	0.032179226
12/24/2004	0.055349029
12/31/2004	0.069078947
1/7/2005	0.063197026
1/14/2005	0.042622951
1/21/2005	0.042247744
1/28/2005	0.035962403
2/4/2005	0.052419355
2/11/2005	0.034315704
2/18/2005	0.034398034
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6/3/2005	-0.037052456
6/10/2005	-0.023819473
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6/24/2005	-0.034280936
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8/12/2005	-0.007569386
8/19/2005	-0.018082422
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2/27/2009	-0.065620542
3/6/2009	-0.20722135
3/13/2009	-0.105990783
3/20/2009	-0.154639175
3/27/2009	-0.083451202
3/31/2009	-0.107391911
4/3/2009	-0.045454545
4/9/2009	-0.045333333
4/17/2009	-0.019035533
4/24/2009	-0.056410256
5/1/2009	-0.04040404
5/8/2009	-0.068287037
5/15/2009	-0.063063063
5/22/2009	-0.076586433
5/29/2009	-0.081218274
6/5/2009	0.001978239
6/12/2009	-0.021093001
6/19/2009	-0.015444015
6/26/2009	-0.00286533
6/30/2009	0.00191022

Even following the recovery over the past several months in both the Fund's NAV and market price, as of June 30th the Fund still returns a high current yield based on market price of 13.0%.

MONTHLY DISTRIBUTIONS TO FUND SHAREHOLDERS

The monthly distribution paid to shareholders is intended to reflect current market conditions, but we also must make assumptions about the future. We begin with an estimate of the sustainable income generated from the investment portfolio, and end with a forecast of expenses. While it sounds simple, in periods of rapid change, forecasting income and expenses becomes more art than science. There are always a lot of moving parts when the Fund sets the monthly distribution, and the present is no different.

With regard to income earned by the Fund, the financial crisis has claimed many victims and there are now a few holdings in the Fund's portfolio that are not presently making dividend or interest payments. These are identified as "non-income producing" in the portfolio listing that follows. If these companies

are not able to resolve their present difficulties, they are unlikely to resume making distributions. We are monitoring these situations very closely and will make adjustments as necessary. Because these non-income producing holdings have already fallen in price to nominal values, the risk to NAV from holding them is minimal.

In addition, some distributions received by the Fund may be classified as "return of capital". This is an accounting concept that results when an issuer has sufficient funds to make dividend payments, but its retained earnings balance is less than the amount distributed. In such instances, the Fund receives payment, but it must be treated differently from other distributions by both the Fund and Fund shareholders.

On the plus side, we expect the steps being taken to replace the remaining auction market preferred stock with a bank loan will reduce the expense incurred by the Fund on its leverage. Following is a discussion of the Fund's leverage. Terms of the bank loan are described in footnote 7 of the financial statements.

#### THE FUND'S LEVERAGE

As we've discussed in prior reports, collapse of the auction preferred stock market in February 2008 caused the Fund's outstanding auction market preferred stock (AMPS) to reset at relatively high "maximum rates." As a result, the Fund has since sought reasonable alternatives to its use of auction market preferred stock for leverage. While the Fund was able to replace the majority of its AMPS with debt about a year ago, it still sourced a portion of its leverage from AMPS. Only recently has the Fund been able to overcome two significant hurdles to refinancing all its remaining AMPS.

The Investment Company Act of 1940 presented the first hurdle for the Fund. The Investment Company Act only requires the Fund to have 200% asset coverage for its outstanding preferred stock. In other words, the Fund must have \$2 in assets for every \$1 of AMPS outstanding. For much of the Fund's history, it comfortably had preferred asset coverage well in excess of 200%. For debt, however, the Fund must have 300% asset coverage - \$3 in assets for every \$1 borrowed.

Unprecedented market conditions in the past year made it very difficult to maintain even 200% asset coverage, let alone the 300% for borrowed money. As a result, in October 2008, the Fund applied for exemptive relief from the Securities and Exchange Commission to allow it to use debt to refinance its then-outstanding AMPS that would only be subject to a 200% asset coverage requirement. After several revisions to the Fund's application, on June 1st the Fund finally received SEC exemptive relief that allows 200% asset coverage on this refinancing debt. Importantly, though, this relief only lasts until October 31, 2010. By that date, the Fund must have 300% asset coverage whenever it borrows money.

The other hurdle, of course, came from finding a loan on terms sufficiently reasonable to make sense for the Fund's common stock shareholders. Like any other borrower during the financial crisis, it took a little bit of time to obtain this financing. Happily, with the exemptive relief now in hand, on June 26th, the Fund was

able to announce that it had secured this funding and that it could now redeem all outstanding AMPS.

The recent recovery in the Fund's portfolio has helped the Fund significantly improve its asset coverage. As of June 30th, the Fund's leverage (both preferred and debt) had asset coverage of 298%. It is important to note that refinancing the Fund's source of leverage does not affect the dollar amount of leverage used by the Fund. In other words, leverage will continue to provide a similar impact (whether positive or negative) to the Fund's common shareholders as it has in prior periods.

#### PREFERRED MARKET CONDITIONS

The preferred securities market has recovered significantly over the past several months, as the financial market's concern about broad nationalization of the U.S. banking system has abated and the pace of economic deterioration has moderated. With preferred securities priced in early March for a much worse experience than existed during the Great Depression, even a difficult recession looked pretty good.

A critical factor in the preferred market's improvement has been a meaningful shift in the role of preferred stock and hybrid securities in the capital structure of banks and financial companies. We anticipate these changes will have a long-term positive impact on the preferred market, even though we may encounter further uncertainty before it all plays out.

Falling between debt and equity on a company's balance sheet, preferred securities have long been used as an effective way for companies to get some of the benefits of common equity without diluting the interests of their common stock shareholders. In the years leading up to the financial crisis, the portion of overall capital comprised of preferred securities increased substantially, often as a means to finance common stock repurchases. Compared to ten years ago, the balance sheet of a typical bank, insurance or finance company has become more skewed toward preferred securities and less toward common stock. This emphasis on preferred over common was supported by regulators and rating agencies alike. Preferred capital increased still further when the federal government decided to inject capital into troubled banks and insurance companies. (Although, while it did so through investment in preferred securities, these securities rank at a level JUNIOR to existing taxable preferreds and PARI PASSU (or equal to) existing traditional preferred stocks.)

As we have discussed in recent letters, three factors - excess supply, deleveraging and credit deterioration - were primarily responsible for the steep drop in prices of preferred securities. But many preferred prices became so distressed that companies realized if they issued common stock and used the proceeds to PURCHASE their own preferred securities at deep discounts to par, they could simultaneously reduce their dividend expense and increase their common equity ratio.

Some companies executed this recapitalization formally via public offers to exchange preferred shares into common stock, which directly adds to common equity. Other companies simply purchased preferred shares in the open market; the discount to par is booked as a gain, which adds to earnings and thus to common equity. In either event, these efforts were done at substantial premiums to the previously existing market prices for their preferreds, giving a major boost to the preferred market. In addition, by adding to common equity and reducing preferreds on the balance sheet, these companies improved the creditworthiness of their remaining preferred securities, which has aided investor confidence tremendously. As confidence has re-emerged, other investors have waded back in, reinforcing these higher preferred prices.

In another sign of life in the preferred market, a few new issues have been brought to market in recent weeks. The new deals have been structured to attract non-institutional investors (\$25 par value and listed on the NYSE), and have been met with healthy demand.

We still expect some bumps in the road. The economy remains weak and there are plenty of troubled loans to work out. In addition, although the preferred exchanges and buybacks have been beneficial for the market, virtually all of them have been done at discounts to par value. However, we think the crisis phase of the market has passed, and investors should begin to refocus on individual credits rather than worry about the solvency of the financial system as a whole.

#### IMPACT ON THE FUND OF RATING AGENCY DOWNGRADES OF PREFERRED SECURITIES

As the financial crisis intensified, the three primary credit rating agencies - Moody's Investors Service, Standard and Poor's, and Fitch Ratings - downgraded many preferred securities, with some falling from investment grade to below investment grade. Not surprisingly, these downgrades have been concentrated among financial issuers, but utilities and other industries also have seen downgrades. Upgrades have been few and far between. In most cases, we agreed with the direction of the rating actions early in the crisis. Financial institutions faced unprecedented risks as the financial crisis unfolded, and those risks needed to be reflected in issuers' ratings, although we think preferred ratings were sometimes reduced to levels that were inconsistent with their senior and subordinated debt ratings. We have been more baffled by some recent downgrades, however, given brightening economic prospects, much improved money and credit markets, and strengthened capital positions at many (though not all) financial institutions.

Regardless of our own views, the rating agencies still matter in the management of the Fund, so it's worth taking a moment to understand how these rating actions affect it. First, and perhaps most obviously, the price of a preferred tends to fall, if only temporarily, when it is downgraded. This affects NAV, of course, but it also affects the Fund's leverage ratio. If many of the Fund's holdings decline in value, the Fund may (and at several points over the past nine months, did) need to sell securities in order to reduce leverage, typically resulting in a loss. Even if preferred prices subsequently recover, lower leverage means that NAV will not recover to the same extent.

Second, the Fund is required to meet certain asset coverage tests, and ratings determine how much of a security's market value may be used to cover fund liabilities. If a security is downgraded, especially if it is downgraded from investment grade to below investment grade, its coverage value generally decreases (even if its price does not). At a minimum, this reduces the "excess" coverage of the Fund. If enough securities are downgraded, the Fund may have to reduce borrowings, or sell lower-rated securities and buy higher-rated ones; both probably mean lower levels of income for the Fund. Of course, we try to manage the Fund to avoid that outcome, but downgrades definitely make it more difficult.

Finally, the Fund has an investment policy that limits holdings of securities without an investment grade rating by at least one agency to 20% of total assets. The Fund is not required to sell assets if downgrades push holdings above the limit, but it cannot add to such holdings until they are again below the limit. Historically, this has not been a significant constraint on the management of the Fund. Our focus is on investment-grade issuers, and most preferreds from these issuers were rated investment grade. Recent ratings actions have pushed many preferreds below investment grade at one or more rating agencies, even when the issuer's senior debt remains solidly investment grade. For example, Moody's rates Wells Fargo senior unsecured debt A1 but its

preferred stock only Ba3, fully 8 notches lower. (This is one of those situations where we think the ratings are inconsistent: either Ba3 is too low for the preferreds or A1 is too high for the senior debt.) If the rating agencies continue to downgrade preferreds, the limit on below investment grade holdings could prevent the Fund from buying securities that it believes are attractive, which could reduce income or total return going forward.

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Although ratings actions have been overwhelmingly negative in recent quarters - and overdone in our view for many preferreds - we think the outlook is starting to improve, especially for financial institutions. As noted elsewhere in this letter, banks and insurance companies have raised a substantial amount of common equity capital over the past several months, both from common stock offerings and through preferred-to-common stock exchanges. Looking ahead, banks are going to hold thicker common equity cushions than they have historically. All of these things are positive for preferreds longer-term. While the Fund has a bit less maneuvering room than normal due to rating agency downgrades, we do not think those actions will have a substantial impact on the ability of the Fund to meet its objectives.

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OVERVIEW  
 MAY 31, 2009 (UNAUDITED)

FUND STATISTICS ON 5/31/09  
 -----

Net Asset Value	\$	9.85
Market Price	\$	9.05
Discount		8.12%
Yield on Market Price		15.12%
Common Stock Shares Outstanding		42,628,455

MOODY'S RATINGS  
 -----

% OF PORTFOLIO  
 -----

AAA	0.5%
AA	6.5%
A	8.7%
BBB	54.8%
BB	18.8%
Below "BB"	4.5%
Not Rated	2.4%
Below Investment Grade*	16.5%

\* BELOW INVESTMENT GRADE BY BOTH MOODY'S AND S&P.

(PIE CHART)

INDUSTRY CATEGORIES -----	% OF PORTFOLIO -----
Other	5%
Banking	42%
Utilities	26%
Insurance	20%
Energy	6%
Financial Services	1%

TOP 10 HOLDINGS BY ISSUER -----	% OF PORTFOLIO -----
Banco Santander	6.5%
Liberty Mutual Group	5.1%
Wells Fargo	3.9%
Puget Energy	3.7%
Capital One Financial	3.6%
Axis Capital	3.6%
PNC Financial Services	3.5%
Dominion Resources	3.4%
Peco Energy	3.2%
Wisconsin Energy	3.0%

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

-----  
 \*\* 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.

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS  
 MAY 31, 2009 (UNAUDITED)

SHARES/\$ PAR  
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PREFERRED SECURITIES -- 90.0%



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		BANKING -- 42.0%
\$	19,000,000	Astoria Capital Trust I, 9.75% 11/01/29, Series B .....
		Banco Santander:
	59,800	Adj. Rate Pfd. ....
	1,620,890	6.50% Pfd. ....
	734,697	6.80% Pfd. ....
		Bank of America Corporation:
	143,920	Adj. Rate Pfd., Series G .....
	152,000	Adj. Rate Pfd., Series 5 .....
	76,000	Fixed Income Pass-Through 2007-A, Cl. B, Adj. Rate Pfd., 144A**** .....
	4,000	Series II STRIPES Custodial Receipts, Pvt. ....
	400,000	6.25% Pfd. ....
	87,400	8.625% Pfd., Series 8 .....
\$	35,000,000	Capital One Capital III, 7.686% 08/15/36 .....
\$	35,100,000	CBG Florida REIT Corporation, 7.114%, 144A**** .....
		CIT Group, Inc.:
	30,000	5.189% Pfd., Series B .....
\$	13,685,000	6.10% 03/15/67 .....
	385,662	6.35% Pfd., Series A .....
	105,000	Cobank, ACB, 7.00% Pfd., 144A**** .....
\$	27,416,000	Comerica Capital Trust II, 6.576% 02/20/37 .....
	28,800	FBOP Corporation, Adj. Rate Pfd., 144A**** .....
\$	2,635,000	First Midwest Capital Trust I, 6.95% 12/01/33, Series B .....
	7,850	First Republic Preferred Capital Corporation, 10.50% Pfd., 144A**** .....
	4,000	First Tennessee Bank, Adj. Rate Pfd., 144A**** .....
\$	1,950,000	First Tennessee Capital I, 8.07% 01/06/27, Series A .....
	6	FT Real Estate Securities Company, 9.50% Pfd., 144A**** .....
		Goldman Sachs:
	85,230	Cabco Trust Capital I, Adj. Rate Pfd. 02/15/34 .....
\$	5,800,000	Capital II, 5.793% .....
	3,600	STRIPES Custodial Receipts, Pvt. ....
		HSBC USA, Inc.:
	264,000	Adj. Rate Pfd., Series G .....
	632,000	Adj. Rate Pfd., Series D .....
	617,000	Keycorp Capital IX, 6.75% Pfd. 12/15/66 .....
\$	38,000,000	Lloyds Banking Group PLC, 6.657%, 144A**** .....

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 MAY 31, 2009 (UNAUDITED)

SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)

		BANKING -- (CONTINUED)
\$	13,825,000	National City Preferred Capital Trust I, 12.00% .....
	295,000	PFGI Capital Corporation, 7.75% Pfd. ....
	164,520	PNC Financial Services, 9.875% Pfd., Series F .....
\$	5,000,000	Regions Financing Trust II, 6.625% 05/15/47 .....
	493,425	Sovereign Bancorp, 7.30% Pfd., Series C .....
	170,500	Sovereign Capital Trust V, 7.75% Pfd. 05/22/36 .....

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	7,691	Sovereign REIT, 12.00% Pfd., Series A, 144A****	.....
		U.S. Bancorp, Auction Pass-Through Trust, Cl. B:	
	65	Series 2006-5, Variable Rate Pfd., 144A****	.....
	65	Series 2006-6, Variable Rate Pfd., 144A****	.....
	60	Union Planters Preferred Funding, 7.75% Pfd., Series 144A****	.....
	1,369,600	Wachovia Preferred Funding, 7.25% Pfd., Series A	.....
		Washington Mutual:	
\$	2,100,000	Preferred Funding IV, 9.75%, 144A****	.....
\$	10,050,000	Preferred Funding, 6.534%, 144A****	.....
\$	11,067,000	Webster Capital Trust IV, 7.65% 06/15/37	.....
		 FINANCIAL SERVICES -- 0.6%	
\$	7,000,000	Gulf Stream-Compass 2005 Composite Notes, 144A****	.....
		Lehman Brothers Holdings, Inc.:	
	34,000	5.67% Pfd., Series D	.....
	471,500	7.95% Pfd.	.....
	20,000	Lehman Capital Trust III, 6.375% Pfd., Series K	.....
\$	10,000,000	RACERS(R) Series 2005 AMMC V Trust, 144A****	.....
		 INSURANCE -- 17.0%	
		Arch Capital Group Ltd.:	
	113,350	7.875% Pfd., Series B	.....
	90,721	8.00% Pfd., Series A	.....
		AXA SA:	
\$	2,000,000	6.463%, 144A****	.....
\$	2,000,000	6.379%, 144A****	.....

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 MAY 31, 2009 (UNAUDITED)

SHARES/\$ PAR  
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PREFERRED SECURITIES -- (CONTINUED)

INSURANCE -- (CONTINUED)

Axis Capital Holdings:

	207,900	7.25% Pfd., Series A	.....
	281,505	7.50% Pfd., Series B	.....
	37,000	Corts Provident Financing Trust I, 8.50% Pfd.	.....
	558,000	Delphi Financial Group, 7.376% Pfd. 05/15/37	.....
\$	18,041,000	Everest Re Holdings, 6.60% 05/15/37	.....
\$	6,650,000	Great West Life & Annuity Insurance, 7.153% 05/16/46, 144A****	.....
		Liberty Mutual Group:	
\$	26,200,000	7.80% 03/15/37, 144A****	.....
\$	7,600,000	10.75% 06/15/58, 144A****	.....
\$	8,465,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	.....
		Renaissancere Holdings Ltd.:	

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	120,300	6.08% Pfd., Series C .....
	311,300	6.60% Pfd., Series D .....
	82,235	7.30% Pfd., Series B .....
	407,200	Scottish Re Group Ltd., 7.25% Pfd. ....
\$	7,425,000	USF&G Capital, 8.312% 07/01/46, 144A**** .....
\$	13,000,000	USF&G Capital I, 8.50% 12/15/45, 144A**** .....
\$	6,400,000	ZFS Finance USA Trust V, 6.50% 05/09/37, 144A**** .....

		UTILITIES -- 24.1%
	10,000	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 .....
	328,179	Calenergy Capital Trust III, 6.50% Pfd. 09/01/27 .....
	35,000	Central Maine Power, 5.25% Pfd., Pvt. ....
\$	17,645,000	COMED Financing III, 6.35% 03/15/33 .....
\$	15,675,000	Dominion Resources Capital Trust I, 7.83% 12/01/27 .....
\$	11,000,000	Dominion Resources, Inc., 7.50% .....
	131,000	Entergy Arkansas, Inc., 6.45% Pfd. ....
	63,184	FPC Capital I, 7.10% Pfd., Series A .....
	130,140	Georgia Power Company, 6.50% Pfd., Series 07-A .....
	119,805	Indianapolis Power & Light Company, 5.65% Pfd. ....
\$	2,386,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D .....
\$	27,000,000	PECO Energy Capital Trust IV, 5.75% 06/15/33 .....
\$	35,000,000	Puget Sound Energy, Inc., 6.974% 06/01/67 .....

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 MAY 31, 2009 (UNAUDITED)

SHARES/\$ PAR  
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		PREFERRED SECURITIES -- (CONTINUED)
		UTILITIES -- (CONTINUED)
		Southern California Edison:
	74,235	6.00% Pfd., Series C .....
	42,615	6.125% Pfd. ....
\$	12,950,000	Southern Union Company, 7.20% 11/01/66 .....
\$	4,200,000	Union Electric Company, 7.69% 12/15/36, Series A .....
\$	26,500,000	Wisconsin Energy Corporation, 6.25% 05/15/67 .....
		ENERGY -- 4.9%
\$	24,360,000	Enbridge Energy Partners LP, 8.05% 10/01/37 .....
\$	22,000,000	Enterprise Products Partners, 7.034% 01/15/68 .....
		MISCELLANEOUS INDUSTRIES -- 1.4%
	112,750	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** .....
\$	2,970,000	Stanley Works, 5.902% 12/01/45 .....

TOTAL PREFERRED SECURITIES	
(Cost \$901,800,101) .....	
CORPORATE DEBT SECURITIES -- 6.1%	
FINANCIAL SERVICES -- 0.1%	
\$ 4,726,012	Lehman Brothers, Guaranteed Note, Variable Rate, 12/16/16, 144A**** .....
INSURANCE -- 2.6%	
\$ 26,546,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** .....
\$ 2,000,000	UnumProvident Corporation, 7.25% 03/15/28, Senior Notes .....

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 MAY 31, 2009 (UNAUDITED)

SHARES/\$ PAR	
-----	
CORPORATE DEBT SECURITIES -- (CONTINUED)	
UTILITIES -- 1.5%	
Southern Union Company:	
\$ 5,300,000	7.60% 02/01/24, Senior Notes .....
\$ 6,047,000	8.25% 11/15/29, Senior Notes .....
ENERGY -- 1.0%	
\$ 8,500,000	Noble Energy, Inc., 7.25% 08/01/97 .....
REAL ESTATE INVESTMENT TRUST (REIT) -- 0.3%	
\$ 3,500,000	Realty Income Corporation, 5.875% 03/15/35 .....
MISCELLANEOUS INDUSTRIES -- 0.6%	
16,500	Corp-Backed Trust Certificates, 7.00% 11/15/28, Series Sprint .....
Pulte Homes, Inc.:	
58,240	7.375% 06/01/46 .....
\$ 3,550,000	7.875% 06/15/32 .....

TOTAL CORPORATE DEBT SECURITIES	
	(Cost \$62,348,132) .....
MONEY MARKET FUND -- 2.2%	
13,927,233	BlackRock Provident Institutional, T-Fund
TOTAL MONEY MARKET FUND	
	(Cost \$13,927,233) .....

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 PORTFOLIO OF INVESTMENTS (CONTINUED)  
 MAY 31, 2009 (UNAUDITED)

TOTAL INVESTMENTS (Cost \$978,075,466***) .....	9
OTHER ASSETS AND LIABILITIES (Net) .....	---
NET ASSETS BEFORE LOAN AND AMPS .....	10
LOAN PRINCIPAL BALANCE .....	---
AUCTION MARKET PREFERRED STOCK (AMPS) REDEMPTION VALUE .....	---
TOTAL NET ASSETS AVAILABLE TO COMMON STOCK .....	---

\* 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 May 31, 2009, these securities amounted to \$129,735,072 or 20.1% 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 \$445,180,617 at May 31, 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  
 CORTS -- Corporate-Backed Trust Securities  
 PFD. -- Preferred Securities  
 PVT. -- Private Placement Securities  
 STRIPES -- Structured Residual Interest Preferred Enhanced Securities  
 RACERS -- Restructured Asset Certificates with Enhanced Returns

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 STATEMENT OF ASSETS AND LIABILITIES  
 MAY 31, 2009 (UNAUDITED)

ASSETS:

Investments, at value (Cost \$978,075,466) .....  
 Receivable for investments sold .....  
 Dividends and interest receivable .....  
 Prepaid expenses .....  
 Total Assets .....

LIABILITIES:

Loan Payable .....	\$134,000,000
Payable for investments purchased .....	3,323,970
Dividends payable to Common Stock Shareholders .....	233,221
Investment advisory fee payable .....	239,367
Administration, Transfer Agent and Custodian fees payable .....	101,228
Servicing agent fees payable .....	43,050
Professional fees payable .....	67,486
Directors' fees payable .....	6,901
Accrued expenses and other payables .....	130,717
Accumulated undeclared distributions to Auction Market Preferred Stock Shareholders .....	58,959
Total Liabilities .....	

AUCTION MARKET PREFERRED STOCK (3,671 SHARES OUTSTANDING)

REDEMPTION VALUE .....

NET ASSETS AVAILABLE TO COMMON STOCK .....

NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Distributions in excess of net investment income .....  
 Accumulated net realized loss on investments sold .....  
 Unrealized depreciation of investments .....  
 Par value of Common Stock .....  
 Paid-in capital in excess of par value of Common Stock .....

Total Net Assets Available to Common Stock .....

NET ASSET VALUE PER SHARE OF COMMON STOCK:  
 Common Stock (42,628,455 shares outstanding) .....

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 STATEMENT OF OPERATIONS  
 FOR THE SIX MONTHS ENDED MAY 31, 2009 (UNAUDITED)

INVESTMENT INCOME:	
Dividends+	.....
Interest	.....
Total Investment Income .....	
EXPENSES:	
Investment advisory fee	..... \$ 1,378,27
Servicing agent fee	..... 242,60
Administrator's fee	..... 175,91
Auction Market Preferred Stock broker commissions and auction agent fees	..... 129,54
Professional fees	..... 92,95
Insurance expense	..... 70,44
Transfer Agent fees	..... 89,17
Directors' fees	..... 39,13
Custodian fees	..... 34,01
Compliance fees	..... 19,69
Interest expense	..... 3,707,78
Other	..... 23,24
-----	
Total Expenses	.....
NET INVESTMENT INCOME .....	
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS	
Net realized loss on investments sold during the period	.....
Change in unrealized appreciation/depreciation of investments	.....
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS .....	
DISTRIBUTIONS TO AUCTION MARKET PREFERRED STOCK SHAREHOLDERS:	
From net investment income (including changes in accumulated undeclared distributions)	.....
NET INCREASE IN NET ASSETS TO COMMON STOCK	
RESULTING FROM OPERATIONS	.....

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

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK(1)

	SIX MONTHS END MAY 31, 2009 (UNAUDITED)
	-----
OPERATIONS:	
Net investment income .....	\$ 28,566,295
Net realized loss on investments sold during the period .....	(39,490,016)
Change in net unrealized appreciation/depreciation of investments .....	105,801,907
Distributions to AMPS* Shareholders from net investment income, including changes in accumulated undeclared distributions .....	(1,324,916)
NET INCREASE/(DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS .....	93,553,270
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders(1) .....	(29,151,767)
TOTAL DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS .....	(29,151,767)
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan .....	217,363
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK RESULTING FROM FUND SHARE TRANSACTIONS .....	217,363
NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD .....	\$ 64,618,866 =====
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period .....	\$355,369,723
Net increase/(decrease) in net assets during the period .....	64,618,866
End of period (including distributions in excess of net investment income of \$(3,270,818) and \$(1,360,430), respectively) .....	\$419,988,589 =====

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\* Auction Market Preferred Stock.

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

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



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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 STATEMENT OF CASH FLOWS  
 FOR THE SIX MONTHS ENDED MAY 31, 2009 (UNAUDITED)

INCREASE/(DECREASE) IN CASH	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations .....	\$ 93,553,270
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING	
FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:	
Purchase of investment securities .....	(42,582,065)
Proceeds from disposition of investment securities .....	83,038,252
Purchase of short-term investment securities, net .....	(11,890,904)
Return of capital received from investments in preferred stocks .....	796,555
Decrease in dividends and interest receivable .....	1,562,944
Decrease in receivable for investments sold .....	22,366,134
Increase in Prepaid expenses .....	(94,591)
Net amortization/(accretion) of premium/(discount) .....	278,982
Increase in payable for investments purchased .....	3,323,970
Decrease in accrued expenses and other liabilities .....	(93,193)
Unrealized appreciation/depreciation on securities .....	(105,801,907)
Net realized loss from investments .....	39,490,016
	-----
Net cash flow provided in operating activities .....	83,947,463
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Decrease in Loan payable .....	(55,000,000)
Proceeds from shares reinvested .....	217,363
Increase in payable for AMPS .....	4,320
Decrease in dividend payable to common stock shareholders .....	(17,379)
Distributions to common stock shareholders from net investment income .....	(29,151,767)
	-----
Net cash used by financing activities .....	(83,947,463)
	-----
Net increase/(decrease) in cash .....	--
CASH:	
Beginning of the period .....	--
	-----
End of the period .....	\$ --
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid during the period .....	3,808,548
	-----

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 FINANCIAL HIGHLIGHTS  
 FOR A COMMON STOCK SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

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

	SIX MONTHS ENDED MAY 31, 2009 (UNAUDITED)	2008	2007	YEAR END
PER SHARE OPERATING PERFORMANCE:				
Net asset value, beginning of period .....	\$ 8.34	\$ 19.28	\$ 23.45	\$
INVESTMENT OPERATIONS:				
Net investment income .....	0.67	1.97	2.24	
Net realized and unrealized gain/(loss) on investments .....	1.55	(10.91)	(4.20)	
DISTRIBUTIONS TO AMPS* SHAREHOLDERS:				
From net investment income .....	(0.03)	(0.40)	(0.68)	
Total from investment operations .....	2.19	(9.34)	(2.64)	
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:				
From net investment income .....	(0.68)	(1.60)	(1.53)	
From return of capital .....	--	--	--	
From net realized capital gains .....	--	--	--	
Total distributions to Common Stock Shareholders .....	(0.68)	(1.60)	(1.53)	
Net asset value, end of period .....	\$ 9.85	\$ 8.34	\$ 19.28	\$
Market value, end of period .....	\$ 9.05	\$ 7.45	\$ 17.17	\$
Total investment return based on net asset value** ....	29.13%***	(50.63%)	(11.33%)	
Total investment return based on market value ** .....	32.82%***	(50.48%)	(15.40%)	
RATIOS TO AVERAGE NET ASSETS AVAILABLE				
TO COMMON STOCK SHAREHOLDERS:				
Total net assets, end of period (in 000's) .....	\$419,989	\$355,370	\$ 821,177	\$
Operating expenses including interest expense(2) .....	3.51%***	2.39%	--	
Operating expenses excluding interest expense ...	1.34%***	1.49%	1.18%	
Net investment income + .....	15.92%***	10.28%	7.05%	
SUPPLEMENTAL DATA:++				
Portfolio turnover rate .....	7%***	43%	60%	
Total net investments, end of period (in 000's) .....	\$645,764	\$636,145	\$1,363,177	\$1
Ratio of operating expenses including interest expense(2) (3) to net assets before loan and AMPS .....	2.02%***	1.36%	--	
Ratio of operating expenses excluding interest expense to net assets before loan and AMPS ...	0.77%***	0.85%	0.75%	

\* Auction Market Preferred Stock.

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

\*\*\* Annualized.

\*\*\*\* Not Annualized.

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

- ++ Information presented under heading Supplemental Data includes AMPS and loan principal balance.
- (1) Return of capital applicable to 2005 only and per share amount was less than \$0.005.
- (2) See Note 7.
- (3) Does not include distributions to AMPS Shareholders.

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 FINANCIAL HIGHLIGHTS (CONTINUED)  
 PER SHARE OF COMMON STOCK (UNAUDITED)

	TOTAL DIVIDENDS PAID	NET ASSET VALUE	NYSE CLOSING PRICE	DIVIDEND REINVESTMENT PRICE (1)
	-----	-----	-----	-----
December 31, 2008 .....	\$0.1140	\$8.85	\$7.75	\$8.40
January 30, 2009 .....	0.1140	8.13	8.18	8.13
February 27, 2009 .....	0.1140	7.01	6.55	6.09
March 31, 2009 .....	0.1140	7.17	6.40	6.73
April 30, 2009 .....	0.1140	7.89	7.68	7.66
May 29, 2009 .....	0.1140	9.85	9.05	9.65

- 
- (1) Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the 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.

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

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 FINANCIAL HIGHLIGHTS (CONTINUED)

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

DATE	TOTAL SHARES OUTSTANDING (1)	ASSET COVERAGE PER SHARE (2)	INVOLUNTARY LIQUIDATION PREFERENCE PER SHARE (3)
------	---------------------------------	------------------------------------	---

05/31/09*	3,671	139,423	\$25,000
11/30/08	3,671	121,819	25,000
11/30/07	21,680	62,900	25,000
11/30/06	21,680	71,112	25,000
11/30/05	21,680	69,502	25,000
11/30/04	21,680	72,153	25,000

(1) See note 6.

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

(3) Excludes accumulated undeclared dividends.

\* Unaudited.

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated (the "Fund") was incorporated as a Maryland corporation on May 23, 2002, and commenced operations on January 31, 2003 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's investment objective is to provide its common shareholders with high current income consistent with the preservation of capital.

2. SIGNIFICANT ACCOUNTING POLICIES

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

**PORTFOLIO VALUATION:** The net asset value of the Fund's Common Stock is determined by the Fund's Administrator no less frequently than on the last business day of each week and month in accordance with the policies and procedures approved by the Board of Directors of the Fund. It is determined by dividing the value of the Fund's net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund's net assets available to Common Stock is deemed to equal the value of the Fund's total assets less (i) the Fund's liabilities and (ii) the aggregate liquidation value of its Auction Market Preferred Stock ("AMPS").

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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

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 May 31, 2009 is as follows:

VALUATION INPUTS -----	INVESTMENTS IN SECURITIES (MARKET VALUE) -----	OTHER FINANCIAL INSTRUMENTS (UNREALIZED APPRECIATION/ DEPRECIATION) * -----
Level 1 - Quoted Prices .....	\$167,788,609	\$--
Level 2 - Other Significant Observable Inputs ....	465,839,201	--
Level 3 - Significant Unobservable Inputs .....	897,454	--
	-----	---
TOTAL .....	\$634,525,264	\$--

\* 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 May 31, 2009, the Fund does not have any other financial instruments.

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
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 IN SECURITIES (MARKET VALUE) -----	OTHER FINANCIAL INSTRUMENTS (UNREALIZED APPRECIATION/ DEPRECIATION) -----
BALANCE AS OF 11/30/08 .....	\$ 6,983,076	\$--
Accrued discounts/premiums .....	--	--
Realized gain (loss) .....	--	--
Change in unrealized appreciation (depreciation) .....	(2,599,644)	--
Net purchases (sales) .....	--	--
Transfers in and/or out of Level 3 .....	(3,485,978)	--
	-----	---
BALANCE AS OF 05/31/09 .....	\$ 897,454	\$--

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

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 161: In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is effective for fiscal years and interim periods beginning after November 15,

2008. SFAS 161 requires enhanced disclosures about the Fund's derivative and hedging activities. The Fund has adopted SFAS 161 as of December 1, 2008. For the six months ended May 31, 2009, the Fund did not hold or transact in any derivatives.

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

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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

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

**FEDERAL INCOME TAXES:** The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no federal income tax provision will be required.

In June 2006, the FASB issued FASB Interpretation 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained upon challenge by the

taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. FIN 48 became effective as of the beginning of the first fiscal year beginning after December 15, 2006, with early application permitted if no interim financial statements have been issued. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. The tax periods open to examination by the Internal Revenue Service include the fiscal years ended November 30, 2008, 2007, 2006 and 2005. The Fund's major tax jurisdictions are federal and California. As of May 31, 2009, the Fund has evaluated the adoption of FIN 48 and determined that there is no material impact on the financial statements.

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

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
 NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from US GAAP. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes and may exclude amortization of premium on certain fixed income securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid, including changes in accumulated undeclared distributions to AMPS Shareholders, during 2009 and 2008 were as follows:

	DISTRIBUTIONS PAID IN FISCAL YEAR 2009		DISTRIBUTIONS PAID IN FISCAL YEAR 2008	
	ORDINARY INCOME	LONG-TERM CAPITAL GAINS	ORDINARY INCOME	LONG-TERM CAPITAL GAINS
Common	N/A	N/A	\$68,354,458	\$0
Preferred	N/A	N/A	\$17,097,743	\$0



As of November 30, 2008, the components of distributable earnings (i.e., ordinary income and capital gain/loss) available to Common and Preferred Stock shareholders, on a tax basis, were as follows:

CAPITAL (LOSS) CARRYFORWARD	UNDISTRIBUTED ORDINARY INCOME	UNDISTRIBUTED LONG-TERM GAIN	NET UNREALIZED APPRECIATION/(DEPRECIATION)
-----	-----	-----	-----
(\$202,865,050)	\$1,171,278	\$0	(\$451,977,935)

At November 30, 2008, the composition of the Fund's \$202,865,050 accumulated realized capital losses was \$39,515,188, \$17,502,863, \$19,167,841 and \$126,679,158 incurred in 2004, 2005, 2007 and 2008, respectively. These losses may be carried forward and offset against any future capital gains through 2012, 2013, 2015 and 2016, respectively.

**EXCISE TAX:** The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and its capital gains (both long-term and short-term) for its fiscal year and (2) certain undistributed amounts from previous years.

**ADDITIONAL ACCOUNTING STANDARDS:** In April 2009, the FASB issued 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 clarifies the process for measuring the fair value of financial instruments when the markets become inactive and quoted prices may reflect distressed transactions. FSP 157-4 provides a non-exclusive list of factors a reporting entity should consider when determining whether there has been a significant decrease in the volume and level of activity for an asset or liability when compared with normal market activity. Under FSP 157-4, if a reporting entity concludes there has been a significant decrease in volume and level of activity for the asset or liability (or similar assets or liabilities), transactions or quoted prices may not be determinative of fair value. Further analysis of the transactions or quoted prices is

Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with FASB Statement No. 157 - Fair Value Measurements. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and must be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009 is not permitted. Management is currently evaluating the impact the adoption of FSP 157-4 will have on the Fund's financial statement disclosures.

In May 2009, the FASB issued Statement of Financial Accounting Standards No 165, "Subsequent Events" ("SFAS 165"). SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. One of the primary

objectives of this new Statement is to introduce the concept of the financial statements being available to be issued as a measurement date for evaluating subsequent events. This concept would pertain more to private companies. Entities that have an expectation of widely distributing their financial statements to shareholders, including public entities (such as the Fund), are required to evaluate subsequent events through the date that the financial statements are issued.

3. INVESTMENT ADVISORY FEE, SERVICING AGENT FEE, ADMINISTRATION FEE, TRANSFER AGENT FEE, CUSTODIAN FEE, DIRECTORS' FEES AND CHIEF COMPLIANCE OFFICER FEE

Flaherty & Crumrine Incorporated (the "Adviser") serves as the Fund's investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.525% of the first \$200 million of the Fund's average weekly total managed assets, 0.45% of the next \$300 million of the Fund's average weekly total managed assets, and 0.40% of the Fund's average weekly total managed assets above \$500 million.

For purposes of calculating the fees payable to the Adviser, Servicing Agent, Administrator and Custodian, the Fund's average weekly total managed assets means the total assets of the Fund (including any assets attributable to any Fund auction market preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage). For purposes of determining total managed assets, the liquidation preference of any preferred shares issued by the Fund is not treated as a liability.

Claymore Securities, Inc. (the "Servicing Agent") serves as the Fund's shareholder servicing agent. As compensation for its services, the Fund pays the Servicing Agent a fee computed and paid monthly at the annual rate of 0.025% of the first \$200 million of the Fund's average weekly total managed assets, 0.10% of the next \$300 million of the Fund's average weekly total managed assets and 0.15% of the Fund's average weekly total managed assets above \$500 million.

PNC Global Investment Servicing (U.S.) Inc. ("PNC") serves as the Fund's Administrator. As Administrator, PNC calculates the net asset value of the Fund's shares attributable to Common Stock and generally assists in all aspects of the Fund's administration and operation. As compensation for PNC's services as Administrator, the Fund pays PNC a monthly fee at an annual rate of 0.10% of the first \$200 million of the Fund's average weekly total managed assets, 0.04% of the next \$300 million of the Fund's average weekly total managed assets, 0.03% of the next \$500 million of the Fund's average weekly total managed assets and 0.02% of the Fund's average weekly total managed assets above \$1 billion.

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Flaherty & Crumrine/Claymore Preferred Securities Income Fund Incorporated  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

PNC also serves as the Fund's Common Stock dividend-paying agent and registrar (Transfer Agent). As compensation for PNC's services, the Fund pays PNC a fee at an annual rate of 0.02% of the first \$150 million of the Fund's average weekly net assets attributable to Common Stock, 0.0075% of the next \$350 million of the Fund's average weekly net assets attributable to Common Stock, and 0.0025% of the Fund's average weekly net assets attributable to Common Stock above \$500 million, plus certain out-of-pocket expenses. For purposes of calculating such fee, the Fund's average weekly net assets attributable to the Common Stock are deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities. For this calculation, the Fund's

liabilities are deemed to include the aggregate liquidation preference of any outstanding Fund preferred shares and the loan principal balance.

PFPC Trust Company ("PFPC Trust") serves as the Fund's Custodian. PFPC Trust is an indirect subsidiary of PNC Financial Services. As compensation for PFPC Trust's services as custodian, the Fund pays PFPC Trust a monthly fee at the annual rate of 0.010% of the first \$200 million of the Fund's average weekly total managed assets, 0.008% of the next \$300 million of the Fund's average weekly total managed assets, 0.006% of the next \$500 million of the Fund's average weekly total managed assets and 0.005% of the Fund's average weekly total managed assets above \$1 billion.

The Fund currently pays each Director who is not a director, officer or employee of the Adviser or the Servicing Agent a fee of \$9,000 per annum, plus \$500 for each in-person meeting of the Board of Directors or any committee and \$150 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of \$2,500. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

The Fund currently pays the Adviser a fee of \$37,500 per annum for Chief Compliance Officer services and reimburses out-of-pocket expenses incurred in connection with providing services in this role.

4. PURCHASES AND SALES OF SECURITIES

For the six months ended May 31, 2009, the cost of purchases and proceeds from sales of securities excluding short-term investments, aggregated \$42,582,065 and \$83,038,252, respectively.

At May 31, 2009, the aggregate cost of securities for federal income tax purposes was \$980,701,292 the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$9,906,686 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$356,082,714.

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5. COMMON STOCK

At May 31, 2009, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

Common Stock transactions were as follows:

	SIX MONTHS ENDED 05/31/09		YEAR ENDED 11/30/08	
	----- SHARES	AMOUNT -----	----- SHARES	AMOUNT -----
Shares issued under the Dividend Reinvestment and Cash Purchase Plan .....	26,736	\$217,363	--	\$--
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6. AUCTION MARKET PREFERRED STOCK (AMPS)

The Fund's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of \$0.01 par value preferred stock. The AMPS, which consists of Series M7, T7, W7, Th7, F7, T28 and W28, are senior to the Common Stock and result in the financial leveraging of the Common Stock. Such leveraging tends to magnify both the risks and opportunities to Common Stock Shareholders. Dividends on shares of AMPS are cumulative.

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

An auction of the AMPS is generally held every 7 days for Series M7, T7, W7, Th7 and F7 and every 28 days for Series T28 and W28. Existing AMPS Shareholders may submit an order to hold, bid or sell such shares at par value on each auction date. AMPS Shareholders may also trade shares in the secondary market, if any, between auction dates. Since mid-February 2008, the normal functioning of the market for auction market preferred stock of U.S. closed-end funds, including the Fund, has been disrupted, and the Fund's AMPS holders have not been able to sell their shares through the auction process.

On May 1, 2008, the Fund announced the redemption of approximately 70% of each series of its outstanding AMPS at a redemption price equal to the liquidation preference of \$25,000 per share, plus the amount of accumulated but unpaid dividends. Redemptions of 2,226 shares for each of Series T7, W7, Th7, and F7 were completed on May 21, May 22, May 23, and May 27, respectively. Redemption of 1,975 shares of Series T28 was completed on May 21, redemption of 2,226 shares of Series M7 was completed on May 27, and redemption of 1,975 shares of Series W28 was completed on June 5. Total consideration for the liquidation preference of the redemptions was \$377 million (See Note 7).

In addition to the optional redemption discussed above, the Fund announced the mandatory redemption of AMPS shares as noted in the table below. Mandatory redemptions are required under certain circumstances, as discussed above. Shares were redeemed at a redemption price equal to the liquidation

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preference of \$25,000 per share, plus the amount of accumulated but unpaid dividends for each redemption date, respectively.

DESCRIPTION	\$ AMOUNT OF AMPS	ANNOUNCEMENT DATE	PAYMENT DATE
Mandatory Redemption	\$13,875,000	October 1, 2008	October 20, 2008
Mandatory Redemption	\$11,850,000	October 7, 2008	October 27, 2008
Mandatory Redemption	\$42,050,000	October 14, 2008	November 3, 2008*

Mandatory Redemption           \$ 5,450,000           October 24, 2008   November 10, 2008\*

\* Shares were redeemed on the date reflected; however, from the Fund's perspective, all of the redemptions were effective as of October 24, 2008. The earlier effective date was due to the unconditional deposit of funds with the paying agent.

At May 31, 2009, 542 shares for each of Series M7, T7, W7, Th7 and F7, 481 shares for Series T28 and 480 shares for Series W28 of AMPS were outstanding at the annualized rate of 2.69%, 2.68%, 2.68%, 2.77%, 2.69%, 2.77% and 2.82% for Series M7, T7, W7, Th7, F7, T28 and W28, respectively. The dividend rate, as set by the auction process, is generally expected to vary with short-term interest rates. As a result of ongoing disruptions in the auction market, the Fund is paying a dividend rate equal to the maximum rate, as defined in the Fund's Articles Supplementary. The maximum rate is equal to the greater of (i) 175% of the reference rate and (ii) 2.50% plus the reference rate. "Reference Rate" means the applicable "AA" Financial Composite Commercial Paper Rate. These rates may vary in a manner unrelated to the income received on the Fund's assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Common Stock Shareholders. While the Fund expects to structure its portfolio holdings and hedging transactions to lessen such risks to Common Stock Shareholders, there can be no assurance that such results will be attained.

The Fund announced on June 26, 2009 (subsequent to the reporting period) the redemptions of 542 shares for each of Series M7, T7, W7, TH7, and F7, 481 shares of Series T28, and 480 shares of Series W28. The redemptions are expected to be, or have already been, completed on July 14, July 15, July 16, July 17, July 13, July 15, and July 30, 2009, respectively. Shares will be (or have been) redeemed at a redemption price equal to the liquidation preference of \$25,000 per share, plus the amount of accumulated but unpaid dividends. Total consideration for the liquidation preference of the redemptions will be approximately \$91.775 million. The Fund currently intends to draw on its existing debt facility to finance these redemptions. After these redemptions, borrowings from its debt facility will be the Fund's sole source of leverage (See Note 7).

#### 7. COMMITTED FINANCING AGREEMENT

The Fund entered into a committed financing agreement ("Financing Agreement") on May 1, 2008 which allows the Fund to borrow up to \$385 million on a secured basis. The primary use of the proceeds was to redeem a portion of the outstanding shares of AMPS (See Note 6), although the balance may be utilized by the Fund in the normal course of business as financial leverage. As of May 31, 2009, the amount borrowed under the Financing Agreement was \$134 million. As of June 30, 2009 (subsequent to the reporting period), the committed amount under the Financing Agreement was reduced to \$225.775 million.

Under the original terms of the Financing Agreement, the lender charged an annualized rate of 0.60% on the undrawn (committed) balance ("Commitment Fee"), and the Overnight London Interbank Offered Rate ("Overnight LIBOR") PLUS 0.70% on the drawn (borrowed) balance. The terms of the Financing Agreement were subsequently renegotiated and became effective as of October 20, 2008. Under the

new terms of the Financing Agreement, the lender charges an annualized rate of 1.00% on the undrawn (committed) balance, and Three-Month London Interbank Offered Rate - reset every three months - PLUS 1.10% on the drawn (borrowed) balance. The renegotiation of the terms of the Financing Agreement was necessitated by the violation of a net asset value covenant in the Financing Agreement by the Fund as a result of the substantial decline in the value of the Fund's assets. The renegotiation resulted in these limits being reset to then-current market levels, changes in financing rates noted above, and the establishment of a new six-month rolling term to the Financing Agreement. None of the other financial covenants or asset coverage requirements changed materially.

For the six months ending May 31, 2009, the daily weighted average annualized interest rate on the drawn balance was 2.975% and the average daily loan balance was \$160,648,352. In addition, the Fund paid the Lender an arrangement fee (at the origination of the facility on May 1, 2008) equal to 0.25% of the committed amount of \$385 million. The arrangement fee was amortized to expenses over a period of six months. LIBOR rates may vary in a manner unrelated to the income received on the Fund's assets, which could have either a beneficial or detrimental impact on net investment income and gains available to Common Stock Shareholders.

The Fund is required to meet certain asset coverage requirements under the Financing Agreement and under the 1940 Act. In accordance with the asset coverage requirements, at least two-thirds of the Fund's assets are expected to be pledged as collateral.