FLAHERTY & CRUMRINE TOTAL RETURN FUND INC
Form N-30B-2
April 29, 2014

*FLAHERTY & CRUMRINE TOTAL RETURN FUND*

To the Shareholders of Flaherty & Crumrine Total Return Fund:

FLC s fiscal 2014 got off to a strong start, as preferred securities continued to recover from 2013 s mid-year swoon. Total return on net asset value[1] was +4.5% for the first fiscal quarter.[2] Market price performance was even better: The Fund s market price discount to NAV narrowed, generating total return on market value for the fiscal quarter of +8.8%.

After a difficult stretch during the second half of 2013, the preferred securities market seemed ripe for recovery, and it didn t disappoint. One probably would not have concluded that in December, however, when long-term interest rates rose to their highest levels of the year (nearly 4% for the 30-year Treasury bond) after the Federal Reserve began to taper its securities purchases. Many holders of preferred securities particularly $25-par issues sold them to book tax losses before year-end. Such selling pressure hurt prices even more. Preferred securities prices ended 2013 at or near their lows for the year.

As 2014 began, preferred securities started to turn around. Unusually cold temperatures and heavy snowfall blanketed much of the United States from December through February, dampening economic activity. Job growth sputtered, personal spending eased and housing activity slowed. The 30-year Treasury bond yield drifted back down to finish the fiscal quarter at 3.58%, 0.23% lower than where it started in December. Meanwhile, fundamental credit conditions profits, balance sheets and loan performance, among others continued to improve for most preferred issuers.

As fears of sharply higher interest rates faded and tax-loss selling ran its course, preferred investors returned to the market. And they had company! Some investors who typically focus on other fixed-income markets, such as corporate or high-yield bonds, also bought preferred securities, attracted by their higher yields in an otherwise low-yield environment. Those other fixed-income markets dwarf the preferred market in size, so even a small reallocation to preferreds inside a bond portfolio can translate into a lot of dollars being invested in preferreds. Demand for preferred securities picked up noticeably.

Among major issuers, financial companies, especially banks, are adapting to new rules and regulations implemented since the financial crisis. Regular readers of our letters will recall many discussions about Basel III and other regulatory pronouncements. These regulations are intended to strengthen balance sheets and improve transparency positives for preferred investors. In almost every case in the U.S. and abroad, preferred securities are, or will be, an integral component of capital. As a result, we have seen and will continue to see a steady supply of new preferred issues. However, new issuance has been modest in size and readily absorbed by investors; and spreads on these and secondary-market issues have gradually compressed.

Although interest-rate fears have receded recently, we know many Fund investors remain concerned about the possibility of rising interest rates. Three observations. First, although preferred security prices tend to move with intermediate and long-term Treasury yields, their correlation is not perfect. Yields on preferred securities are high relative to Treasuries and corporate bonds, and they should be able to absorb some increase in Treasury yields while still generating positive total returns. We think improving credit fundamentals support that view.

[1] Following methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund s leverage and expenses.

[2] December 1, 2013 February 28, 2014

Second, as the Fund s experience in 2013 s third fiscal quarter demonstrated, prices of preferred securities can fall when interest rates increase significantly. However, preferred securities pay dividends year-in and year-out. If we have picked our credits correctly, over time, those dividends can turn modest principal losses into positive total returns. Shareholders probably will have to live through some quarter-to-quarter volatility, but we think prospective returns on preferred securities remain attractive for long-term investors.

Third, there are a number of ways we can manage interest-rate risk in a portfolio of preferred securities, even if we exclude outright interest-rate hedging (something the Fund has not done since 2008). In particular, so-called fixed-to-floating rate preferred securities can offer attractive yields with only intermediate duration or interest-rate risk. A typical such security starts with a coupon rate that is fixed for five or 10 years and then floats at a margin over an index (usually 3-month LIBOR). These preferred securities have *credit* risk similar to fixed-rate issues, but they can have much less *interest-rate* risk. Of course, not all fixed-to-floating rate preferred securities are the same, and none are riskless. Investors need to evaluate each issue s creditworthiness, terms and conditions carefully, something we spend a lot of time doing. As of February 28, 2014, roughly 46% of the Fund s portfolio was comprised of fixed-to-floating rate issues, and they fit well with our market outlook.

We expect economic growth to improve in the second quarter as weather effects fade. We don t think weather was the whole story behind sluggish first-quarter growth, but it was an important factor, and one that inevitably will thaw come spring. Stronger growth may push interest rates higher once again. However, for 2014 as a whole, we foresee modest economic growth, improving credit conditions and accommodative monetary policy. That should translate into gradually (if erratically) rising Treasury rates along with narrower yield spreads on preferred securities. Investors should be prepared for some volatility over coming quarters, but we think coupon or coupon minus a bit returns on preferred securities should remain attractive for long-term investors.

As always, we encourage you to visit the Fund s website www.preferredincome.com, for current information on preferred-securities markets, the Fund and the broader economy.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

March 31, 2014

Flaherty & Crumrine Total Return Fund Incorporated

## PORTFOLIO OVERVIEW

**February 28, 2014 (Unaudited)**

| **Fund Statistics** | |
|---|---|
| Net Asset Value | $ 19.95 |
| Market Price | $ 19.25 |
| Discount | 3.51% |
| Yield on Market Price | 8.48% |
| Common Stock Shares Outstanding | 9,897,817 |

| **Moody s Ratings** | **% of Net Assets** |
|---|---|
| A | 2.7% |
| BBB | 57.6% |
| BB | 33.0% |
| Below BB | 0.1% |
| Not Rated* | 5.2% |
| Below Investment Grade** | 18.0% |

* Does not include net other assets and liabilities of 1.4%.
** Below investment grade by all of Moody s, S&P and Fitch.

| **Industry Categories** | **% of Net Assets** |
|---|---|

| **Top 10 Holdings by Issuer** | **% of Net Assets** |
|---|---|
| Liberty Mutual Group | 5.3% |
| JPMorgan Chase | 4.7% |
| MetLife | 4.1% |
| Banco Santander, S.A. | 3.9% |
| HSBC PLC | 3.9% |
| Unum Group | 3.7% |
| Barclays Bank PLC | 3.2% |
| Axis Capital Holdings Ltd | 3.0% |
| Goldman Sachs Group | 3.0% |

| | |
|---|---|
| Wells Fargo & Company | 3.0% |

| | **% of Net Assets*** ** |
|---|---|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals | 48% |
| Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD) | 31% |

*** 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 & Crumrine Total Return Fund Incorporated

## PORTFOLIO OF INVESTMENTS

**February 28, 2014 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| | | |
| **Preferred Securities 90.7%** | | |
| | **Banking 39.0%** | |
| 6,700 | Astoria Financial Corp., 6.50% Pfd., Series C | $ 159,142* |
| | Banco Santander, S.A.: | |
| 439,755 | Banco Santander, 10.50% Pfd., Series 10 | 11,786,094**(1)(3) |
| | Bank of America: | |
| 15,000 | Countrywide Capital V, 7.00% Pfd. 11/01/36 | 379,372 |
| | Barclays Bank PLC: | |
| $ 3,600,000 | Barclays Bank PLC, 6.278% | 3,551,926**(1)(3) |
| 81,750 | Barclays Bank PLC, 7.10% Pfd. | 2,091,983**(3) |
| 8,800 | Barclays Bank PLC, 7.75% Pfd., Series 4 | 226,688**(3) |
| 150,000 | Barclays Bank PLC, 8.125% Pfd., Series 5 | 3,885,000**(1)(3) |
| $ 3,775,000 | BNP Paribas, 7.195%, 144A**** | 4,015,656**(1)(2)(3) |
| | Citigroup: | |
| 100,370 | Citigroup, Inc., 6.875% Pfd., Series K | 2,611,778* |
| 56,850 | Citigroup, Inc., 7.125% Pfd., Series J | 1,515,052* |
| 22,500 | City National Corp, 6.75% Pfd., Series D | 604,800* |
| | CoBank ACB: | |
| 12,500 | CoBank ACB, 6.125% Pfd., Series G, 144A**** | 1,082,813* |
| 25,000 | CoBank ACB, 6.25% Pfd., 144A**** | 2,518,750*(1) |
| $ 10,000,000 | Colonial BancGroup, 7.114%, 144A**** | 15,000(4)(5) |
| 30,500 | Cullen/Frost Bankers, Inc., 5.375% Pfd., Series A | 665,281* |
| 146,000 | Fifth Third Bancorp, 6.625% Pfd., Series I | 3,881,045* |
| | First Horizon: | |
| 875 | First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A**** | 590,898* |
| 3 | FT Real Estate Securities Company, 9.50% Pfd., 144A**** | 3,577,500 |
| 140,750 | First Niagara Financial Group, Inc., 8.625% Pfd. | 3,982,029*(1) |
| 12,137 | First Republic Bank, 6.70% Pfd. | 305,397* |
| | Goldman Sachs Group: | |
| $ 8,693,115 | Goldman Sachs Capital I, 6.345% 02/15/34 | 9,078,655(1) |
| | HSBC PLC: | |
| $ 1,400,000 | HSBC Capital Funding LP, 10.176%, 144A**** | 2,026,500(1)(3) |
| 200,000 | HSBC Holdings PLC, 8.00% Pfd., Series 2 | 5,374,500**(1)(3) |
| $ 200,000 | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A**** | 203,250 |
| $ 275,000 | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** | 279,556(1) |
| 59,109 | HSBC USA, Inc., 6.50% Pfd., Series H | 1,475,881*(1) |
| | ING Groep NV: | |
| 30,000 | ING Groep NV, 6.375% Pfd. | 738,000**(3) |
| 50,000 | ING Groep NV, 7.05% Pfd. | 1,273,075**(3) |
| 31,425 | ING Groep NV, 7.20% Pfd. | 801,416**(3) |
| 57,500 | ING Groep NV, 7.375% Pfd. | 1,474,300**(3) |

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## PORTFOLIO OF INVESTMENTS (Continued)

**February 28, 2014 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Preferred Securities (Continued)** | | |
| | **Banking (Continued)** | |
| | JPMorgan Chase: | |
| $ 750,000 | JPMorgan Chase & Company, 6.00%, Series R | $ 750,000* |
| $ 5,100,000 | JPMorgan Chase & Company, 6.75%, Series S | 5,380,500* |
| $ 7,000,000 | JPMorgan Chase & Company, 7.90%, Series I | 7,890,400*(1) |
| $ 1,000,000 | Lloyds Banking Group PLC, 6.657%, 144A**** | 1,000,000**(3) |
| | M&T Bank Corporation: | |
| $ 1,500,000 | M&T Bank Corporation, 6.450%, Series E | 1,558,125* |
| $ 3,050,000 | M&T Bank Corporation, 6.875%, Series D, 144A**** | 3,055,389*(1) |
| | Morgan Stanley: | |
| 32,800 | Morgan Stanley, 6.875%, Pfd., Series F | 848,864* |
| 74,700 | Morgan Stanley, 7.125%, Pfd., Series E | 2,002,072* |
| 74,845 | PNC Financial Services Group, Inc., 6.125% Pfd., Series P | 1,955,139*(1) |
| $ 2,515,000 | RaboBank Nederland, 11.00%, 144A**** | 3,326,087(1)(3) |
| | Royal Bank of Scotland: | |
| 5,000 | Royal Bank of Scotland Group PLC, 6.40%, Pfd., Series M | 114,100**(3) |
| 10,000 | Royal Bank of Scotland Group PLC, 6.60% Pfd., Series S | 230,700**(3) |
| | Sovereign Bancorp: | |
| 3,000 | Sovereign REIT, 12.00% Pfd., Series A, 144A**** | 3,998,382 |
| 23,000 | US Bancorp, 6.50%, Pfd., Series F | 638,970* |
| | Wells Fargo: | |
| 39,600 | Wells Fargo & Company, 6.625% Pfd., Series R | 1,059,696*(1) |
| 550 | Wells Fargo & Company, 7.50% Pfd., Series L | 648,106*(1) |
| $ 1,458,000 | Wells Fargo & Company, 7.98%, Series K | 1,669,410* |
| 198,700 | Wells Fargo & Company, 8.00% Pfd., Series J | 5,697,226*(1) |
| | Zions Bancorporation: | |
| $ 1,500,000 | Zions Bancorporation, 7.20%, Series J | 1,560,000*(1) |
| 5,000 | Zions Bancorporation, 6.30% Pfd., Series G | 124,375* |
| 125,000 | Zions Bancorporation, 7.90% Pfd., Series F | 3,537,500 *(1) |
| | | 117,216,378 |
| | **Financial Services 1.9%** | |
| | Credit Suisse Group: | |
| $ 686,000 | Claudius, Ltd. - Credit Suisse AG, 7.875%, Series B, 144A**** | 706,580(3) |
| $ 2,300,000 | General Electric Capital Corp., 7.125%, Series A | 2,614,658*(1) |
| | HSBC PLC: | |
| 94,897 | HSBC Finance Corporation, 6.36% Pfd., Series B | 2,302,438* |
| | | 5,623,676 |

Flaherty & Crumrine Total Return Fund Incorporated

## PORTFOLIO OF INVESTMENTS (Continued)

**February 28, 2014 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Preferred Securities (Continued)** | | |
| | **Insurance 25.8%** | |
| | Ace Ltd.: | |
| $ 1,550,000 | Ace Capital Trust II, 9.70% 04/01/30 | $ 2,255,250(1)(2)(3) |
| $ 1,875,000 | Aon Corporation, 8.205% 01/01/27 | 2,298,825(1) |
| 75,000 | Arch Capital Group, Ltd., 6.75% Pfd., Series C | 1,879,687**(1)(3) |
| 10,000 | Aspen Insurance Holdings Ltd., 5.95%, Pfd. | 250,600**(3) |
| | AXA SA: | |
| $ 1,516,000 | AXA SA, 6.379%, 144A**** | 1,580,430**(1)(2)(3) |
| $ 500,000 | AXA SA, 8.60% 12/15/30 | 646,250(3) |
| 358,650 | Axis Capital Holdings Ltd., 6.875% Pfd., Series C | 9,085,501**(1)(3) |
| 160,000 | Delphi Financial Group, 7.376% Pfd. 05/15/37 | 3,990,000(1)(2) |
| 39,000 | Endurance Specialty Holdings, 7.50% Pfd., Series B | 1,026,188**(3) |
| $ 6,314,000 | Everest Re Holdings, 6.60% 05/15/37 | 6,369,247(1)(2) |
| $ 8,300,000 | Liberty Mutual Group, 10.75% 06/15/58, 144A**** | 12,616,000(1)(2) |
| | MetLife: | |
| $ 2,855,000 | MetLife, Inc., 10.75% 08/01/39 | 4,311,050(1)(2) |
| $ 888,000 | MetLife Capital Trust IV, 7.875% 12/15/37, 144A**** | 1,041,180(1)(2) |
| $ 5,335,000 | MetLife Capital Trust X, 9.25% 04/08/38, 144A**** | 6,975,512(1) |
| 31,000 | PartnerRe Ltd., 7.250% Pfd., Series E | 800,110**(3) |
| 75,000 | Principal Financial Group, 6.518% Pfd., Series B | 1,880,438*(1) |
| $ 1,000,000 | Prudential Financial, Inc., 5.625% 06/15/43 | 1,037,500(1)(2) |
| | QBE Insurance: | |
| $ 1,400,000 | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A**** | 1,461,545(1)(3) |
| $ 3,000,000 | StanCorp Financial Group, 6.90% 06/01/67 | 3,030,000(1)(2) |
| | The Travelers Companies: | |
| $ 3,184,800 | USF&G Capital, 8.312% 07/01/46, 144A**** | 3,998,007(1)(2) |
| | Unum Group: | |
| $ 2,490,000 | Provident Financing Trust I, 7.405% 03/15/38 | 2,755,421(1) |
| | XL Group PLC: | |
| $ 8,250,000 | XL Capital Ltd., 6.50%, Series E | 8,177,813 (1)(3) |
| | | 77,466,554 |
| | **Utilities 15.8%** | |
| 6,050 | Alabama Power Company, 6.45% Pfd. | 159,380*(1) |
| 33,700 | Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993 | 3,421,605*(1) |
| | Commonwealth Edison: | |
| $ 3,160,000 | COMED Financing III, 6.35% 03/15/33 | 3,112,600(1)(2) |
| $ 3,100,000 | Dominion Resources, Inc., 7.50% 06/30/66 | 3,371,250(1)(2) |
| 83,000 | Entergy Arkansas, Inc., 6.45% Pfd. | 2,077,598*(1) |

Flaherty & Crumrine Total Return Fund Incorporated

## PORTFOLIO OF INVESTMENTS (Continued)

**February 28, 2014 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Preferred Securities (Continued)** | | |
| | **Utilities (Continued)** | |
| 59,850 | Entergy Louisiana, Inc., 6.95% Pfd. | $ 5,996,222*(1) |
| 70,791 | Georgia Power Company, 6.50% Pfd., Series 2007A | 7,256,078*(1) |
| 17,800 | Indianapolis Power & Light Company, 5.65% Pfd. | 1,680,988*(1) |
| 50,000 | Integrys Energy Group, Inc., 6.00% Pfd. | 1,248,075(1) |
| | Nextera Energy: | |
| $ 1,997,000 | FPL Group Capital, Inc., 6.65% 06/15/67 | 2,013,441(1) |
| $ 1,500,000 | FPL Group Capital, Inc., 7.30% 09/01/67, Series D | 1,651,278(1)(2) |
| | PECO Energy: | |
| $ 3,600,000 | PECO Energy Capital Trust IV, 5.75% 06/15/33 | 3,282,606(1)(2) |
| | PPL Corp: | |
| $ 3,450,000 | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A | 3,460,992(1)(2) |
| $ 3,900,000 | Puget Sound Energy, Inc., 6.974% 06/01/67 | 3,975,426(1)(2) |
| 44,864 | Southern California Edison, 6.50% Pfd., Series D | 4,646,228 *(1) |
| | | 47,353,767 |
| | **Energy 2.9%** | |
| $ 750,000 | DCP Midstream LLC, 5.85% 05/21/2043, 144A**** | 706,875 |
| $ 7,050,000 | Enbridge Energy Partners LP, 8.05% 10/01/37 | 7,946,034 (1)(2) |
| | | 8,652,909 |
| | **Real Estate Investment Trust (REIT) 3.2%** | |
| 7,500 | CommonWealth REIT, 7.25% Pfd., Series E | 180,235 |
| | Duke Realty Corp.: | |
| 8,000 | Duke Realty Corp, 6.50% Pfd., Series K | 193,000 |
| 21,000 | Duke Realty Corp, 6.60% Pfd., Series L | 510,122 |
| | Kimco Realty Corporation: | |
| 52,436 | Kimco Realty Corporation, 6.90% Pfd, Series H | 1,350,751 |
| | National Retail Properties: | |
| 35,000 | National Retail Properties, Inc., 5.70% Pfd, Series E | 726,688 |
| 14,970 | National Retail Properties, Inc., 6.625% Pfd, Series D | 357,371 |
| | PS Business Parks: | |
| 6,698 | PS Business Parks, Inc., 5.70% Pfd., Series V | 142,483 |
| 7,128 | PS Business Parks, Inc., 5.75%, Pfd., Series U | 151,898 |
| 56,000 | PS Business Parks, Inc., 6.45% Pfd., Series S | 1,329,020 |
| 35,000 | PS Business Parks, Inc., 6.875% Pfd., Series R | 885,850 |
| 148,030 | Realty Income Corporation, 6.625% Pfd., Series F | 3,702,230(1)(2) |
| 8,215 | Weingarten Realty Investors, 6.50% Pfd., Series F | 199,234 |
| | | 9,728,882 |

Flaherty & Crumrine Total Return Fund Incorporated

## PORTFOLIO OF INVESTMENTS (Continued)

**February 28, 2014 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Preferred Securities (Continued)** | | |
| | **Miscellaneous Industries 2.1%** | |
| 37,400 | Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A**** | $ 3,272,500* |
| 19,000 | Stanley Black & Decker, Inc., 5.75% Pfd. 07/25/52 | 449,470[1] |
| $ 2,850,000 | Textron Financial Corporation, 6.00% 02/15/67, 144A**** | 2,572,125 [1] |
| | | 6,294,095 |
| | **Total Preferred Securities** (Cost $263,476,448) | 272,336,261 |
| **Corporate Debt Securities 7.6%** | | |
| | **Banking 1.8%** | |
| $ 3,741,000 | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes | 4,282,547[1][2] |
| 24,770 | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes | 583,643 |
| 20,000 | Zions Bancorporation, 6.95%, 09/15/28, Sub Notes | 536,250 |
| | | 5,402,440 |
| | **Financial Services 0.4%** | |
| 28,603 | Affiliated Managers Group, Inc., 6.375% 08/15/42 | 699,672 |
| $ 4,726,012 | Lehman Brothers, Guaranteed Note, Variable Rate, 5.843% 12/16/16, 144A**** | 543,491[4][5] |
| 4,193 | Raymond James Financial, 6.90% 03/15/42 | 109,280 |
| | | 1,352,443 |
| | **Insurance 3.9%** | |
| $ 3,000,000 | Liberty Mutual Insurance, 7.697% 10/15/97, 144A**** | 3,228,864[1][2] |
| | Unum Group: | |
| $ 7,000,000 | UnumProvident Corporation, 7.25% 03/15/28 | 8,428,007 [1][2] |
| | | 11,656,871 |
| | **Energy 0.7%** | |
| $ 1,600,000 | Energy Transfer Partners LP, 8.25%, 11/15/2029 | 1,984,050 [1] |
| | | 1,984,050 |
| | **Real Estate Investment Trust (REIT) 0.0%** | |
| 7,031 | CommonWealth REIT, 7.50% 11/15/19 | 147,651 |
| | | 147,651 |

Flaherty & Crumrine Total Return Fund Incorporated

## PORTFOLIO OF INVESTMENTS (Continued)

**February 28, 2014 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Corporate Debt Securities (Continued)** | | |
| | **Miscellaneous Industries 0.8%** | |
| | Pulte Group Inc.: | |
| $ 2,160,000 | Pulte Homes, Inc., 7.875% 06/15/32 | $ 2,332,800 (1)(2) |
| | | 2,332,800 |
| | **Total Corporate Debt Securities** (Cost $20,782,983) | 22,876,255 |
| **Common Stock 0.3%** | | |
| | **Banking 0.2%** | |
| 13,500 | CIT Group, Inc. | 657,180* |
| | | 657,180 |
| | **Utilities 0.1%** | |
| 11,750 | Exelon Corporation | 357,318* |
| | | 357,318 |
| | **Total Common Stock** (Cost $3,031,124) | 1,014,498 |
| **Money Market Fund 0.1%** | | |
| | BlackRock Liquidity Funds: | |
| 356,835 | T-Fund | 356,835 |
| | **Total Money Market Fund** (Cost $356,835) | 356,835 |

| | | |
|---|---|---|
| **Total Investments** (Cost $287,647,390***) | 98.7% | $ 296,583,849 |
| **Other Assets And Liabilities (Net)** | 1.3% | 3,803,166 |
| **Total Managed Assets** | 100.0% | $ 300,387,015 |
| **Loan Principal Balance** | | (102,900,000) |
| **Total Net Assets Available To Common Stock** | | $ 197,487,015 |

* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.
** Securities distributing Qualified Dividend Income only.
*** Aggregate cost of securities held.

Flaherty & Crumrine Total Return Fund Incorporated

## PORTFOLIO OF INVESTMENTS (Continued)

**February 28, 2014 (Unaudited)**

**** 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, 2014, these securities amounted to $64,392,890 or 21.4% 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 $188,423,905 at February 28, 2014.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was $75,025,177 at February 28, 2014.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 28, 2014.

(6) Represents the rate in effect as of the reporting date.

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 & Crumrine Total Return Fund Incorporated

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK[1]

**For the period from December 1, 2013 through February 28, 2014 (Unaudited)**

| | Value |
|---|---|
| **OPERATIONS:** | |
| Net investment income | $ 3,799,393 |
| Net realized gain/(loss) on investments sold during the period | 2,319,315 |
| Change in net unrealized appreciation/(depreciation) of investments | 2,671,410 |
| **Net increase in net assets resulting from operations** | **8,790,118** |
| **DISTRIBUTIONS:** | |
| Dividends paid from net investment income to Common Stock Shareholders[2] | (4,948,909) |
| **Total Distributions to Common Stock Shareholders** | **(4,948,909)** |
| **NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD** | **$ 3,841,209** |
| **NET ASSETS AVAILABLE TO COMMON STOCK:** | |
| Beginning of period | $ 193,645,806 |
| Net increase in net assets during the period | 3,841,209 |
| End of period | $ 197,487,015 |

(1) These tables summarize the three months ended February 28, 2014 and should be read in conjunction with the Fund s audited financial statements, including footnotes, in its Annual Report dated November 30, 2013.

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

Flaherty & Crumrine Total Return Fund Incorporated

## FINANCIAL HIGHLIGHTS[(1)]

**For the period from December 1, 2013 through February 28, 2014 (Unaudited)**

**For a Common Stock share outstanding throughout the period**

| | |
|---|---|
| **PER SHARE OPERATING PERFORMANCE:** | |
| Net asset value, beginning of period | $ 19.56 |
| **INVESTMENT OPERATIONS:** | |
| Net investment income | 0.38 |
| Net realized and unrealized gain/(loss) on investments. | 0.51 |
| Total from investment operations | 0.89 |
| **DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:** | |
| From net investment income | (0.50) |
| Total distributions to Common Stock Shareholders | (0.50) |
| Net asset value, end of period | $ 19.95 |
| Market value, end of period | $ 19.25 |
| Common Stock shares outstanding, end of period | 9,897,817 |
| **RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:** | |
| Net investment income | 7.96%* |
| Operating expenses including interest expense | 1.84%* |
| Operating expenses excluding interest expense | 1.30%* |
| **SUPPLEMENTAL DATA:** | |
| Portfolio turnover rate | 8%** |
| Total managed assets, end of period (in 000 s) | 300,387 |
| Ratio of operating expenses including interest expense to total managed assets | 1.20%* |
| Ratio of operating expenses excluding interest expense to total managed assets | 85%* |

(1) These tables summarize the three months ended February 28, 2014 and should be read in conjunction with the Fund s audited financial statements, including footnotes, in its Annual Report dated November 30, 2013.

* 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.

## FINANCIAL HIGHLIGHTS (Continued)

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

| | Total Dividends Paid | Net Asset Value | NYSE Closing Price | Dividend Reinvestment Price[1] |
|---|---|---|---|---|
| December 31, 2013 | $ 0.2280 | $ 19.24 | $ 18.57 | $ 18.67 |
| January 31, 2014 | 0.1360 | 19.59 | 18.73 | 18.75 |
| February 28, 2014 | 0.1360 | 19.95 | 19.25 | 19.24 |

(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.

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## NOTES TO FINANCIAL STATEMENTS (Unaudited)

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

At February 28, 2014, the aggregate cost of securities for federal income tax purposes was $298,460,925, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was $20,909,749 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was $22,786,825.

**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, 2014 is as follows:

| | Total Value at February 28, 2014 | Level 1 Quoted Price | Level 2 Significant Observable Inputs | Level 3 Significant Unobservable Inputs |
|---|---|---|---|---|
| Preferred Securities | | | | |
| Banking | $ 117,216,378 | $ 87,414,670 | $ 29,786,708 | $ 15,000 |
| Financial Services | 5,623,676 | 4,917,096 | 706,580 | |
| Insurance | 77,466,554 | 49,081,579 | 28,384,975 | |
| Utilities | 47,353,767 | 11,745,036 | 35,608,731 | |
| Energy | 8,652,909 | 7,946,034 | 706,875 | |
| Real Estate Investment Trust (REIT) | 9,728,882 | 9,728,882 | | |
| Miscellaneous Industries | 6,294,095 | 449,470 | 5,844,625 | |
| Corporate Debt Securities | 22,876,255 | 2,076,496 | 20,256,268 | 543,491 |
| Common Stock | | | | |
| Banking | 657,180 | 657,180 | | |
| Utilities | 357,318 | 357,318 | | |
| Money Market Fund | 356,835 | 356,835 | | |
| Total Investments | $ 296,583,849 | $ 174,730,596 | $ 121,294,762 | $ 558,491 |

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

During the reporting period, there were no transfers into Level 1 from Level 2 or into Level 2 from Level 1.

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 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** | **Corporate Debt Securities** |
| **Balance as of 11/30/13** | $ 498,046 | $ 15,000 | $ 483,046 |
| Accrued discounts/premiums | | | |
| Realized gain/(loss) | | | |
| Change in unrealized appreciation/(depreciation) | 60,445 | | 60,445 |
| Purchases | | | |
| Sales | | | |
| Transfers in | | | |
| Transfers out | | | |
| **Balance as of 02/28/14** | $ 558,491 | $ 15,000 | $ 543,491 |

For the three months ended February 28, 2014, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was $60,445.

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## 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 02/28/14 | Valuation Technique | Unobservable Input | Input Range (Wgt Avg) |
|---|---|---|---|---|
| Preferred Securities | | | | |
| Banking | $ 15,000 | Bankruptcy recovery | Credit/Structure-specific recovery | 0.00%-0.50% (0.15%) |
| Corporate Debt | | | | |
| Securities | 543,491 | Bankruptcy recovery | Credit/Structure-specific recovery | 10%-20% (11.5%) |

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

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Vice President and

Assistant Treasurer

Laurie C. Lodolo

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Assistant Treasurer and

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**Investment Adviser**

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1-877-855-3434

**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 c/o Computershare

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**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, 2014

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