

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/\$ 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/\$ 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/\$ 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/\$ 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> (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/\$ 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/\$ 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>	
	(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>	
	(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>	
	(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
<b>End of period</b>	<b>\$ 203,536,365</b>

(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
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**INVESTMENT OPERATIONS:**

Net investment income	0.40
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Net realized and unrealized gain/(loss) on investments.	0.48
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Total from investment operations	0.88
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**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income	(0.49)
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Total distributions to Common Stock Shareholders	(0.49)
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Net asset value, end of period	\$ 20.58
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Market value, end of period	\$ 20.77
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Common Stock shares outstanding, end of period	9,888,145
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**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

Net investment income	7.90%*
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Operating expenses including interest expense	1.84%*
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Operating expenses excluding interest expense	1.30%*
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**SUPPLEMENTAL DATA:**

Portfolio turnover rate	6%**
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Total managed assets, end of period (in 000 \$)	\$ 304,836
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Ratio of operating expenses including interest expense to total managed assets	1.23%*
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Ratio of operating expenses excluding interest expense to total managed assets	0.87%*
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(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 Dividends Paid</b>	<b>Net Asset Value</b>	<b>NYSE Closing Price</b>	<b>Dividend Reinvestment 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 Value at February 28, 2013	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable 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		
	Total Investments	Banking	Financial Services	Corporate Debt Securities
<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

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