

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

April 29, 2013

*FLAHERTY & CRUMRINE TOTAL RETURN FUND*

To the Shareholders of Flaherty & Crumrine Total Return Fund:

The new fiscal year is off to a fine start total return on *net asset value* for the first fiscal quarter<sup>2</sup> was +4.4%. Over the same period total return based on income plus change in the Fund's *market price* was +5.1%.

With signs of economic improvement trickling in, prices on intermediate and long-term US Treasury bonds fell as much as five percent in the quarter. In contrast, prices on many preferred securities rose. Conditions in the market for preferred securities have been, and remain, positive; credit quality continues to improve, investor demand is high, and the market is shrinking.

Once again redemptions of preferred securities outpaced issuance. Since December 1, 2012, redemptions<sup>3</sup> totaled \$30.1 billion. Over the same period, \$16.8 billion of new preferred securities were brought to market. *During the past four months, the preferred securities market has shrunk by \$13.3 billion, or 3.7%.*

It is instructive to break these numbers down between bank and non-bank securities. Since December 1, 2012, redemptions of bank preferred securities have totaled \$17.6 billion, or 44% of total preferred redemptions. Since mid-March, however, bank calls have spiked and comprise over 70% of total redemptions. The pace quickened immediately after regulators announced results from their annual review of capital at large banks. So far, banks have been slow to replace preferred capital new bank issues have totaled a paltry \$3.9 billion since December<sup>1</sup> of last year.

For non-bank companies the decision to call or issue is driven primarily by economics. In the current low interest rate environment, it is often possible for issuers to achieve substantial savings by refinancing. While banks are concerned about expense reduction as well, their decisions about redemption or issuance have been driven mainly by regulatory requirements. The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by Congress in 2010, mandated new standards for the amount and form of bank capital. Under the Act, trust preferred securities are being phased out of the calculation of Tier 1 capital. New capital will be either traditional equity or non-cumulative perpetual preferred stock.

As we've discussed in the past, the wave of refinancing negatively impacts income earned from Fund investments. The current combination of high-yielding portfolio assets and low cost of Fund leverage won't last forever; we attempt to set distribution rates that reflect this situation.

Since our last letter, there have been three related changes to the Fund: a new name, a new shareholder servicing agent and a new website address at [www.preferredincome.com](http://www.preferredincome.com). We are pleased to welcome Destra Capital Investments LLC ( Destra Capital ) as the new shareholder servicing agent. In addition, the Fund changed its name to Flaherty & Crumrine Total Return Fund Incorporated . We emphasize that Flaherty & Crumrine is still the investment adviser and there has been no change in investment strategies or style.

<sup>1</sup> Following the methodology required by the SEC, total return includes income and principal change, plus the impact of the Fund's leverage and expenses.

<sup>2</sup> December 1, 2012 February 28, 2013

<sup>3</sup> Announced or implemented.

As always, we encourage you to visit the Fund's website for important information.

Sincerely,

Donald F. Crumrine  
Chairman

March 28, 2013

Robert M. Ettinger  
President

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OVERVIEW**

February 28, 2013 (Unaudited)

**Fund Statistics**

|                                 |    |           |
|---------------------------------|----|-----------|
| Net Asset Value                 | \$ | 20.58     |
| Market Price                    | \$ | 20.77     |
| Premium                         |    | 0.92%     |
| Yield on Market Price           |    | 7.86%     |
| Common Stock Shares Outstanding |    | 9,888,145 |

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

|                          |       |
|--------------------------|-------|
| A                        | 1.5%  |
| BBB                      | 59.1% |
| BB                       | 30.7% |
| Below BB                 | 2.5%  |
| Not Rated*               | 4.5%  |
| Below Investment Grade** | 22.1% |

\* Does not include net other assets and liabilities of 1.7%.

\*\* Below investment grade by all of Moody's, S&amp;P and Fitch.

**Industry Categories****% of Net Assets****Top 10 Holdings by Issuer****% of Net Assets**

|                           |      |
|---------------------------|------|
| Liberty Mutual Group      | 5.3% |
| MetLife                   | 4.2% |
| Banco Santander, S.A.     | 4.1% |
| Goldman Sachs Group       | 3.9% |
| HSBC PLC                  | 3.6% |
| Wells Fargo & Company     | 3.4% |
| Barclays Bank PLC         | 3.2% |
| Axis Capital Holdings Ltd | 3.0% |
| Unum Group                | 2.8% |

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XL Group PLC

2.7%

|   | <b>% of Net Assets***</b> |
|---|---------------------------|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals                     | 42%                       |
| Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD) | 25%                       |

\*\*\* This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.  
Net Assets includes assets attributable to the use of leverage.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

February 28, 2013 (Unaudited)

| Shares/\$ Par                          |   | Value                             |
|--|---|-----------------------------------|
| <b>Preferred Securities 86.1%</b>      |   |                                   |
| <b>Banking 33.4%</b>                   |   |                                   |
| Astoria Financial:                     |   |                                   |
| \$ 4,850,000                           | Astoria Capital Trust I, 9.75% 11/01/29, Series B                     | \$ 5,006,413 <sup>(1)(2)</sup>    |
| Banco Bilbao Vizcaya Argentaria, S.A.: |   |                                   |
| \$ 2,050,000                           | BBVA International Preferred, 5.919%                                  | 1,732,250 <sup>** (1)(2)(3)</sup> |
| Banco Santander, S.A.:                 |   |                                   |
| 439,755                                | Banco Santander, 10.50% Pfd., Series 10                               | 12,388,998 <sup>** (1)(3)</sup>   |
| Bank of America:                       |   |                                   |
| 108,000                                | Bank of America Corporation, 8.625% Pfd.                              | 2,754,000*                        |
| 25,000                                 | Countrywide Capital V, 7.00% Pfd. 11/01/36                            | 631,250                           |
| Barclays Bank PLC:                     |   |                                   |
| \$ 3,600,000                           | Barclays Bank PLC, 6.278%   | 3,530,034 <sup>** (1)(2)(3)</sup> |
| 81,750                                 | Barclays Bank PLC, 7.10% Pfd.   | 2,072,363 <sup>** (3)</sup>       |
| 8,800                                  | Barclays Bank PLC, 7.75% Pfd., Series 4                               | 223,256 <sup>** (3)</sup>         |
| 150,000                                | Barclays Bank PLC, 8.125% Pfd., Series 5                              | 3,816,000 <sup>** (1)(3)</sup>    |
| BNP Paribas:                           |   |                                   |
| \$ 3,775,000                           | BNP Paribas, 7.195%, 144A****   | 3,935,438 <sup>** (1)(2)(3)</sup> |
| Citigroup:                             |   |                                   |
| 20,000                                 | Citigroup Capital VII, 7.125% Pfd. 07/31/31                           | 508,126                           |
| 83,300                                 | Citigroup Capital XIII, 7.875% Pfd. 10/30/40                          | 2,366,245 <sup>(1)</sup>          |
| CoBank ACB:                            |   |                                   |
| 25,000                                 | CoBank ACB, 6.25% Pfd., 144A****                                      | 2,668,750*                        |
| Colonial BancGroup:                    |   |                                   |
| \$ 10,000,000                          | Colonial BancGroup, 7.114%, 144A****                                  | 15,000 <sup>(4)( 5)</sup>         |
| Cullen/Frost Bankers:                  |   |                                   |
| 43,200                                 | Cullen/Frost Bankers, Inc., 5.375% Pfd.                               | 1,071,900*                        |
| FBOP Corp:                             |   |                                   |
| 7,000                                  | FBOP Corporation, Adj. Rate Pfd., 144A****                            | 3,500 <sup>*(4)( 5)</sup>         |
| Fifth Third Bancorp:                   |   |                                   |
| \$ 2,150,000                           | Fifth Third Capital Trust IV, 6.50% 04/15/37                          | 2,160,750 <sup>(1)(2)</sup>       |
| First Horizon:                         |   |                                   |
| 875                                    | First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A**** | 646,953*                          |
| 3                                      | FT Real Estate Securities Company, 9.50% Pfd., 144A****               | 3,301,875                         |
| First Niagara Financial Group:         |   |                                   |
| 140,750                                | First Niagara Financial Group, Inc., 8.625% Pfd.                      | 4,131,364 <sup>*(1)</sup>         |
| First Republic Bank:                   |   |                                   |
| 12,137                                 | First Republic Bank, 6.70% Pfd.                                       | 332,948*                          |
| Goldman Sachs Group:                   |   |                                   |
| \$ 4,451,000                           | Goldman Sachs, Capital I, 6.345% 02/15/34                             | 4,674,534 <sup>(1)(2)</sup>       |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

| Shares/\$<br>Par                        |   | Value                          |
|---|---|--------------------------------|
| <b>Preferred Securities (Continued)</b> |   |                                |
| <b>Banking (Continued)</b>              |   |                                |
| HSBC PLC:                               |   |                                |
| \$ 2,000,000                            | HSBC Capital Funding LP, 10.176%, 144A****                              | \$ 2,805,000 <sup>(1)(3)</sup> |
| 172,000                                 | HSBC Holdings PLC, 8.00% Pfd., Series 2                                 | 4,781,858** <sup>(1)(3)</sup>  |
| \$ 200,000                              | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****                     | 204,000                        |
| \$ 275,000                              | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****                     | 280,846 <sup>(1)</sup>         |
| 19,109                                  | HSBC USA, Inc., 6.50% Pfd., Series H                                    | 492,655* <sup>(1)</sup>        |
| ING Groep NV:                           |   |                                |
| 30,000                                  | ING Groep NV, 6.375% Pfd.   | 739,500** <sup>(3)</sup>       |
| 50,000                                  | ING Groep NV, 7.05% Pfd.  | 1,268,075** <sup>(3)</sup>     |
| 31,425                                  | ING Groep NV, 7.20% Pfd.  | 796,388** <sup>(3)</sup>       |
| 30,000                                  | ING Groep NV, 7.375% Pfd.   | 764,700** <sup>(3)</sup>       |
| 9,078                                   | ING Groep NV, 8.50% Pfd.  | 235,302** <sup>(3)</sup>       |
| JPMorgan Chase:                         |   |                                |
| \$ 5,880,000                            | JPMorgan Chase & Company, 7.90%, Series 1                               | 6,812,997* <sup>(1)</sup>      |
| KeyCorp:                                |   |                                |
| 1,250                                   | KeyCorp, 7.75% Pfd., Series A   | 159,141*                       |
| Lloyds Banking Group PLC:               |   |                                |
| \$ 1,000,000                            | Lloyds Banking Group PLC, 6.657%, 144A****                              | 907,500** <sup>(3)</sup>       |
| M&T Bank Corp:                          |   |                                |
| \$ 2,700,000                            | M&T Bank Corporation, 6.875%, 144A****                                  | 2,836,747*                     |
| Morgan Stanley:                         |   |                                |
| 11,250                                  | Morgan Stanley Capital Trust VI, 6.60% Pfd. 02/01/46                    | 285,469                        |
| 7,500                                   | Morgan Stanley Capital Trust VII, 6.60% Pfd.                            | 189,825                        |
| PNC Financial Services:                 |   |                                |
| 39,995                                  | PNC Financial Services, 6.6285% <sup>(6)</sup> Adj. Rate Pfd., Series L | 1,038,770* <sup>(1)</sup>      |
| \$ 200,000                              | PNC Preferred Funding Trust III, 8.70%, 144A****                        | 203,516                        |
| Sovereign Bancorp:                      |   |                                |
| 3,000                                   | Sovereign REIT, 12.00% Pfd., Series A, 144A****                         | 3,917,622                      |
| Wells Fargo:                            |   |                                |
| \$ 600,000                              | First Union Capital II, 7.95% 11/15/29                                  | 743,371 <sup>(1)</sup>         |
| 3,015                                   | Wells Fargo & Company, 7.50% Pfd., Series L                             | 3,824,151* <sup>(1)</sup>      |
| 198,700                                 | Wells Fargo & Company, 8.00% Pfd., Series J                             | 5,774,719* <sup>(1)</sup>      |
| Zions Bancorporation:                   |   |                                |
| 125,000                                 | Zions Bancorporation, 7.90% Pfd., Series F                              | 3,593,750*                     |
| 45,000                                  | Zions Bancorporation, 9.50% Pfd., Series C                              | 1,163,250*                     |
|   |   | 101,791,099                    |
| <b>Financial Services 2.1%</b>          |   |                                |
| Credit Suisse Group:                    |   |                                |
| \$ 2,180,000                            | Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A****           | 2,324,425 <sup>(3)</sup>       |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

| Shares/\$<br>Par                        |   | Value                             |
|---|---|-----------------------------------|
| <b>Preferred Securities (Continued)</b> |   |                                   |
| <b>Financial Services (Continued)</b>   |   |                                   |
|   | General Electric Capital Corp:                      |                                   |
| \$ 1,550,000                            | General Electric Capital Corp., 7.125%, Series A    | \$ 1,793,090*                     |
|   | HSBC PLC:   |                                   |
| 94,897                                  | HSBC Finance Corporation, 6.36% Pfd., Series B      | 2,432,352*                        |
|   |   | 6,549,867                         |
| <b>Insurance 24.6%</b>                  |   |                                   |
|   | Ace Ltd.:   |                                   |
| \$ 1,550,000                            | Ace Capital Trust II, 9.70% 04/01/30                | 2,259,125 <sup>(1)(2)(3)</sup>    |
|   | Aon Corporation:                                    |                                   |
| \$ 1,875,000                            | AON Corp, 8.205% 01/01/27                           | 2,409,210                         |
|   | Arch Capital Group:                                 |                                   |
| 26,512                                  | Arch Capital Group, Ltd., 6.75% Pfd., Series C      | 728,881 <sup>** (1)(3)</sup>      |
|   | AXA SA:   |                                   |
| \$ 1,016,000                            | AXA SA, 6.379%, 144A****                            | 1,016,000 <sup>** (1)(2)(3)</sup> |
| \$ 250,000                              | AXA SA, 8.60% 12/15/30                              | 322,271 <sup>(3)</sup>            |
|   | Axis Capital:                                       |                                   |
| 333,650                                 | Axis Capital Holdings, 6.875% Pfd., Series C        | 9,269,297 <sup>** (1)(3)</sup>    |
|   | Delphi Financial:                                   |                                   |
| 160,000                                 | Delphi Financial Group, 7.376% Pfd. 05/15/37        | 4,015,008 <sup>(1)</sup>          |
|   | Endurance Specialty Holdings:                       |                                   |
| 35,000                                  | Endurance Specialty Holdings, 7.50% Pfd.            | 940,538 <sup>** (3)</sup>         |
|   | Everest Re Group:                                   |                                   |
| 8,932                                   | Everest Re Capital Trust II, 6.20% Pfd., Series B   | 227,333                           |
| \$ 6,314,000                            | Everest Re Holdings, 6.60% 05/15/37                 | 6,463,958 <sup>(1)(2)</sup>       |
|   | Liberty Mutual Group:                               |                                   |
| \$ 8,300,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****     | 12,719,750 <sup>(1)(2)</sup>      |
|   | Lincoln National Corp:                              |                                   |
| \$ 260,000                              | Lincoln National Corporation, 7.00% 05/17/66        | 265,850                           |
|   | MetLife:  |                                   |
| \$ 888,000                              | MetLife Capital Trust IV, 7.875% 12/15/37, 144A**** | 1,105,560 <sup>(1)</sup>          |
| \$ 5,335,000                            | MetLife Capital Trust X, 9.25% 04/08/38, 144A****   | 7,388,975 <sup>(1)</sup>          |
| \$ 2,855,000                            | MetLife, Inc., 10.75% 08/01/39                      | 4,403,838 <sup>(1)(2)</sup>       |
|   | PartnerRe Ltd.:                                     |                                   |
| 31,000                                  | PartnerRe Ltd., 7.250% Pfd., Series E               | 862,730 <sup>** (3)</sup>         |
|   | Principal Financial:                                |                                   |
| 10,500                                  | Principal Financial Group, 5.563% Pfd., Series A    | 1,047,375*                        |
| 75,000                                  | Principal Financial Group, 6.518% Pfd., Series B    | 2,048,438 <sup>* (1)</sup>        |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

| Shares/\$<br>Par                        |  | Value                          |
|---|--|--------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                                |
| <b>Insurance (Continued)</b>            |  |                                |
|   | Prudential Financial:                                      |                                |
| \$ 1,000,000                            | Prudential Financial Inc., 5.625% 06/15/43                 | \$ 1,045,000 <sup>(1)</sup>    |
|   | QBE Capital Funding:                                       |                                |
| \$ 1,400,000                            | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****     | 1,465,264 <sup>(1)(3)</sup>    |
|   | Renaissancere Holdings:                                    |                                |
| 15,067                                  | Renaissancere Holdings Ltd, 6.60% Pfd.                     | 383,003** <sup>(3)</sup>       |
|   | StanCorp Financial Group:                                  |                                |
| \$ 2,365,000                            | StanCorp Financial Group, 6.90% 06/01/67                   | 2,406,388 <sup>(1)</sup>       |
|   | The Travelers Companies:                                   |                                |
| \$ 3,184,800                            | USF&G Capital, 8.312% 07/01/46, 144A****                   | 4,143,301 <sup>(1)(2)</sup>    |
|   | XL Group PLC:  |                                |
| \$ 8,250,000                            | XL Capital Ltd., 6.50%, Series E                           | 8,085,000 <sup>(1)(2)(3)</sup> |
|   |  | 75,022,093                     |
| <b>Utilities 18.0%</b>                  |  |                                |
|   | Alabama Power:   |                                |
| 6,050                                   | Alabama Power Company, 6.45% Pfd.                          | 173,371* <sup>(1)</sup>        |
|   | Baltimore Gas & Electric:                                  |                                |
| 33,700                                  | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993  | 3,468,994* <sup>(1)</sup>      |
|   | Commonwealth Edison:                                       |                                |
| \$ 3,160,000                            | COMED Financing III, 6.35% 03/15/33                        | 3,318,000 <sup>(1)(2)</sup>    |
|   | Constellation Energy:                                      |                                |
| 20,170                                  | Constellation Energy Group, 8.625% Pfd. 06/15/63, Series A | 522,403 <sup>(1)</sup>         |
|   | Dominion Resources:  |                                |
| \$ 3,500,000                            | Dominion Resources, Inc., 7.50% 06/30/66                   | 3,888,052 <sup>(1)(2)</sup>    |
|   | Entergy Arkansas:  |                                |
| 83,000                                  | Entergy Arkansas, Inc., 6.45% Pfd.                         | 2,113,910* <sup>(1)</sup>      |
|   | Entergy Louisiana:   |                                |
| 59,850                                  | Entergy Louisiana, Inc., 6.95% Pfd.                        | 5,996,222* <sup>(1)</sup>      |
|   | Georgia Power:   |                                |
| 70,791                                  | Georgia Power Company, 6.50% Pfd., Series 2007A            | 7,921,959* <sup>(1)</sup>      |
|   | Indianapolis Power & Light:                                |                                |
| 17,800                                  | Indianapolis Power & Light Company, 5.65% Pfd.             | 1,790,013* <sup>(1)</sup>      |
|   | Interstate Power & Light:                                  |                                |
| 94,721                                  | Interstate Power & Light Company, 8.375% Pfd., Series B    | 2,382,830*                     |
|   | Nextera Energy:  |                                |
| \$ 2,897,000                            | FPL Group Capital, Inc., 6.65% 06/15/67                    | 3,102,678 <sup>(1)(2)</sup>    |
| \$ 1,975,000                            | FPL Group Capital, Inc., 7.30% 09/01/67, Series D          | 2,233,911 <sup>(1)(2)</sup>    |



Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

| Shares/\$<br>Par                                |   | Value                          |
|---|---|--------------------------------|
| <b>Preferred Securities (Continued)</b>         |   |                                |
| <b>Utilities (Continued)</b>                    |   |                                |
|   | PECO Energy:  |                                |
| \$ 3,600,000                                    | PECO Energy Capital Trust IV, 5.75% 06/15/33              | \$ 3,618,166 <sup>(1)(2)</sup> |
|   | PPL Corp:   |                                |
| \$ 3,450,000                                    | PPL Capital Funding, 6.70% 03/30/67, Series A             | 3,668,885 <sup>(1)(2)</sup>    |
|   | Puget Energy:   |                                |
| \$ 5,175,000                                    | Puget Sound Energy, Inc., 6.974% 06/01/67                 | 5,652,733 <sup>(1)(2)</sup>    |
|   | Southern California Edison:                               |                                |
| 46,460  | Southern California Edison, 6.50% Pfd., Series D          | 4,936,375 <sup>*(1)</sup>      |
|   |   | 54,788,502                     |
| <b>Energy 4.7%</b>                              |   |                                |
|   | Enbridge Energy Partners:                                 |                                |
| \$ 7,050,000                                    | Enbridge Energy Partners LP, 8.05% 10/01/37               | 7,974,206 <sup>(1)(2)</sup>    |
|   | Enterprise Products Partners:                             |                                |
| \$ 5,550,000                                    | Enterprise Products Partners, 8.375% 08/01/66, Series A   | 6,345,637 <sup>(1)(2)</sup>    |
|   |   | 14,319,843                     |
| <b>Real Estate Investment Trust (REIT) 1.1%</b> |   |                                |
|   | CommonWealth REIT:  |                                |
| 7,500   | CommonWealth REIT, 7.25% Pfd.                             | 190,961                        |
|   | Duke Realty Corp:   |                                |
| 8,000   | Duke Realty Corp, 6.50% Pfd.                              | 201,940                        |
| 21,000  | Duke Realty Corp, 6.60% Pfd.                              | 536,157                        |
|   | PS Business Parks:  |                                |
| 56,000  | PS Business Parks, Inc., 6.45% Pfd.                       | 1,489,253                      |
| 35,000  | PS Business Parks, Inc., 6.875% Pfd., Series R            | 932,750                        |
|   |   | 3,351,061                      |
| <b>Miscellaneous Industries 2.2%</b>            |   |                                |
|   | Ocean Spray Cranberries:                                  |                                |
| 37,400  | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****       | 3,446,646*                     |
|   | Stanley Black & Decker:                                   |                                |
| 24,012  | Stanley Black & Decker, Inc., 5.75% Pfd. 07/25/52         | 627,470 <sup>(1)</sup>         |
|   | Textron, Inc.:  |                                |
| \$ 2,850,000                                    | Textron Financial Corporation, 6.00% 02/15/67, 144A****   | 2,622,000                      |
|   |   | 6,696,116                      |
|   | <b>Total Preferred Securities</b><br>(Cost \$250,775,303) | <b>262,518,581</b>             |



Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

| Shares/\$<br>Par                       |  | Value                       |
|--|--|-----------------------------|
| <b>Corporate Debt Securities 11.8%</b> |  |                             |
| <b>Banking 4.6%</b>                    |  |                             |
|  | First Niagara Financial Group:   |                             |
| \$ 300,000                             | First Niagara Financial Group, Inc., 7.25% 12/15/21, Sub Notes             | \$ 359,342                  |
|  | Goldman Sachs Group:   |                             |
| \$ 6,338,900                           | Goldman Sachs Group, 6.75% 10/01/37, Sub Notes                             | 7,210,011 <sup>(1)(2)</sup> |
|  | Morgan Stanley:  |                             |
| \$ 1,600,000                           | Morgan Stanley, 6.375% 07/24/42  | 1,961,651 <sup>(1)(2)</sup> |
|  | Regions Financial:   |                             |
| \$ 3,741,000                           | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes                  | 4,171,215 <sup>(1)(2)</sup> |
|  | Texas Capital Bancshares:  |                             |
| 20,600                                 | Texas Capital Bancshares Inc., 6.50% 09/21/42                              | 520,150                     |
|  |  | 14,222,369                  |
| <b>Financial Services 0.5%</b>         |  |                             |
|  | Affiliated Managers Group:   |                             |
| 27,895                                 | Affiliated Managers Group, Inc., 6.375% 08/15/42                           | 731,170                     |
|  | Lehman Brothers:   |                             |
| \$ 4,726,012                           | Lehman Brothers, Guaranteed Note, Variable Rate, 5.843% 12/16/16, 144A**** | 649,165 <sup>(4)(5)</sup>   |
|  | Raymond James Financial:   |                             |
| 3,264                                  | Raymond James Financial, 6.90% 03/15/42                                    | 91,106                      |
|  |  | 1,471,441                   |
| <b>Insurance 3.9%</b>                  |  |                             |
|  | Liberty Mutual Group:  |                             |
| \$ 3,000,000                           | Liberty Mutual Insurance, 7.697% 10/15/97, 144A****                        | 3,323,736 <sup>(1)(2)</sup> |
|  | Unum Group:  |                             |
| \$ 7,000,000                           | UnumProvident Corporation, 7.25% 03/15/28                                  | 8,514,247 <sup>(1)(2)</sup> |
|  |  | 11,837,983                  |
| <b>Utilities 0.7%</b>                  |  |                             |
|  | Energy Transfer Equity:  |                             |
| \$ 1,600,000                           | Southern Union Company, 8.25% 11/15/29                                     | 2,049,067 <sup>(1)(2)</sup> |
|  |  | 2,049,067                   |
| <b>Energy 1.0%</b>                     |  |                             |
|  | Nexen, Inc.:   |                             |
| 120,475                                | Nexen, Inc., 7.35% 11/01/43  | 3,049,523 <sup>(3)</sup>    |
|  |  | 3,049,523                   |

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

February 28, 2013 (Unaudited)

| Shares/\$<br>Par                             |   | Value                       |
|--|---|-----------------------------|
| <b>Corporate Debt Securities (Continued)</b> |   |                             |
|  | <b>Real Estate Investment Trust (REIT) 0.1%</b>               |                             |
|  | CommonWealth REIT:  |                             |
| 12,500                                       | CommonWealth REIT, 7.50% 11/15/19                             | \$ 267,019                  |
|  |   | 267,019                     |
|  | <b>Miscellaneous Industries 1.0%</b>                          |                             |
|  | Pulte Group Inc.:   |                             |
| 25,844                                       | Pulte Homes, Inc., 7.375% 06/01/46                            | 654,176                     |
| \$ 2,160,000                                 | Pulte Homes, Inc., 7.875% 06/15/32                            | 2,392,200 <sup>(1)(2)</sup> |
|  |   | 3,046,376                   |
|  | <b>Total Corporate Debt Securities</b><br>(Cost \$31,782,999) | 35,943,778                  |
|  | <b>Common Stock 0.3%</b>                                      |                             |
|  | <b>Banking 0.2%</b>   |                             |
|  | CIT Group:  |                             |
| 13,500                                       | CIT Group, Inc.   | 565,110*                    |
|  |   | 565,110                     |
|  | <b>Utilities 0.1%</b>   |                             |
|  | Exelon Corp:  |                             |
| 11,750                                       | Exelon Corporation  | 364,133*                    |
|  |   | 364,133                     |
|  | <b>Total Common Stock</b><br>(Cost \$3,031,124)               | 929,243                     |
|  | <b>Money Market Fund 0.1%</b>                                 |                             |
|  | BlackRock Liquidity Funds:                                    |                             |
| 304,435                                      | T-Fund  | 304,435                     |
|  | <b>Total Money Market Fund</b><br>(Cost \$304,435)            | 304,435                     |
|  | <b>Total Investments</b> (Cost \$285,893,861***)              | 98.3% 299,696,037           |
|  | <b>Other Assets And Liabilities</b> (Net)                     | 1.7% 5,140,328              |
|  | <b>Total Managed Assets</b>                                   | 100.0% \$ 304,836,365       |

|   |                       |
|---|-----------------------|
| <b>Loan Principal Balance</b>                     | (101,300,000)         |
| <b>Total Net Assets Available To Common Stock</b> | <b>\$ 203,536,365</b> |

Flaherty & Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**February 28, 2013 (Unaudited)**

- \* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
- \*\* Securities distributing Qualified Dividend Income only.
- \*\*\* Aggregate cost of securities held.
- \*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At February 28, 2013, these securities amounted to \$61,931,569 or 20.3% of total managed assets.
- (1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$189,964,835 at February 28, 2013.
- (2) All or a portion of this security has been rehypothecated. The total value of such securities was \$96,958,685 at February 28, 2013.
- (3) Foreign Issuer.
- (4) Illiquid.
- (5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2013.
- (6) Represents the rate in effect as of the reporting date.  
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 managed assets.

**ABBREVIATIONS:**

**Pfd.** Preferred Securities  
**REIT** Real Estate Investment Trust

Flaherty &amp; Crumrine Total Return Fund Incorporated

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**

For the period from December 1, 2012 through February 28, 2013 (Unaudited)

|  | Value               |
|--|---------------------|
| <b>OPERATIONS:</b>   |                     |
| Net investment income  | \$ 3,928,168        |
| Net realized gain/(loss) on investments sold during the period                                     | 474,175             |
| Change in net unrealized appreciation/depreciation of investments                                  | 4,390,213           |
| <b>Net increase in net assets resulting from operations</b>  | <b>8,792,556</b>    |
| <b>DISTRIBUTIONS:</b>  |                     |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>              | (4,872,392)         |
| <b>Total Distributions to Common Stock Shareholders</b>  | <b>(4,872,392)</b>  |
| <b>FUND SHARE TRANSACTIONS:</b>  |                     |
| Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan                 | 262,457             |
| <b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b> | <b>262,457</b>      |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>                         | <b>\$ 4,182,621</b> |

**NET ASSETS AVAILABLE TO COMMON STOCK:**

|  |                |
|--|----------------|
| Beginning of period                          | \$ 199,353,744 |
| Net increase in net assets during the period | 4,182,621      |
| End of period                                | \$ 203,536,365 |

(1) These tables summarize the three months ended February 28, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2012.

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

Flaherty &amp; Crumrine Total Return Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2012 through February 28, 2013 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

|                                      |          |
|--------------------------------------|----------|
| Net asset value, beginning of period | \$ 20.19 |
|--------------------------------------|----------|

**INVESTMENT OPERATIONS:**

|                       |      |
|-----------------------|------|
| Net investment income | 0.40 |
|-----------------------|------|

|   |      |
|---|------|
| Net realized and unrealized gain/(loss) on investments. | 0.48 |
|---|------|

|                                  |      |
|----------------------------------|------|
| Total from investment operations | 0.88 |
|----------------------------------|------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (0.49) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (0.49) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 20.58 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 20.77 |
|-----------------------------|----------|

|  |           |
|--|-----------|
| Common Stock shares outstanding, end of period | 9,888,145 |
|--|-----------|

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

|                       |        |
|-----------------------|--------|
| Net investment income | 7.90%* |
|-----------------------|--------|

|   |        |
|---|--------|
| Operating expenses including interest expense | 1.84%* |
|---|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 1.30%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |      |
|-------------------------|------|
| Portfolio turnover rate | 6%** |
|-------------------------|------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 304,836 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.23%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.87%* |
|--|--------|

(1) These tables summarize the three months ended February 28, 2013 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2012.

\* Annualized.

\*\* Not annualized.

The net investment income ratios reflect income net of operating expenses, including interest expense.

Information presented under heading Supplemental Data includes loan principal balance.



Flaherty & Crumrine Total Return Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)**

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

|                   | <b>Total<br/>Dividends<br/>Paid</b> | <b>Net Asset<br/>Value</b> | <b>NYSE<br/>Closing Price</b> | <b>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></b> |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 31, 2012 | \$ 0.2210                           | \$ 20.19                   | \$ 20.14                      | \$ 20.19   |
| January 31, 2013  | 0.1360                              | 20.52                      | 21.33                         | 20.52  |
| February 28, 2013 | 0.1360                              | 20.58                      | 20.77                         | 20.58  |

(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.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited)****1. Aggregate Information for Federal Income Tax Purposes**

At February 28, 2013, the aggregate cost of securities for federal income tax purposes was \$290,812,373, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$31,392,594 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$22,508,930.

**2. Additional Accounting Standards**

*Fair Value Measurements:* The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy 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. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of February 28, 2013 is as follows:

|                                     | Total<br>Value at<br>February 28, 2013 | Level 1<br>Quoted<br>Price | Level 2<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
|-------------------------------------|--|----------------------------|--|--|
| <b>Preferred Securities</b>         |  |                            |  |  |
| Banking                             | \$ 101,791,099                         | \$ 73,895,222              | \$ 27,877,377                                  | \$ 18,500  |
| Financial Services                  | 6,549,867                              | 4,225,442                  | 2,324,425                                      |  |
| Insurance                           | 75,022,093                             | 49,474,193                 | 25,547,900                                     |  |
| Utilities                           | 54,788,502                             | 15,798,759                 | 38,989,743                                     |  |
| Energy                              | 14,319,843                             | 14,319,843                 |  |  |
| Real Estate Investment Trust (REIT) | 3,351,061                              | 3,351,061                  |  |  |
| Miscellaneous Industries            | 6,696,116                              | 627,470                    | 6,068,646                                      |  |
| Corporate Debt Securities           | 35,943,778                             | 14,484,806                 | 20,809,807                                     | 649,165  |
| <b>Common Stock</b>                 |  |                            |  |  |
| Banking                             | 565,110                                | 565,110                    |  |  |
| Utilities                           | 364,133                                | 364,133                    |  |  |
| Money Market Fund                   | 304,435                                | 304,435                    |  |  |
| <b>Total Investments</b>            | <b>\$ 299,696,037</b>                  | <b>\$ 177,410,474</b>      | <b>\$ 121,617,898</b>                          | <b>\$ 667,665</b>                                |



Flaherty & Crumrine Total Return Fund Incorporated

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

During the reporting period, there were no transfers into Level 1 from Level 2. During the reporting period, securities with an aggregate market value of \$2,668,750 were transferred into Level 2 from Level 1. The securities were transferred because of a reduction in the amount of observable market data, resulting from: a decrease in market activity for the securities, reduced availability of quoted prices for the securities, or de-listing of securities from a national securities exchange that resulted in a material decrease in activity.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services approved by the Board and unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active participant in the markets.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades or the same information for securities that are similar in many respects to those being valued are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

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

|  |                   | Preferred Securities |                    | Corporate Debt Securities |
|--|-------------------|----------------------|--------------------|---------------------------|
|  | Total Investments | Banking              | Financial Services |                           |
| <b>Balance as of 11/30/12</b>                    | \$ 2,698,326      | \$ 18,500            | \$ 2,151,930       | \$ 527,896                |
| Accrued discounts/premiums                       |                   |                      |                    |                           |
| Realized gain/(loss)                             |                   |                      |                    |                           |
| Change in unrealized appreciation/(depreciation) | 121,269           |                      |                    | 121,269                   |
| Purchases  |                   |                      |                    |                           |
| Sales  | (2,151,930)       |                      | (2,151,930)        |                           |
| Transfers in                                     |                   |                      |                    |                           |
| Transfers out                                    |                   |                      |                    |                           |
| <b>Balance as of 2/28/13</b>                     | \$ 667,655        | \$ 18,500            | \$                 | \$ 649,165                |

For the three months ended February 28, 2013, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$121,269.

Flaherty &amp; Crumrine Total Return Fund Incorporated

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

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

| Category                    | Fair Value at 2/28/13 | Valuation Technique | Unobservable Input                 | Input Range (Wgt Avg) |
|-----------------------------|-----------------------|---------------------|------------------------------------|-----------------------|
| <b>Preferred Securities</b> |                       |                     |                                    |                       |
| Banking                     | \$ 15,000             | Bankruptcy recovery | Credit/Structure-specific recovery | 0.00%-0.50% (0.15%)   |
|                             | 3,500                 | Bankruptcy recovery | Credit/Structure-specific recovery | 0.00%-0.50% (0.05%)   |
| Corporate Debt Securities   | 649,165               | Bankruptcy recovery | Credit/Structure-specific recovery | 10%-20% (13%)         |

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

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**Directors**

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

**Officers**

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer



**Investment Adviser**

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

**Servicing Agent**

Destra Capital Investments LLC

1-866-233-4001

**Questions concerning your shares of Flaherty & Crumrine Total Return Fund?**

If your shares are held in a Brokerage Account, contact your Broker.

If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent  
BNY Mellon Investment Servicing

P.O. Box 358035

Pittsburgh, PA 15252-8035 1-866-351-7446

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

Quarterly

Report

February 28, 2013

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