COHEN & STEERS TOTAL RETURN REALTY FUND INC
Form N-CSR
March 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-7154

Cohen & Steers Total Return Realty Fund, Inc.
(Exact name of registrant as specified in charter)

280 Park Avenue, New York, NY	10017
(Address of principal executive offices)	(Zip code)

Adam M. Derechin
Cohen & Steers Capital Management, Inc.
280 Park Avenue
New York, New York 10017
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 832-3232

Date of fiscal year end: December 31

Date of reporting period: December 31, 2010

Item 1. Reports to Stockholders.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

To Our Shareholders:

We would like to share with you our report for the year ended December 31, 2010. The net asset value (NAV) at that date was $12.48 per common share. The Fund's common stock is traded on the New York Stock Exchange (NYSE) and its share price can differ from its NAV; at year end, the Fund's closing price on the NYSE was $14.88.

The total returns, including income, for the Fund and its comparative benchmarks were:

	Six Months Ended December 31, 2010	Year Ended December 31, 2010
Cohen & Steers Total Return Realty Fund at Market Value	58.24%	71.12%
Cohen & Steers Total Return Realty Fund at Net Asset Value[a]	18.28%	25.41%
FTSE NAREIT Equity REIT Index[b]	21.22%	27.96%
S&P 500 Index[b]	23.27%	15.06%
Blended benchmark 80% FTSE NAREIT Equity REIT Index, 20% BofA Merrill Lynch REIT Preferred Index[b]	18.29%	25.36%

The performance data quoted represent past performance. Past performance is no guarantee of future results. The investment return and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Current total returns of the Fund can be obtained by visiting our Web site at cohenandsteers.com.

The Fund implements fair value pricing when the daily change in a specific U.S. market index exceeds a predetermined percentage. Fair value pricing adjusts the valuation of non-U.S. holdings to account for such index change following the close of foreign markets. This standard practice has been adopted by a majority of the fund industry to deter investors from arbitraging funds with a large percentage of non-U.S. holdings. In the event fair value pricing is implemented on the first and/or last day of a performance measurement period, the Fund's return may diverge from the relative performance of its benchmark index, which does not use fair value pricing. An investor cannot invest directly in an index.

The Fund makes regular quarterly distributions at a level rate (the "Policy"). Distributions paid by the Fund are subject to recharacterization for tax purposes and are taxable up to the amount of the Fund's investment company taxable income and net realized gains. As a result of the Policy, the Fund may pay distributions in excess of the Fund's investment company taxable income and realized gains. This excess would be a "return of capital"

[a] As a closed-end investment company, the price of the Fund's NYSE-traded shares will be set by market forces and at times may deviate from the NAV per share of the Fund.

[b] The FTSE NAREIT Equity REIT Index is an unmanaged, market-capitalization-weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate. The index is designed to reflect the performance of all publicly traded equity REITs as a whole. The S&P 500 Index is an unmanaged index of common stocks that is frequently used as a general measure of stock market performance. The Merrill Lynch REIT Preferred Index is an unmanaged index of real estate preferred securities.

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COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

distributed from the Fund's assets. Distributions of capital decrease the Fund's total assets and, therefore, could have the effect of increasing the Fund's expense ratio. In addition, in order to make these distributions, the Fund may have to sell portfolio securities at a less than opportune time.

Investment Review

U.S. real estate securities achieved exceptionally strong returns in 2010, fueled by improving fundamentals and a significant compression in cap rates. The year also marked a shift from defense to offense: having recapitalized in 2009, many REITs began to make acquisitions and raise dividends. Investors noticed, and rewarded them for it.

After a rough start in January, REIT shares rallied as companies reported strong earnings, stabilizing rents and higher occupancies, particularly among Class A properties. But in May, stocks retreated globally when Greece was forced to accept emergency loans to avoid default, sparking fears that fiscal troubles in Europe could have a global impact. A volatile summer ensued as economists debated whether the United States would be pulled into a double-dip recession.

Markets revived in August on hints of a second round of quantitative easing by the Federal Reserve, which was enacted in November. European sovereign risk resurfaced in the fourth quarter, but encouraging retail sales and the extension of low tax rates fueled a strong finish to the year.

Early-cyclical REITs led the way

Every property sector advanced in 2010, led by those poised to gain the most from improving economic conditions. Apartment REITs (which had a total return of +47.0%[c]) were the top performers, benefiting from tight supply, relatively short leases and reduced interest in home buying. While apartment revenues are generally linked to employment, job growth among younger workers near urban centers a major renting constituency was comparatively healthy.

In the hotel sector (+42.8%), RevPAR (revenue per available room) estimates rose substantially during the year amid strengthening demand, an increase in higher-paying business travelers and little new supply in the pipeline. Regional mall owners (+34.6%) were also strong, although companies with higher-quality portfolios underperformed, having already experienced significant cap-rate compression in 2009.

Among shopping center REITs (+30.8%), big box power centers did particularly well, as they were successful at finding stable national brands to replace tenants that had gone bankrupt during the recession. In contrast, grocery-anchored centers struggled to maintain occupancy, since their tenants tend to be local businesses less able to cope with the tepid economy.

[c] Sector returns in USD, as measured by the FTSE NAREIT Equity REIT Index.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Office and health care rose, but still trailed other sectors

Office REITs (+18.4%) saw strong demand in core urban markets, supporting a rise in occupancies and rents. Boston Properties' acquisition of the John Hancock Tower underscored the strength of this segment. However, suburban offices were more vulnerable, weighed down by excess supply and tenants that renewed leases at reduced square footage following headcount cuts. The traditionally defensive health care sector (+19.2%) behaved less "bond-like" than it has historically. Further, health care REITs executed significant and generally cash-flow-accretive acquisitions throughout the year.

Preferred issues see improved LBO protections

In the yield-starved market, investors scooped up newly issued REIT preferred securities, attracted to preferreds' high income rates and improving real estate fundamentals. (REIT preferreds had a total return of +14.0%[d] in 2010.) Smaller REITs, in particular, were active issuers as they ramped up acquisitions to take advantage of an improving business cycle. Notably, most new issues provided better LBO protections compared to past offerings, with some enabling the shares to be exchanged for common stock or cash based on their liquidation value significantly reducing the potential loss in the event of a private takeover. Cohen & Steers actively sought the enhanced protections in these deals and played a key role in drafting the document language.

Fund performance

The Fund achieved a strong return on NAV for the year and performed in line with its blended benchmark. Positive factors to relative returns included stock selection in shopping center REITs, where we focused on high-quality assets anchored by big-box stores. Also contributing was our early underweight in the apartment sector, transitioning to overweight later in the year as the economic outlook improved and cyclical sectors outperformed. Stock selection in the office sector was beneficial, as we targeted owners of central business district properties with strong fundamentals.

The industrial sector (which returned +18.9% in the NAREIT index) was a major detractor for the year: we were bullish on the sector's largest component, which underperformed in part due to its exposure to European markets. Stock selection in the health care and regional mall sectors also weighed on the portfolio. We focused on larger mall owners that we believed would benefit from acquisition opportunities and low capital costs; these holdings achieved strong absolute returns, but they underperformed the stellar returns of smaller, more-leveraged companies with lower-quality assets.

The Fund's allocation to preferred securities was a large contributor to relative returns. Security selection was beneficial overall, including issues from shopping center REITs and our out-of-index holdings in the office, shopping center and hotel sectors. Our positions in preferreds issued by office/industrial flex-space companies hurt.

[d] As measured by the BofA Merrill Lynch REIT Preferred Index.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

The Fund may sell put or covered call options on an index or a security with the intention of earning option premiums, potentially increasing distributable income and reducing volatility. In 2010, the Fund's use of these options did not have a material impact on performance.

Investment Outlook

The U.S. economy appears to be heading in the right direction, even though the recovery has been slow. We are also mindful of potential risks, including high unemployment, a burgeoning Federal deficit, fiscal strain in parts of Europe and monetary tightening in China, all of which demand close monitoring.

Fundamentals have bottomed in most property sectors, in our view, likely leading to healthy dividend increases, more public equity offerings and an increase in acquisition activity. But with cap-rate compression having essentially run its course, further multiple expansion will require cash flow growth, which we expect to accelerate in 2011. We are also mindful of the need to protect asset values in the face of rising interest rates over the coming year, leading us to favor companies with strong fundamental drivers that we believe will be in a position to demand rent increases.

We are oriented toward economically sensitive sectors, such as apartments, which we believe will benefit from an increase in household formation. One risk to apartment owners is that more renters become buyers as home prices fall and mortgage financing become more readily available. Hotel REITs remain attractive from a cyclical standpoint, but we note that current share prices have already factored in strong revenue growth and tight supply over the next three to four years. We continue to be positive on regional mall owners, targeting larger companies in the sector.

We remain cautious in the office sector, with a focus on core urban markets, as we have concerns about the fundamental recovery in suburban areas. However, we have been selectively adding to our suburban office holdings in cases where relative values have become more attractive. We are also maintaining a reduced allocation to healthcare and industrial REITs on valuation.

In the preferred securities market, while many financial issuers will likely limit issuance until further clarity on financial reform is available, we believe REITs will continue to issue new preferreds to take advantage of accretive acquisition opportunities and the improving economic climate. Given the generally attractive yields and wide credit spreads offered by these securities, we expect the supply to be met with strong investor demand.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Sincerely,

MARTIN COHEN
Co-chairman

ROBERT H. STEERS
Co-chairman

JOSEPH M. HARVEY
Portfolio Manager

WILLIAM F. SCAPELL
Portfolio Manager

THOMAS N. BOHJALIAN
Portfolio Manager

The views and opinions in the preceding commentary are subject to change. There is no guarantee that any market forecast set forth in the commentary will be realized. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

Visit Cohen & Steers online at cohenandsteers.com

For more information about any of our funds, visit cohenandsteers.com, where you will find daily net asset values, fund fact sheets and portfolio highlights. You can also access newsletters, education tools and market updates covering the global real estate, listed infrastructure, utilities, large cap value and preferred securities sectors.

In addition, our Web site contains comprehensive information about our firm, including our most recent press releases, profiles of our senior investment professionals and an overview of our investment approach.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

DECEMBER 31, 2010

Top Ten Holdings[a]
(Unaudited)

Security	Value	% of Net Assets
Simon Property Group	$ 12,451,870	10.6%
Equity Residential	6,934,078	5.9
Public Storage	5,625,362	4.8
Boston Properties	4,093,452	3.5
AvalonBay Communities	3,442,679	2.9
Vornado Realty Trust	3,429,613	2.9
ProLogis	3,398,685	2.9
Host Hotels & Resorts	3,273,480	2.8
Kimco Realty Corp.	3,203,309	2.7
Developers Diversified Realty Corp.	2,863,919	2.4

[a] Top ten holdings are determined on the basis of the value of individual securities held. All of the securities listed above are common stock. The Fund may also hold positions in other types of securities issued by the companies listed above. See the Schedule of Investments for additional details on such other positions.

Sector Breakdown

(Based on Net Assets)
(Unaudited)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

December 31, 2010

		Number of Shares	Value
COMMON STOCK	80.0%		
BANK	0.2%		
SJB Escrow Corp., Class A, 144A[a,b,c,d]		11,400	$ 228,000
REAL ESTATE	79.8%		
DIVERSIFIED	4.6%		
Forest City Enterprises[d]		81,640	1,362,571
Lexington Realty Trust		73,879	587,338
Vornado Realty Trust		41,157	3,429,613
			5,379,522
HEALTH CARE	8.5%		
Brookdale Senior Living[d]		29,840	638,874
Cogdell Spencer		151,678	879,732
HCP		34,806	1,280,513
Health Care REIT		53,027	2,526,206
LTC Properties		22,068	619,670
Nationwide Health Properties		26,754	973,311
Sabra Health Care REIT		17,900	329,360
Ventas		52,867	2,774,460
			10,022,126
HOTEL	5.8%		
Hersha Hospitality Trust		99,619	657,486
Hospitality Properties Trust		27,384	630,927
Host Hotels & Resorts		183,183	3,273,480
Hyatt Hotels Corp., Class A[d]		22,583	1,033,398
Sunstone Hotel Investors[d]		123,793	1,278,782
			6,874,073
INDUSTRIAL	3.6%		
AMB Property Corp.		28,231	895,205
ProLogis		235,366	3,398,685
			4,293,890

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

		Number of Shares	Value
OFFICE	8.3%		
Boston Properties		47,543	$ 4,093,452
Brandywine Realty Trust		6,247	72,778
Douglas Emmett		37,838	628,111
Liberty Property Trust		46,768	1,492,835
Mack-Cali Realty Corp.		48,624	1,607,509
SL Green Realty Corp.		27,284	1,841,943
			9,736,628
OFFICE/INDUSTRIAL	0.8%		
PS Business Parks		16,774	934,647
RESIDENTIAL	19.2%		
APARTMENT	18.5%		
Apartment Investment & Management Co.		97,328	2,514,956
Associated Estates Realty Corp.		62,718	958,958
AvalonBay Communities		30,588	3,442,679
BRE Properties		40,117	1,745,090
Camden Property Trust		19,469	1,050,937
Colonial Properties Trust		35,066	632,941
Equity Residential		133,476	6,934,078
Essex Property Trust		8,234	940,487
Post Properties		26,666	967,976
UDR		109,028	2,564,339
			21,752,441
MANUFACTURED HOME	0.7%		
Equity Lifestyle Properties		15,444	863,783
TOTAL RESIDENTIAL			22,616,224
SELF STORAGE	4.9%		
Public Storage		55,466	5,625,362
U-Store-It Trust		19,419	185,063
			5,810,425

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

		Number of Shares	Value
SHOPPING CENTER	21.3%		
COMMUNITY CENTER	8.0%		
Acadia Realty Trust		49,300	$ 899,232
Developers Diversified Realty Corp.		203,259	2,863,919
Kimco Realty Corp.		177,567	3,203,309
Ramco-Gershenson Properties Trust		71,722	892,939
Regency Centers Corp.		14,981	632,797
Urstadt Biddle Properties Class A		48,776	948,693
			9,440,889
REGIONAL MALL	13.3%		
General Growth Properties[d]		94,457	1,462,194
Macerich Co.		6,404	303,358
Pennsylvania REIT		38,649	561,570
Simon Property Group		125,157	12,451,870
Taubman Centers		18,467	932,214
			15,711,206
TOTAL SHOPPING CENTER			25,152,095
SPECIALTY	2.8%		
Digital Realty Trust		26,274	1,354,162
DuPont Fabros Technology		46,422	987,396
Rayonier		17,866	938,322
			3,279,880
TOTAL REAL ESTATE			94,099,510
TOTAL COMMON STOCK (Identified cost $69,159,727)			94,327,510
PREFERRED SECURITIES $25 PAR VALUE	16.0%		
BANK FOREIGN	0.3%		
National Westminster Bank PLC, 7.76%, Series C		13,358	290,270
INSURANCE MULTI-LINE FOREIGN	0.3%		
ING Groep N.V., 7.375%		15,000	347,700

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

		Number of Shares	Value
REAL ESTATE	15.4%		
DIVERSIFIED	3.6%		
Capital Lease Funding, 8.125%, Series A		20,000	$ 500,500
Cousins Properties, 7.75%, Series A		26,725	662,780
Duke Realty Corp., 6.95%, Series M		9,993	238,633
DuPont Fabros Technology, 7.875%, Series A		20,000	499,200
Forest City Enterprises, 7.375%, due 2/1/34, Class A		38,000	865,260
Lexington Realty Trust, 6.50%, Series C ($50 par value)		24,900	1,063,728
Lexington Realty Trust, 7.55%, Series D		16,500	394,185
Vornado Realty Trust, 6.625%, Series G		2,411	55,935
			4,280,221
HEALTH CARE	0.3%		
Health Care REIT, 7.625%, Series F		14,100	356,166
HOTEL	0.7%		
Hospitality Properties Trust, 7.00%, Series C		16,000	383,680
LaSalle Hotel Properties, 7.25%, Series G		8,900	211,464
Sunstone Hotel Investors, 8.00%, Series A		8,225	202,335
			797,479
INDUSTRIAL	0.5%		
ProLogis Trust, 6.75%, Series F		25,000	575,000
OFFICE	0.9%		
BioMed Realty Trust, 7.375%, Series A		32,800	820,328
Parkway Properties, 8.00%, Series D		10,000	256,800
			1,077,128
OFFICE/INDUSTRIAL	0.7%		
PS Business Parks, 6.70%, Series P		33,538	798,540
RESIDENTIAL APARTMENT	2.5%		
Alexandria Real Estate Equities, 7.00%, Series D		45,000	1,113,750
Apartment Investment & Management Co., 7.75%, Series U		75,000	1,882,500
			2,996,250

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

		Number of Shares	Value
SELF STORAGE	0.5%		
Public Storage, 6.50%, Series P		25,000	$ 612,750
SHOPPING CENTER	5.0%		
COMMUNITY CENTER	3.4%		
Cedar Shopping Centers, 8.875%, Series A		25,000	628,250
Developers Diversified Realty Corp., 8.00%, Series G		30,000	747,300
Developers Diversified Realty Corp., 7.375%, Series H		19,900	470,635
Kimco Realty Corp., 6.90%, Series H		20,000	482,000
Kite Realty Group Trust, 8.25%, Series A		10,000	250,250
Regency Centers Corp., 7.25%, Series D		19,020	470,364
Saul Centers, 8.00%, Series A		18,700	472,923
Urstadt Biddle Properties, 8.50%, Series C ($100 par value)[c]		4,000	415,020
			3,936,742
REGIONAL MALL	1.6%		
CBL & Associates Properties, 7.75%, Series C		16,000	389,760
CBL & Associates Properties, 7.375%, Series D		49,998	1,180,953
Simon Property Group, 8.375%, Series J ($50 par value)[c]		5,300	323,300
			1,894,013
TOTAL SHOPPING CENTER			5,830,755
SPECIALTY	0.7%		
Entertainment Properties Trust, 9.00%, Series E		30,000	840,600
TOTAL REAL ESTATE			18,164,889
TOTAL PREFERRED SECURITIES $25 PAR VALUE (Identified cost $16,656,046)			18,802,859
PREFERRED SECURITIES CAPITAL SECURITIES	0.9%		
BANK	0.5%		
Farm Credit Bank of Texas, 10.00%, due 12/15/20, Series 1		500	540,156
INSURANCE PROPERTY CASUALTY	0.4%		
Liberty Mutual Group, 10.75%, due 6/15/58, 144A[b]		390,000	475,800

TOTAL PREFERRED SECURITIES CAPITAL SECURITIES (Identified cost $883,145)	1,015,956

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

		Principal Amount	Value
CORPORATE BONDS	0.9%		
REAL ESTATE			
OFFICE	0.4%		
BR Properties SA, 9.00%, due 10/29/49, 144A (Brazil)[a,b,c]		$ 500,000	$ 497,500
SHOPPING CENTER	0.5%		
General Shopping Finance Ltd., 10.00%, due 11/29/49, 144A (Cayman Islands)[b]		620,000	596,750
TOTAL CORPORATE BONDS (Identified cost $1,120,000)			1,094,250
		Number of Shares	
SHORT-TERM INVESTMENTS	2.1%		
MONEY MARKET FUNDS			
Federated Government Obligations Fund, 0.02%[e]		1,250,000	1,250,000
State Street Institutional Liquid Reserves Fund, 0.18%[e]		1,250,000	1,250,000
TOTAL SHORT-TERM INVESTMENTS (Identified cost $2,500,000)			2,500,000
TOTAL INVESTMENTS (Identified cost $90,318,918)	99.9%		117,740,575
OTHER ASSETS IN EXCESS OF LIABILITIES	0.1		126,733
NET ASSETS (Equivalent to $12.48 per share based on 9,447,190 shares of common stock outstanding)	100.0%		$ 117,867,308

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

Glossary of Portfolio Abbreviation

REIT Real Estate Investment Trust

Note: Percentages indicated are based on the net assets of the Fund.

[a] Fair valued security. This security has been valued at its fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors. Aggregate fair value securities represent 0.6% of net assets of the Fund.

[b] Resale is restricted to qualified institutional investors. Aggregate holdings equal 1.5% of net assets of the Fund, of which 0.6% are illiquid.

[c] Illiquid security. Aggregate holdings equal 1.2% of net assets of the Fund.

[d] Non-income producing security.

[e] Rate quoted represents the seven day yield of the fund.

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2010

ASSETS:	
Investments in securities, at value (Identified cost $90,318,918)	$ 117,740,575
Cash	2,933
Receivable for:	
Investment securities sold	655,746
Dividends and interest	537,545
Other assets	2,070
Total Assets	118,938,869
LIABILITIES:	
Payable for:	
Investment securities purchased	879,592
Investment advisory fees	71,813
Other liabilities	120,156
Total Liabilities	1,071,561
NET ASSETS	$ 117,867,308
NET ASSETS consist of:	
Paid-in capital	$ 90,995,677
Accumulated undistributed net investment income	282,026
Accumulated net realized loss	(832,052)
Net unrealized appreciation	27,421,657
	$ 117,867,308
NET ASSET VALUE PER SHARE:	
($117,867,308 ÷ 9,447,190 shares outstanding)	$ 12.48
MARKET PRICE PER SHARE	$ 14.88
MARKET PRICE PREMIUM TO NET ASSET VALUE PER SHARE	19.23%

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2010

Investment Income:	
Dividend income	$ 3,212,401
Interest income	171,355
Total Income	3,383,756
Expenses:	
Investment advisory fees	801,966
Professional fees	88,361
Shareholder reporting expenses	51,893
Custodian fees and expenses	49,585
Administration fees	34,503
Transfer agent fees and expenses	23,084
Directors' fees and expenses	10,815
Miscellaneous	38,394
Total Expenses	1,098,601
Net Investment Income	2,285,155
Net Realized and Unrealized Gain (Loss):	
Net realized gain (loss) on:	
Investments	12,720,091
Options	43,896
Foreign currency transactions	(17,164)
Net realized gain	12,746,823
Net change in unrealized appreciation (depreciation) on:	
Investments	11,632,271
Foreign currency translations	72
Net change in unrealized appreciation (depreciation)	11,632,343
Net realized and unrealized gain	24,379,166
Net Increase in Net Assets Resulting from Operations	$ 26,664,321

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009
Change in Net Assets:		
From Operations:		
Net investment income	$ 2,285,155	$ 2,998,980
Net realized gain	12,746,823	20,415
Net change in unrealized appreciation	11,632,343	26,357,668
Net increase in net assets resulting from operations	26,664,321	29,377,063
Dividends and Distributions to Shareholders from:		
Net investment income	(2,486,845)	(3,397,001)
Net realized gain	(11,011,975)	
Tax return of capital		(1,522,086)
Total dividends and distributions to shareholders	(13,498,820)	(4,919,087)
Capital Stock Transactions:		
Increase in net assets from Fund share transactions	1,032,376	93,884
Total increase in net assets	14,197,877	24,551,860
Net Assets:		
Beginning of year	103,669,431	79,117,571
End of year[a]	$ 117,867,308	$ 103,669,431

[a] Includes accumulated undistributed net investment income of $282,026 and $135,557, respectively.

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

FINANCIAL HIGHLIGHTS

The following table includes selected data for a share outstanding throughout each year and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

	For the Year Ended December 31,				
Per Share Operating Performance:	2010	2009	2008	2007	2006
Net asset value, beginning of year	$ 11.06	$ 8.45	$ 13.93	$ 19.74	$ 18.01
Income from investment operations:					
Net investment income	0.29	0.36	0.44	0.52[a]	0.52
Net realized and unrealized gain (loss)	2.56	2.78	(4.58)	(3.64)	4.16
Total income (loss) from investment operations	2.85	3.14	(4.14)	(3.12)	4.68
Less dividends and distributions to shareholders from:					
Net investment income	(0.27)	(0.37)	(0.41)	(0.52)	(0.53)
Net realized gain	(1.17)		(0.18)	(1.52)	(2.02)
Tax return of capital		(0.16)	(0.76)	(0.65)	(0.40)
Total dividends and distributions to shareholders	(1.44)	(0.53)	(1.35)	(2.69)	(2.95)
Anti-dilutive effect from the issuance of shares	0.01	0.00[b]	0.01		
Net increase (decrease) in net asset value	1.42	2.61	(5.48)	(5.81)	1.73
Net asset value, end of year	$ 12.48	$ 11.06	$ 8.45	$ 13.93	$ 19.74
Market value, end of year	$ 14.88	$ 9.68	$ 7.35	$ 13.19	$ 20.32
Total net asset value return[c]	25.41%[d]	40.21%	32.15%	15.92%	26.68%
Total market value return[c]	71.12%	41.08%	37.72%	22.60%	26.74%
Ratios/Supplemental Data:					
Net assets, end of year (in millions)	$ 117.9	$ 103.7	$ 79.1	$ 128.8	$ 182.6
Ratio of expenses to average daily net assets	0.96%	1.13%	1.00%	0.92%	0.88%
Ratio of net investment income to average daily	1.99%	3.79%	3.62%	2.48%	2.70%

net assets					
Portfolio turnover rate	101%	101%	33%	29%	18%

[a] 5.6% of net investment income was attributable to a special dividend paid by Boston Properties, Inc.

[b] Amount is less than $0.005.

[c] Total market value return is computed based upon the New York Stock Exchange market price of the Fund's shares and excludes the effects of brokerage commissions. Total net asset value return measures the changes in value over the period indicated, taking into account dividends as reinvested. Dividends and distributions, if any, are assumed for purposes of these calculations, to be reinvested at prices obtained under the Fund's dividend reinvestment plan.

[d] Does not reflect adjustments in accordance with accounting principles generally accepted in the United States of America. The net asset value for financial reporting purposes and the returns based upon those net asset values differ from the net asset value and returns reported on December 31, 2010.

See accompanying notes to financial statements.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Cohen & Steers Total Return Realty Fund, Inc. (the Fund) was incorporated under the laws of the State of Maryland on September 4, 1992 and is registered under the Investment Company Act of 1940 as amended, as a nondiversified, closed-end management investment company. The Fund's investment objective is maximum total return.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Portfolio Valuation: Investments in securities that are listed on the New York Stock Exchange are valued, except as indicated below, at the last sale price reflected at the close of the New York Stock Exchange on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices for the day or, if no asked price is available, at the bid price. Exchange traded options are valued at their last sale price as of the close of options trading on applicable exchanges. In the absence of a last sale, options are valued at the average of the quoted bid and asked prices as of the close of business. Over-the-counter options quotations are provided by the respective counterparty when such prices are believed by the Board of Directors to reflect the fair market value.

Securities not listed on the New York Stock Exchange but listed on other domestic or foreign securities exchanges are valued in a similar manner. Securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the tape at the close of the exchange representing the principal market for such securities. If after the close of a foreign market, but prior to the close of business on the day the securities are being valued, market conditions change significantly, certain foreign securities may be fair valued pursuant to procedures established by the Board of Directors.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by Cohen & Steers Capital Management, Inc. (the advisor) to be over-the-counter, are valued at the official closing prices as reported by sources as the Board of Directors deem appropriate to reflect their fair market value. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices for the day, or if no asked price is available, at the bid price. However, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the Board of Directors to reflect the fair market value of such securities.

Securities for which market prices are unavailable, or securities for which the advisor determines that the bid and/or asked price or a counterparty valuation does not reflect market value, will be valued at fair value pursuant

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

to procedures approved by the Fund's Board of Directors. Circumstances in which market prices may be unavailable include, but are not limited to, when trading in a security is suspended, the exchange on which the security is traded is subject to an unscheduled close or disruption or material events occur after the close of the exchange on which the security is principally traded. In these circumstances, the Fund determines fair value in a manner that fairly reflects the market value of the security on the valuation date based on consideration of any information or factors it deems appropriate. These may include, but are not limited to, recent transactions in comparable securities, information relating to the specific security and developments in the markets.

The Fund's use of fair value pricing may cause the net asset value of Fund shares to differ from the net asset value that would be calculated using market quotations. Fair value pricing involves subjective judgments and it is possible that the fair value determined for a security may be materially different than the value that could be realized upon the sale of that security.

Short-term debt securities with a maturity date of 60 days or less are valued at amortized cost, which approximates value. Investments in open-end mutual funds are valued at their closing net asset value.

Fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in an orderly transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. The hierarchy of inputs that are used in determining the fair value of the Fund's investments is summarized below:

- Level 1 quoted prices in active markets for identical investments

- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, 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.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

When foreign fair value pricing procedures are utilized, securites are categorized as Level 2. The utilization of these procedures results in transfers between Level 1 and Level 2. The following is a summary of the inputs used as of December 31, 2010 in valuing the Fund's investments carried at value:

	Total	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock Bank	$ 228,000	$	$	$ 228,000
Common Stock Other Industries	94,099,510	94,099,510		
Preferred Securities $25 Par Value	18,802,859	18,802,859		
Preferred Securities Capital Securities	1,015,956		1,015,956	
Corporate Bonds Real Estate Office	497,500			497,500
Corporate Bonds Real Estate Shopping Center	596,750		596,750	
Money Market Funds	2,500,000		2,500,000	
Total Investments	$ 117,740,575	$ 112,902,369	$ 4,112,706	$ 725,500

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Total Investments in Securities	Common Stock Bank	Corporate Bonds Real Estate Office
Balance as of December 31, 2009			
Change in unrealized appreciation (depreciation)	$ (2,500)		$ (2,500)
Purchases	728,000	$ 228,000	500,000
Balance as of December 31, 2010	$ 725,500	$ 228,000	$ 497,500

The change in unrealized appreciation attributable to securities owned on December 31, 2010 which were valued using significant unobservable inputs (Level 3) amounted to approximately $(2,500).

Investments classified as Level 3 infrequently trade and have significant unobservable inputs. The Level 3 common stock and corporate bond have been fair valued utilizing inputs and assumptions which include book value, recent comparables in similar securities, as well as liquidity and market risk factors.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Security Transactions and Investment Income: Security transactions are recorded on trade date. Realized gains and losses on investments sold are recorded on the basis of identified cost. Interest income is recorded on the accrual basis. Discounts are accreted and premiums are amortized over the life of the respective securities. Dividend income is recorded on the ex-dividend date, except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. The Fund records distributions received in excess of income from underlying investments as a reduction of cost of investments and/or an increase in realized gain. Such amounts are based on estimates if actual amounts are not available, and actual amounts of income, realized gain and return of capital may differ from the estimated amounts. The Fund adjusts the estimated amounts of the components of distributions (and consequently its net investment income) as an increase to unrealized appreciation/(depreciation) and realized gain/(loss) on investments as necessary once the issuers provide information about the actual composition of the distributions.

Options: The Fund may write put or covered call options on an index or a security with the intention of earning option premiums. Option premiums may increase the Fund's realized gains and therefore may help increase distributable income. When a Fund writes (sells) an option, an amount equal to the premium received by the Fund is recorded in the Statement of Assets and Liabilities as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When an option expires, the Fund realizes a gain on the option to the extent of the premiums received. Premiums received from writing options which are exercised or closed, are added to or offset against the proceeds or amount paid on the transaction to determine the realized gain or loss. If a put option on a security is exercised, the premium reduces the cost basis of the securities purchased by the Fund. If a call option is exercised, the call premium is added to the proceeds of the security sold to determine its gain or loss. The Fund, as writer of an option, bears the market risk of an unfavorable change in the price of the underlying index or security. Other risks include the possibility of an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract.

Foreign Currency Translations: The books and records of the Fund are maintained in U.S. dollars as follows: (1) the foreign currency market value of investment securities, other assets and liabilities and foreign currency contracts are translated at the exchange rates prevailing at the end of the period; and (2) purchases, sales, income and expenses are translated at the exchange rates prevailing on the respective dates of such transactions. The resultant exchange gains and losses are recorded as realized and unrealized gain/loss on foreign exchange transactions. Pursuant to U.S. federal income tax regulations, certain foreign exchange gains/losses included in realized and unrealized gain/loss are included in or are a reduction of ordinary income for federal income tax purposes. The Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the changes in the market prices of the securities.

Foreign Securities: The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

include possible revaluation of currencies, the ability to repatriate funds, less complete financial information about companies and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers.

Dividends and Distributions to Shareholders: Dividends from net investment income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which may differ from GAAP. Dividends from net investment income, if any, are declared and paid quarterly. Net realized capital gains, unless offset by any available capital loss carryforward, are typically distributed to shareholders at least annually. Dividends and distributions to shareholders are recorded on the ex-dividend date and are automatically reinvested in full and fractional shares of the Fund in accordance with the Fund's Reinvestment Plan, unless the shareholder has elected to have them paid in cash.

Distributions paid by the Fund are subject to recharacterization for tax purposes. Based upon the results of operations for the year ended December 31, 2010, a portion of the dividends have been reclassified to distributions from net realized capital gains.

Income Taxes: It is the policy of the Fund to continue to qualify as a regulated investment company, if such qualification is in the best interest of the shareholders, by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies, and by distributing substantially all of its taxable earnings to its shareholders. Accordingly, no provision for federal income or excise tax is necessary. Management has analyzed the Fund's tax positions taken on federal income tax returns as well as its tax positions in non-U.S. jurisdictions where it trades for all open tax years and has concluded that as of December 31, 2010, no provisions for income tax would be required in the Fund's financial statements. The Fund's tax positions for the tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service, state departments of revenue and by foreign tax authorities.

In December 2010, the Regulated Investment Company Modernization Act of 2010 (the Act) was enacted. The Act contained federal income tax law changes affecting mutual funds and their shareholders. The provisions of the Act were evaluated and its implementation is not expected to have a material impact to the Fund or the Fund's shareholders.

Note 2. Investment Advisory Fees and Other Transactions with Affiliates

Investment Advisory Fees: The advisor serves as the Fund's investment advisor pursuant to an investment advisory agreement (the investment advisory agreement). Under the terms of the investment advisory agreement, the advisor provides the Fund with day-to-day investment decisions and generally manages the Fund's investments in accordance with the stated policies of the Fund, subject to the supervision of the Board of Directors.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the services under the investment advisory agreement, the Fund pays the advisor an investment advisory fee, accrued daily and paid monthly, at an annual rate of 0.70% of the Fund's average daily net assets.

Directors' and Officers' Fees: Certain directors and officers of the Fund are also directors, officers, and/or employees of the advisor. The Fund does not pay compensation to any affiliated directors and officers except for the Chief Compliance Officer, who received $1,832 from the Fund for the year ended December 31, 2010.

Note 3. Purchases and Sales of Securities

Purchases and sales of securities, excluding short-term investments, for the year ended December 31, 2010, totaled $113,685,334 and $123,532,474, respectively.

Transactions in options written during the year ended December 31, 2010, were as follows:

	Number of Contracts	Premium
Options outstanding at December 31, 2009		$
Options written	2,453	112,255
Options expired	(706)	(21,675)
Options terminated in closing transactions	(572)	(31,474)
Options exercised	(1,175)	(59,106)
Options outstanding at December 31, 2010		$

Note 4. Income Tax Information

The tax character of dividends and distributions paid was as follows:

	For the Year Ended December 31, 2010	2009
Ordinary income	$ 7,921,692	$ 3,397,001
Long-term capital gain	5,577,128	
Tax return of capital		1,522,086
Total dividends and distributions	$ 13,498,820	$ 4,919,087

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

As of December 31, 2010, the tax-basis components of accumulated earnings and the federal tax cost were as follows:

Cost for federal income tax purposes	$ 91,142,024
Gross unrealized appreciation	$ 26,859,193
Gross unrealized depreciation	(260,642)
Total net unrealized appreciation	$ 26,598,551

During the year ended December 31, 2010, the Fund utilized net capital loss carryforwards of $1,823,019.

As of December 31, 2010, the Fund had temporary book/tax differences primarily attributable to wash sales on portfolio securities and permanent book/tax differences primarily attributable to foreign currency transactions, passive foreign investment companies and Fund distributions. To reflect reclassifications arising from the permanent differences, paid-in capital was charged $161,704, accumulated net realized loss was charged $186,455 and accumulated undistributed net investment income was credited $348,159. Net assets were not affected by these reclassifications.

Note 5. Capital Stock

The Fund is authorized to issue 100 million shares of common stock at a par value of $0.001 per share.

During the year ended December 31, 2010, and December 31, 2009, the Fund issued 73,011 and 15,726 shares of common stock, respectively, for the reinvestment of dividends.

On December 14, 2010, the Board of Directors approved the continuation of the delegation of its authority to management to effect repurchases, pursuant to management's discretion and subject to market conditions and investment considerations, of up to 10% of the Fund's common shares outstanding ("Share Repurchase Program") as of January 1, 2011 through the fiscal year ended December 31, 2011. During the years ended December 31, 2010 and December 31, 2009, the Fund did not effect any repurchases.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Investments

The following table presents the effect of derivatives held during the year ended December 31, 2010, along with the respective location in the financial statements. The volume of activity for written options for the year ended December 31, 2010 is summarized in Note 3.

Statement of Operations			
Derivatives	Location	Realized Gain	Change in Unrealized Appreciation/ (Depreciation)
Equity contracts	Net Realized and Unrealized Gain (Loss)	$ 43,896	

Note 7. Other

In the normal course of business, the Fund enters into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is dependent on claims that may be made against the Fund in the future and, therefore, cannot be estimated; however, based on experience, the risk of material loss from such claims is considered remote.

Note 8. Subsequent Events

Events and transactions occurring after December 31, 2010 and through the date that the financial statements were issued, have been evaluated in the preparation of the financial statements and no additional disclosure is required.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Cohen & Steers Total Return Realty Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Cohen & Steers Total Return Realty Fund, Inc. (the "Fund") at December 31, 2010, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2010 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
February 23, 2011

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

AVERAGE ANNUAL TOTAL RETURNS

(periods ended December 31, 2010) (Unaudited)

Based on Net Asset Value				Based on Market Value			
One Year	Five Years	Ten Years	Since Inception 9/27/93	One Year	Five Years	Ten Years	Since Inception 9/27/93
25.41%	4.90%	10.82%	9.97%	71.12%	8.08%	13.25%	10.65%

The performance data quoted represent past performance. Past performance is no guarantee of future results. The investment return will vary and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Current total returns of the Fund can be obtained by visiting our Web site at cohenandsteers.com.

TAX INFORMATION 2010 (Unaudited)

Pursuant to the Jobs and Growth Relief Reconciliation Act of 2003, the Fund designates qualified dividend income of $158,878. Additionally, 0.3% of the ordinary dividends qualified for the dividends received deduction available to corporations. Also, the Fund designates a long-term capital gain distribution of $5,289,428 at the 15% rate and $287,700 at the 25% rate or maximum allowable.

REINVESTMENT PLAN

The Fund has a dividend reinvestment plan commonly referred to as an "opt-out" plan (the "Plan"). Each common shareholder who participates in the Plan will have all distributions of dividends and capital gains ("Dividends") automatically reinvested in additional common shares by The Bank of New York Mellon as agent (the "Plan Agent"). Shareholders who elect not to participate in the Plan will receive all Dividends in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Shareholders whose common shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a Dividend, the Plan Agent will, as agent for the shareholders, either: (i) receive the cash payment and use it to buy common shares in the open market, on the NYSE or elsewhere, for the participants' accounts or (ii) distribute newly issued common shares of the Fund on behalf of the participants.

The Plan Agent will receive cash from the Fund with which to buy common shares in the open market if, on the Dividend payment date, the net asset value ("NAV") per share exceeds the market price per share plus estimated brokerage commissions on that date. The Plan Agent will receive the Dividend in newly issued common shares of the Fund if, on the Dividend payment date, the market price per share plus estimated brokerage commissions equals or exceeds the NAV per share of the Fund on that date. The number of shares to be issued will be computed

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

at a per share rate equal to the greater of (i) the NAV or (ii) 95% of the closing market price per share on the payment date.

If the market price per share is less than the NAV on a Dividend payment date, the Plan Agent will have until the last business day before the next ex-dividend date for the common stock, but in no event more than 30 days after the Dividend payment date (as the case may be, the "Purchase Period"), to invest the Dividend amount in shares acquired in open market purchases. If at the close of business on any day during the Purchase Period on which NAV is calculated the NAV equals or is less than the market price per share plus estimated brokerage commissions, the Plan Agent will cease making open market purchases and the uninvested portion of such Dividends shall be filled through the issuance of new shares of common stock from the Fund at the price set forth in the immediately preceding paragraph.

Participants in the Plan may withdraw from the Plan upon notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a Dividend record date; otherwise, it will be effective for all subsequent Dividends. If any participant elects to have the Plan Agent sell all or part of his or her shares and remit the proceeds, the Plan Agent is authorized to deduct a $15.00 fee plus $0.10 per share brokerage commissions.

The Plan Agent's fees for the handling of reinvestment of Dividends will be paid by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of Dividends. The automatic reinvestment of Dividends will not relieve participants of any income tax that may be payable or required to be withheld on such Dividends.

The Fund reserves the right to amend or terminate the Plan. All correspondence concerning the Plan should be directed to the Plan Agent at 800-432-8224.

OTHER INFORMATION

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (i) without charge, upon request, by calling 800-330-7348, (ii) on our Web site at cohenandsteers.com or (iii) on the Securities and Exchange Commission's Web site at http://www.sec.gov. In addition, the Fund's proxy voting record for the most recent 12-month period ended June 30 is available (i) without charge, upon request, by calling 800-330-7348 or (ii) on the SEC's Web site at http://www.sec.gov.

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available (i) without charge, upon request by calling 800-330-7348, or (ii) on the SEC's Web site at http://www.sec.gov. In addition, the Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 800-SEC-0330.

Please note that distributions paid by the Fund are subject to recharacterization for tax purposes and are taxable up to the amount of the Fund's investment company taxable income and net realized gains. Distributions in excess of the Fund's investment company taxable income and realized gains are a return of capital distributed from the Fund's assets. To the extent this occurs, the Fund's shareholders of record will be notified of the estimated

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

amount of capital returned to shareholders for each such distribution and this information will also be available at cohenandsteers.com. The final tax treatment of all distributions is reported to shareholders on their 1099-DIV forms, which are mailed after the close of each calendar year. Distributions of capital decrease the Fund's total assets and, therefore, could have the effect of increasing the Fund's expense ratio. In addition, in order to make these distributions, the Fund may have to sell portfolio securities at a less than opportune time.

Notice is hereby given in accordance with Rule 23c-1 of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

PRIVACY POLICY*

In the course of doing business with Cohen & Steers, you may share personal information with us. We are committed to maintaining the privacy of this information and recognize the importance of preventing unauthorized access to it. You may provide personal information on account applications and requests for forms or other literature (such as your address and social security number) and through account transactions with us (such as purchases, sales and account balances). You may also provide us with this information through written, electronic and telephone account inquiries.

We do not sell personal information about current and former customers to anyone, and we do not disclose it unless necessary to process a transaction, service an account or as otherwise required or permitted by law. For example, we may disclose information to companies that perform administrative services for Cohen & Steers, such as transfer agents, or printers that assist us in the distribution of investor materials. These organizations will use this information only for purposes of providing the required services or as otherwise may be required by law. We may also share personal information within the Cohen & Steers family of companies to provide you with additional information about our products and services.

We maintain physical, electronic and procedural safeguards to protect your personal information. Within Cohen & Steers, we restrict access to your personal information to those employees who need it to perform their jobs, such as servicing your account or informing you of new products and services.

The accuracy of your personal information is important. If you need to correct or update your personal or account information, please call us at 800-330-7348. We will be happy to review, correct or update your personal or account information.

* This privacy policy applies to the following Cohen & Steers companies: Cohen & Steers Capital Management, Inc., Cohen & Steers Securities, LLC and the Cohen & Steers Funds.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

MANAGEMENT OF THE FUND

The business and affairs of the fund are managed under the direction of the board of directors. The board of directors approves all significant agreements between the fund and persons or companies furnishing services to it, including the fund's agreements with its advisor, administrator, custodian and transfer agent. The management of the fund's day-to-day operations is delegated to its officers, the advisor and the fund's administrator, subject always to the investment objective and policies of the fund and to the general supervision of the board of directors.

The directors and officers of the fund and their principal occupations during the past five years are set forth below. The statement of additional information (SAI) includes additional information about fund directors and is available, without charge, upon request by calling 1-800-330-7348.

Name, Address[1] and Age	Position(s) Held with Fund	Term of Office[2]	Principal Occupation During at Least the Past 5 Years (Including Other Directorships Held)	Number of Funds Within Fund Complex Overseen by Director (Including the Fund)	Length of Time Served[3]
			Interested Directors[4]		
Robert H. Steers Age: 57	Director and Co-Chairman	Until next election of directors	Co-Chairman and Co-Chief Executive Officer of Cohen & Steers Capital Management, Inc. (the Advisor) since 2003 and its parent, Cohen & Steers, Inc. since 2004. Vice President of Cohen & Steers Securities, LLC.	18	1991 to present
Martin Cohen[5] Age: 62	Director and Co-Chairman	Until next election of directors	Co-Chairman and Co-Chief Executive Officer of the Advisor since 2003 and Cohen & Steers, Inc. since 2004. Prior to that, President of the Advisor; Vice President of Cohen & Steers Securities, LLC.	18	1991 to present

(table continued on next page)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

(table continued from previous page)

Name, Address[1] and Age	Position(s) Held with Fund	Term of Office[2]	Principal Occupation During at Least the Past 5 Years (Including Other Directorships Held)	Number of Funds Within Fund Complex Overseen by Director (Including the Fund)	Length of Time Served[3]
			Disinterested Directors		
Bonnie Cohen[5] Age: 68	Director	Until next election of directors	Consultant. Board Member, United States Department of Defense Business Board since 2010; Board Member, Global Heritage Fund since 2002; Advisory Board member, Posse Foundation since 2004; Trustee, H. Rubenstein Foundation since 1996; Trustee, District of Columbia Public Libraries since 2004; Board member Woods Hole Research Center since 2011; Board member Teluride Mountain Film Festival since 2010; Board member, Washington National Opera since 2007; Former Director, Reis, Inc. (real estate analytics firm) from 2003 to 2009; Former member of the Investment Committee, The Moriah Fund from 2002 to 2008; Former Board member, Foundation for Arts and Preservations in Embassies from 2001 to 2009; Former Under Secretary of State for Management, United States Department of State, 1996-2000.	18	2001 to present
George Grossman Age: 57	Director	Until next election of directors	Attorney-at-law	18	1993 to present

(table continued on next page)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

(table continued from previous page)

Name, Address[1] and Age	Position(s) Held with Fund	Term of Office[2]	Principal Occupation During at Least the Past 5 Years (Including Other Directorships Held)	Number of Funds Within Fund Complex Overseen by Director (Including the Fund)	Length of Time Served[3]
Richard E. Kroon Age: 68	Director	Until next election of directors	Member of Investment Committee, Monmouth University since 2004; Former Director, AmComp (workers' compensation insurance company) from 1996 to 2003 and from 2004 to 2005; Former Director, Finlay Enterprises (fine jewelry retailing) from 2003 to 2006; Former Director, Prominence Networks (telecom equipment) from 2003 to 2005; Retired Chairman and Managing Partner of Sprout Group venture capital funds, then an affiliate of Donaldson, Lufkin and Jenrette Securities Corporation from 1981 to 2001. Former chairman of the National Venture Capital Association for the year 2000.	18	2004 to present
Richard J. Norman Age: 67	Director	Until next election of directors	Private Investor. Member, District of Columbia Department of Corrections Chaplains Corps from 2008 to February 2010; Member, Montgomery County, Maryland Department of Corrections Chaplains Corp since February 2010; Special Representative, Salvation Army World Service Organization (SAWSO) since 2010; Advisory Board Member, The Salvation Army since 1985; Financial Education Fund Chair, The Foundation Board of Maryland Public Television since 2009; Former President, Executive Committee, Chair of Investment Committee, The Foundation Board of Maryland Public Television from 1997 to 2008. Prior thereto, Investment Representative of Morgan Stanley Dean Witter from 1966 to 2000.	18	2001 to present

(table continued on next page)

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

(table continued from previous page)

Name, Address[1] and Age	Position(s) Held with Fund	Term of Office[2]	Principal Occupation During at Least the Past 5 Years (Including Other Directorships Held)	Number of Funds Within Fund Complex Overseen by Director (Including the Fund)	Length of Time Served[3]
Frank K. Ross Age: 67	Director	Until next election of directors	Visiting Professor of Accounting, Howard University School of Business since 2004; Board member and Audit Committee Chair and Human Resources and Compensation Committee Member, Pepco Holdings, Inc. (electric utility) since 2004. Former Board Member of NCRIC, Inc. from 2004 to 2005. Formerly, Midatlantic Area Managing Partner for Assurance Services at KPMG LLP and Managing Partner of its Washington, DC offices from 1977 to 2003.	18	2004 to present
Willard H. Smith Jr. Age: 74	Director	Until next election of directors	Board member, Essex Property Trust, Inc. since 1996; Former Board member, Realty Income Corporation from 1996 to 2009; Former Board member, Highwoods Property Trust from 1996 to 2005; Former Board member, Crest Net Lease, Inc. from 1999 to 2009 Formerly, Managing Director at Merrill Lynch & Co., Equity Capital Markets Division, from 1983 to 1995.	18	1996 to present
C. Edward Ward Jr. Age: 64	Director	Until next election of directors	Member of The Board of Trustees of Manhattan College, Riverdale, New York since 2004. Formerly Director of closed-end fund management for the New York Stock Exchange, where he worked from 1979 to 2004.	18	2004 to present

[1] The address for each director is 280 Park Avenue, New York, NY 10017.

[2] On March 12, 2008, the Board of Directors adopted a mandatory retirement policy stating a Director must retire from the Board on December 31st of the year in which he or she turns 75 years of age.

[3] The length of time served represents the year in which the director was first elected or appointed to any fund in the Cohen & Steers fund complex.

[4] "Interested person", as defined in the 1940 Act, of the Fund because of affiliation with the investment manager (Interested Directors).

[5] Martin Cohen and Bonnie Cohen are not related.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

The officers of the fund (other than Messrs. Cohen and Steers, whose biographies are provided above), their address, their ages and their principal occupations for at least the past five years are set forth below.

Name, Address and Age[1]	Position(s) Held with Fund	Principal Occupation During At Least The Past 5 Years	Length of Time Served[2]
Adam M. Derechin Age: 46	President and Chief Executive Officer	Chief Operating Officer of CSCM (since 2003) and CNS (since 2004). Prior to that, Senior Vice President of CSCM and Vice President and Assistant Treasurer of the Cohen & Steers funds.	Since 2005
Joseph M. Harvey Age: 47	Vice President	President and Chief Investment Officer of CSCM (since 2003) and President of CNS (since 2004). Prior to that, Senior Vice President and Director of Investment Research of CSCM.	Since 2004
William F. Scapell Age: 43	Vice President	Senior Vice President of CSCM since 2003. Prior to that, chief strategist for preferred securities at Merrill Lynch & Co., Inc.	Since 2003
Thomas N. Bohjalian Age: 45	Vice President	Senior Vice President of CSCM since 2006. Prior to that, Vice President of CSCM from 2003 through 2005. Prior thereto, Vice President at AEW Capital Management.	Since 2006
Yigal Jhirad Age: 46	Vice President	Senior Vice President of CSCM since 2007. Prior to that, executive director at Morgan Stanley and head of prime brokerage equity product marketing responsible for developing and marketing quantitative and derivatives product to hedge funds.	Since 2007
Francis C. Poli Age: 48	Secretary	Executive Vice President, Secretary and General Counsel of CSCM and CNS since March 2007. Prior thereto, General Counsel of Allianz Global Investors of America LP.	Since 2007
James Giallanza Age: 44	Treasurer and Chief Financial Officer	Senior Vice President of CSCM since September 2006. Prior thereto, Deputy Head of the US Funds Administration and Treasurer & CFO of various mutual funds within the Legg Mason (formally Citigroup Asset Management) fund complex from August 2004 to September 2006; Director/Controller of the US wholesale business at UBS Global Asset Management (U.S.) from September 2001 to July 2004.	Since 2006
Lisa D. Phelan Age: 42	Chief Compliance Officer	Senior Vice President and Director of Compliance of CSCM since 2007 and prior to that, Vice President since 2006. Chief Compliance Officer of CSSL since 2004. Prior to that, Compliance Officer of CSCM since 2004. Chief Compliance Officer, Avatar Associates & Overture Asset Managers, 2003-2004.	Since 2006

[1] The address of each officer is 280 Park Avenue, New York, NY 10017

[2] Officers serve one-year terms. The length of time served represents the year in which the officer was first elected to that position in any fund in the Cohen & Steers fund complex. All of the officers listed above are officers of one or more of the other funds in the complex.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

Cohen & Steers Investment Solutions

COHEN & STEERS
GLOBAL REALTY SHARES

- Designed for investors seeking total return, investing primarily in global real estate equity securities

- Symbols: CSFAX, CSFBX*, CSFCX, CSSPX

COHEN & STEERS
INSTITUTIONAL GLOBAL REALTY SHARES

- Designed for institutional investors seeking total return, investing primarily in global real estate securities

- Symbol: GRSIX

COHEN & STEERS REALTY INCOME FUND

- Designed for investors seeking total return, investing primarily in real estate securities with an emphasis on both income and capital appreciation

- Symbols: CSEIX, CSBIX*, CSCIX, CSDIX

COHEN & STEERS
INTERNATIONAL REALTY FUND

- Designed for investors seeking total return, investing primarily in international real estate securities

- Symbols: IRFAX, IRFCX, IRFIX

COHEN & STEERS
ASIA PACIFIC REALTY SHARES

- Designed for investors seeking total return, investing primarily in real estate securities located in the Asia Pacific region

- Symbols: APFAX, APFCX, APFIX

COHEN & STEERS REALTY SHARES

- Designed for investors seeking total return, investing primarily in REITs

- Symbol: CSRSX

COHEN & STEERS
INSTITUTIONAL REALTY SHARES

- Designed for institutional investors seeking total return, investing primarily in REITs
- Symbol: CSRIX

COHEN & STEERS
GLOBAL INFRASTRUCTURE FUND

- Designed for investors seeking total return, investing primarily in global infrastructure securities
- Symbols: CSUAX, CSUBX*, CSUCX, CSUIX

COHEN & STEERS
DIVIDEND VALUE FUND

- Designed for investors seeking high current income and long-term growth of income and capital appreciation, investing primarily in dividend paying common stocks and preferred stocks
- Symbols: DVFAX, DVFCX, DVFIX

COHEN & STEERS
PREFERRED SECURITIES AND INCOME FUND

- Designed for investors seeking total return (high current income and capital appreciation), investing primarily in preferred and debt securities
- Symbols: CPXAX, CPXCX, CPXIX

Distributed by Cohen & Steers Securities, LLC.

COHEN & STEERS
GLOBAL REALTY MAJORS ETF

- Designed for investors who seek a relatively low-cost "passive" approach for investing in a portfolio of real estate equity securities of companies in a specified index
- Symbol: GRI

Distributed by ALPS Distributors, Inc.

ISHARES COHEN & STEERS
REALTY MAJORS INDEX FUND

- Designed for investors who seek a relatively low-cost "passive" approach for investing in a portfolio of real estate equity securities of companies in a specified index
- Symbol: ICF

Distributed by SEI Investments Distribution Co.

** Class B shares are no longer offered except through dividend reinvestment and permitted exchanges by existing Class B shareholders.*

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. A prospectus containing this and other information can be obtained by calling 800-330-7348 or by visiting cohenandsteers.com. Please read the prospectus carefully before investing.

COHEN & STEERS TOTAL RETURN REALTY FUND, INC.

OFFICERS AND DIRECTORS

Robert H. Steers
Director and co-chairman

Martin Cohen
Director and co-chairman

Bonnie Cohen
Director

George Grossman
Director

Richard E. Kroon
Director

Richard J. Norman
Director

Frank K. Ross
Director

Willard H. Smith Jr.
Director

C. Edward Ward, Jr.
Director

Adam M. Derechin
President and chief executive officer

Joseph M. Harvey
Vice president

William F. Scapell
Vice president

Thomas N. Bohjalian
Vice president

Yigal D. Jhirad
Vice president

Francis C. Poli
Secretary

James Giallanza
Treasurer and chief financial officer

Lisa D. Phelan
Chief compliance officer

KEY INFORMATION

Investment Advisor

Cohen & Steers Capital Management, Inc.
280 Park Avenue
New York, NY 10017
(212) 832-3232

Fund Administrator and Custodian

State Street Bank and Trust Company
One Lincoln Street
Boston, MA 02111

Transfer Agent

The Bank of New York Mellon
480 Washington Boulevard
Jersey City, NJ 07310
(866) 227-0757

Legal Counsel

Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, NY 10038

New York Stock Exchange Symbol: RFI

Web site: cohenandsteers.com

This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of Fund shares. Past performance is no guarantee of future results and your investment may be worth more or less at the time you sell.

COHEN & STEERS

TOTAL RETURN REALTY FUND

280 PARK AVENUE

NEW YORK, NY 10017

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ANNUAL REPORT

DECEMBER 31, 2010

RFIAR

Item 2. Code of Ethics.

The registrant has adopted an Amended and Restated Code of Ethics that applies to its Principal Executive Officer and Principal Financial Officer. The registrant undertakes to provide to any person without charge, upon request, a copy of the Code of Ethics. Such request can be made by calling 800-330-7348 or writing to the Secretary of the registrant, 280 Park Avenue, New York, NY 10017.

Item 3. Audit Committee Financial Expert.

The registrant s board has determined that Frank K. Ross, a member of the board s Audit Committee, is an audit committee financial expert . Mr. Ross is independent, as such term is defined in Form N-CSR.

Item 4. Principal Accountant Fees and Services.

(a) (d) Aggregate fees billed to the registrant for the last two fiscal years for professional services rendered by the registrant s principal accountant were as follows:

	2010	2009
Audit Fees	$ 43,600	$ 43,600
Audit-Related Fees	$ 0	$ 0
Tax Fees	$ 6,000	$ 6,000
All Other Fees	$ 0	$ 0

Tax fees were billed in connection with the preparation of tax returns, calculation and designation of dividends and other miscellaneous tax services.

(e)(1) The registrant s audit committee is required to pre-approve audit and non-audit services performed for the registrant by the principal accountant. The audit committee also is required to pre-approve non-audit services performed by the registrant s principal accountant for the registrant s investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and/or to any entity controlling, controlled by or under common control with the registrant s investment advisor that provides ongoing services to the registrant, if the engagement for services relates directly to the operations and financial reporting of the registrant.

The audit committee may delegate pre-approval authority to one or more of its members who are independent members of the board of directors of the registrant. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee may not delegate its responsibility to pre-approve services to be performed by the registrant s principal accountant to the investment advisor.

(e) (2) No services included in (b) (d) above were approved by the audit committee pursuant to paragraphs (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) For the fiscal years ended December 31, 2010 and December 31, 2009, the aggregate fees billed by the registrant s principal accountant for non-audit services rendered to the registrant and for non-audit services rendered to the registrant s investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and/or to any entity controlling, controlled by or under common control with the registrant s investment advisor that provides ongoing services to the registrant were:

	2010	2009
Registrant	$ 6,000	$ 6,000
Investment Advisor	$ 20,000	$ 20,000

(h) The registrant s audit committee considered whether the provision of non-audit services that were rendered to the registrant s investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and/or to any entity controlling, controlled by or under common control with the registrant s investment advisor that provides ongoing services to the registrant that were not required to be pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X was compatible with maintaining the principal accountant s independence.

Item 5. Audit Committee of Listed Registrants.

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the committee are Frank K. Ross (chairman), Bonnie Cohen, George Grossman and Richard E. Kroon.

Item 6. Schedule of Investments.

Included in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The registrant has delegated voting of proxies in respect of portfolio holdings to Cohen & Steers Capital Management, Inc., in accordance with the policies and procedures set forth below.

COHEN & STEERS CAPITAL MANAGEMENT, INC.

STATEMENT OF POLICIES AND PROCEDURES REGARDING THE VOTING OF SECURITIES

This statement sets forth the policies and procedures that Cohen & Steers Capital Management, Inc. (C&S) follows in exercising voting rights with respect to securities held in our client portfolios. All proxy-voting rights that are exercised by C&S shall be subject to this Statement of Policy and Procedures.

I. Objectives

Voting rights are an important component of corporate governance. The Advisor has three overall objectives in exercising voting rights:

A. Responsibility. The Advisor shall seek to ensure that there is an effective means in place to hold companies accountable for their actions. While management must be accountable to its board, the board must be accountable to a company s shareholders. Although accountability can be promoted in a variety of ways, protecting shareholder voting rights may be among our most important tools.

B. Rationalizing Management and Shareholder Concerns. The Advisor seeks to ensure that the interests of a company s management and board are aligned with those of the company s shareholders. In this respect, compensation must be structured to reward the creation of shareholder value.

C. Shareholder Communication. Since companies are owned by their shareholders, the Advisor seeks to ensure that management effectively communicates with its owners about the company s business operations and financial performance. It is only with effective communication that shareholders will be able to assess the performance of management and to make informed decisions on when to buy, sell or hold a company s securities.

In exercising voting rights, the Advisor follows the general principles set forth below.

- The ability to exercise a voting right with respect to a security is a valuable right and, therefore, must be viewed as part of the asset itself.

- In exercising voting rights, the Advisor shall engage in a careful evaluation of issues that may materially affect the rights of shareholders and the value of the security.

- Consistent with general fiduciary principles, the exercise of voting rights shall always be conducted with reasonable care, prudence and diligence.

- In exercising voting rights on behalf of clients, the Advisor shall conduct itself in the same manner as if the Advisor was the constructive owner of the securities.

- To the extent reasonably possible, the Advisor shall participate in each shareholder voting opportunity.

- Voting rights shall not automatically be exercised in favor of management-supported proposals.

- The Advisor, and its officers and employees, shall never accept any item of value in consideration of a favorable proxy voting decision.

Set forth below are general guidelines followed in exercising proxy voting rights:

Prudence. In making a proxy voting decision, the Advisor shall give appropriate consideration to all relevant facts and circumstances, including the value of the securities to be voted and the likely effect any vote may have on that value. Since voting rights must be exercised on the basis of an informed judgment, investigation shall be a critical initial step.

Third Party Views. While the Advisor may consider the views of third parties, the Advisor shall never base a proxy voting decision solely on the opinion of a third party.

Rather, decisions shall be based on a reasonable and good faith determination as to how best to maximize shareholder value.

Shareholder Value. Just as the decision whether to purchase or sell a security is a matter of judgment, determining whether a specific proxy resolution will increase the market value of a security is a matter of judgment as to which informed parties may differ. In determining how a proxy vote may affect the economic value of a security, the Advisor shall consider both short-term and long-term views about a company s business and prospects, especially in light of our projected holding period on the stock (e.g., the Advisor may discount long-term views on a short-term holding).

Set forth below are guidelines as to how specific proxy voting issues shall be analyzed and assessed.

While these guidelines will provide a framework for the Advisor decision making process, the mechanical application of these guidelines can never address all proxy voting decisions.

When new issues arise or old issues present nuances not encountered before, the Advisor must be guided by its reasonable judgment to vote in a manner that the Advisor deems to be in the best interests of the Fund and its shareholders. In addition, because the regulatory framework and the business cultures and practices vary from region to region, the below general guidelines may be inconsistent in certain circumstances.

Uncontested Director Elections

Votes on director nominees should be made on a case-by-case basis using a mosaic approach, where all factors are considered in director elections and where no single issue is deemed to be determinative.

For example, a nominee s experience and business judgment may be critical to the long-term success of the portfolio company, notwithstanding the fact that he or she may serve on the board of more than four public companies. In evaluating nominees, the Advisor considers the following factors:

- Whether the nominee attended less than 75 percent of the board and committee meetings without a valid excuse for the absences;
- Whether the nominee is an inside or affiliated outside director and sits on the audit, compensation, or nominating committees;
- Whether the nominee ignored a significant shareholder proposal that was approved by a (i) majority of the shares outstanding or (ii) majority of the votes cast for two consecutive years;
- Whether the nominee, without shareholder approval, to our knowledge instituted a new poison pill plan, extended an existing plan, or adopted a new plan upon the expiration of an existing plan during the past year;
- Whether the nominee is an inside or affiliated outside director and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees;
- Whether the nominee is an insider or affiliated outsider on boards that are not at least majority independent;
- Whether the nominee is the CEO of a publicly-traded company who serves on more than two public boards;
- Whether the nominee serves on more than four public company boards;
- Whether the nominee serves on the audit committee where there is evidence (such as audit reports or reports mandated under the Sarbanes Oxley Act) that there exists material weaknesses in the company s internal controls;

- Whether the nominee serves on the compensation committee if that director was present at the time of the grant of backdated options or options the pricing or the timing of which Advisor believes may have been manipulated to provide additional benefits to executives;

- Whether the nominee is believed by us to have a material conflict of interest with the portfolio company; and

- Whether the nominee (or the overall board) in our view has a record of making poor corporate or strategic decisions or has demonstrated an overall lack of good business judgment.

The Advisor votes on a case-by-case basis for shareholder proposals requesting companies to amend their bylaws in order to create access to the proxy so as to nominate candidates for directors. The Advisor recognizes the importance of shareholder access to the ballot process as a means to ensure that boards do not become self-perpetuating and self-serving. However, the Advisor is also aware that some proposals may promote certain interest groups and could be disruptive to the nomination process. Special attention will be paid to companies that display a chronic lack of shareholder accountability.

Proxy Contests

Director Nominees in a Contested Election. By definition, this type of board candidate or slate runs for the purpose of seeking a significant change in corporate policy or control. Therefore, the economic impact of the vote in favor of or in opposition to that director or slate must be analyzed using a higher standard such as is normally applied to changes in control. Criteria for evaluating director nominees as a group or individually should also include: the underlying reason why the new slate (or individual director) is being proposed; performance; compensation; corporate governance provisions and takeover activity; criminal activity; attendance at meetings; investment in the company; interlocking directorships; inside, outside and independent directors; number of other board seats; and other experience. It is impossible to have a general policy regarding director nominees in a contested election.

Reimbursement of Proxy Solicitation Expenses. Decisions to provide full reimbursement for dissidents waging a proxy contest should be made on a case-by-case basis.

Ratification of Auditors

The Advisor votes for proposals to ratify auditors, unless an auditor has a financial interest in or association with the company, and are therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company s financial position. Generally, the Advisor votes against auditor ratification and withhold votes from audit committee members if non-audit fees exceed audit fees. The Advisor votes on a case-by-case basis on auditor rotation proposals. Criteria for evaluating the rotation proposal include, but are not limited to: tenure of the audit firm; establishment and disclosure of a renewal process whereby the auditor is regularly evaluated for both audit quality and competitive price; length of the rotation period advocated in the proposal; and any significant audit related issues. Generally, the Advisor votes against auditor indemnification and limitation of liability; however the Advisor recognizes there may be situations where indemnification and limitations on liability may be appropriate.

Takeover Defenses

While the Advisor recognizes that a takeover attempt can be a significant distraction for the board and management to deal with, the simple fact is that the possibility of a corporate takeover keeps management focused on maximizing shareholder value. As a result, the Advisor opposes measures that are designed to prevent or obstruct corporate takeovers because they can entrench current management. The following are our guidelines on change of control issues:

Shareholder Rights Plans. The Advisor acknowledges that there are arguments for and against shareholder rights plans, also known as poison pills. Companies should put their case for rights plans to shareholders. The Advisor reviews on a case-by-case basis management proposals to ratify a poison pill. The Advisor generally looks for shareholder friendly features including a two- to three-year sunset provision, a permitted bid provision and a 20 percent or higher flip-in provision.

Greenmail. The Advisor votes for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company s ability to make greenmail payments.

Unequal Voting Rights. Generally, The Advisor votes against dual-class recapitalizations as they offer an effective way for a firm to thwart hostile takeovers by concentrating voting power in the hands of management or other insiders.

Classified Boards. The Advisor generally votes in favor of shareholder proposals to declassify a board of directors, although the Advisor acknowledges that a classified board may be in the long-term best interests of a company in certain situations. In voting on shareholder proposals to declassify a board of directors, the Advisor evaluates all facts and circumstances surrounding such proposal, including whether the shareholder proposing the de-classification has an agenda in making such proposal that may be at odds with the long-term best interests of the company or whether it would be in the best interests of the company to thwart a shareholder s attempt to control the board of directors.

Cumulative Voting. Having the ability to cumulate our votes for the election of directors that is, cast more than one vote for a director about whom they feel strongly generally increases shareholders rights to effect change in the management of a corporation. The Advisor generally supports, therefore, proposals to adopt cumulative voting.

Shareholder Ability to Call Special Meeting. The Advisor votes on a case-by-case basis for shareholder proposals requesting companies to amend their governance documents (bylaws and/or charter) in order to allow shareholders to call special meetings. The Advisor recognizes the importance on shareholder ability to call a special meeting, however, the Advisor is also aware that some proposals are put forth in order to promote the agenda(s) of certain special interest groups and could be disruptive to the management of the company.

Shareholder Ability to Act by Written Consent. The Advisor generally votes against proposals to allow or facilitate shareholder action by written consent. The requirement that all shareholders be given notice of a shareholders meeting and matters to be discussed therein seems to provide a reasonable protection of minority shareholder rights.

Shareholder Ability to Alter the Size of the Board. The Advisor generally votes for proposals that seek to fix the size of the board and vote against proposals that give management the ability to alter the size of the board without shareholder approval. While the Advisor recognizes the importance of such proposals, the Advisor is however also aware that these proposals are sometimes put forth in order to promote the agenda(s) of certain special interest groups and could be disruptive to the management of the company.

Miscellaneous Board Provisions

Board Committees. Boards should delegate key oversight functions, such as responsibility for audit, nominating and compensation issues, to independent committees. The chairman and members of any committee should be clearly identified in the annual report. Any committee should have the authority to engage independent advisors where appropriate at the company s expense.

Audit, nominating and compensation committees should consist solely of non-employee directors, who are independent of management.

Separate Chairman and CEO Positions. The Advisor will generally vote for proposals looking to separate the CEO and Chairman roles. The Advisor does acknowledge, however, that under certain circumstances, it may be reasonable for the CEO and Chairman roles to be held by a single person.

Lead Directors and Executive Sessions. In cases where the CEO and Chairman roles are combined, Advisor will vote for the appointment of a lead (non-insider) director and for regular executive sessions (board meetings taking place without the CEO/Chairman present).

Majority of Independent Directors. The Advisor votes for proposals that call for the board to be composed of a majority of independent directors. The Advisor believes that a majority of independent directors can be an important factor in facilitating objective decision making and enhancing accountability to shareholders.

Independent Committees. The Advisor votes for shareholder proposals requesting that the board s audit, compensation, and nominating committees consist exclusively of independent directors.

Stock Ownership Requirements. The Advisor supports measures requiring senior executives to hold a minimum amount of stock in a company (often expressed as a percentage of annual compensation), requiring stock acquired through option exercise to be held for a certain minimum amount of time and issuing restricted stock awards instead of options.

Term of Office. The Advisor votes against shareholder proposals to limit the tenure of outside directors. Term limits pose artificial and arbitrary impositions on the board and could harm shareholder interests by forcing experienced and knowledgeable directors off the board.

Director and Officer Indemnification and Liability Protection. Proposals concerning director and officer indemnification and liability protection should be evaluated on a case-by-case basis.

Board Size. The Advisor generally votes for proposals to limit the size of the board to 15 members or less.

Majority Vote Standard. The Advisor generally votes for proposals asking for the board to initiate the appropriate process to amend the company s governance documents (charter or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders. The Advisor would generally review on a case-by-case basis proposals that address alternative approaches to a majority vote requirement.

Confidential Voting. The Advisor votes for shareholder proposals requesting that companies adopt confidential voting, use independent tabulators, and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: in the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.

The Advisor also votes for management proposals to adopt confidential voting.

Bundled Proposals. The Advisor reviews on a case-by-case basis bundled or conditioned proxy proposals. In the case of items that are conditioned upon each other, the Advisor examines the benefits and costs of the packaged items. In instances where the joint effect of the conditioned items is not in shareholders best interests, the Advisor votes against the proposals. If the combined effect is positive, the Advisor supports such proposals.

Date/Location of Meeting. The Advisor votes against shareholder proposals to change the date or location of the shareholders meeting. No one site will meet the needs of all shareholders.

Adjourn Meeting if Votes are Insufficient. Open-end requests for adjournment of a shareholder meeting generally will not be supported. However, where management specifically states the reason for requesting an adjournment and the requested adjournment is necessary to permit a proposal that would otherwise be supported under this policy to be carried out; the adjournment request will be supported.

Disclosure of Shareholder Proponents. The Advisor votes for shareholder proposals requesting that companies disclose the names of shareholder proponents. Shareholders may wish to contact the proponents of a shareholder proposal for additional information.

Capital Structure

Increase Additional Common Stock. The Advisor generally votes for increases in authorized shares, provided that the increase is not greater than three times the number of shares outstanding and reserved for issuance (including shares reserved for stock-related plans and securities convertible into common stock, but not shares reserved for any poison pill plan). Votes generally are cast in favor of proposals to authorize additional shares of stock except where the proposal:

- creates a blank check preferred stock; or

6,021

$
11,267

$
12,043

Interest cost

8,073

7,635

16,146

15,271

Expected return on plan assets

(13,575
)

(13,627
)

(27,151
)

(27,255
)
Amortization of prior service cost (credit)

47

47

94

94

Amortization of actuarial loss

6,902

8,419

13,804

16,838

Pension expense for U.S. defined benefit plans

$
7,080

$
8,495

$
14,160

$
16,991

Non-U.S. Plans

Service cost

$
1,519

$
1,514

$
2,989

$
3,046

Interest cost

1,092

746

2,147

1,497

Expected return on plan assets

(1,290
)

(1,122
)

(2,533
)

(2,253
)
Amortization of prior service cost (credit)

(15
)

(27
)

(29
)

(54
)
Amortization of actuarial loss

648

1,109

1,272

2,229

Pension expense for non-U.S. defined benefit plans

$
1,954

$
2,220

$
3,846

$
4,465

Pension expense for our defined contribution plans consists of:

	Three Months Ended	Six Months Ended

	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
U.S. defined contribution plans	$4,136	$3,586	$8,108	$7,256
Non-U.S. defined contribution plans	1,550	1,472	3,259	2,832
Total pension expense for defined contribution plans	$5,686	$5,058	$11,367	$10,088

In 2018, expected contributions for all of our U.S. defined benefit pension plans to be approximately $149,000.

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Note 11 - Restructuring
In 2018, we initiated restructuring actions in conjunction with exiting the wind pitch control business within our Industrial Systems segment. These actions will result in workforce reductions, principally in Germany and China. Charges taken consist of $7,329 of non-cash inventory reserves, $14,482 of non-cash charges, primarily for the impairment of long-lived assets, $7,439 for severance and $2,137 for other costs.
Restructuring activity for severance and other costs is as follows:

	Aircraft Controls	Industrial Systems	Corporate	Total
Balance at September 30, 2017	$ 130	$ —	$ 1,038	$ 1,168
Charged to expense - 2018 plan	—	31,387	—	31,387
Cash payments - 2016 plan	(130)	—	(298)	(428)
Non-cash charges - 2018 plan	—	(21,811)	—	(21,811)
Balance at March 31, 2018	$ —	$ 9,576	$ 740	$ 10,316

As of March 31, 2018, the restructuring accrual consists of $740 for the 2016 plan and $9,576 for the 2018 plan. Restructuring for all plans is expected to be paid by December 29, 2018, except portions classified as long-term liabilities based on payment arrangements.
Note 12 - Income Taxes
The effective tax rates for the three and six months ended March 31, 2018 were 45.6% and 79.2%, respectively. The effective tax rate for the three months ended March 31, 2018 is higher than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes primarily due to limited tax benefits associated with the restructuring charges taken in foreign jurisdictions of our Industrial Systems segment. The effective tax rate for the six months ended March 31, 2018 was also significantly impacted by the enactment of the Tax Cuts and Jobs Act (the "Act") of 2017.
The Act was enacted on December 22, 2017. It reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of March 31, 2018, we have not completed the accounting for the tax effects of enactment of the Act; however, as described below, we have made a reasonable estimate of the effects on the one-time transition tax, withholding taxes on earnings deemed to be repatriated and existing deferred tax balances. These amounts are provisional and subject to change as the determination of the impact of the income tax effects will require additional analysis of historical records, annual data and further interpretation of the Act from yet to be issued U.S. Treasury regulations.
During the six months ended March 31, 2018, we recorded a $31,300 one-time transition tax on undistributed foreign earnings deemed to be repatriated and a tax charge of $15,910 as an additional provision for taxes on undistributed earnings not considered to be permanently reinvested. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in these entities is not practicable. These charges are partially offset by a $8,966 benefit due to the remeasurement of deferred tax assets and liabilities arising from a lower U.S. corporate tax rate, which took into account our decision to accelerate pension contributions into our 2017 pension plan year. This allows the pension contribution tax deduction to be taken in our 2017 federal income tax return which is taxed at the 35% federal rate.
The effective tax rate for the three and six months ended April 1, 2017 were 34.3% and 27.1%, respectively. The effective tax rate for the three months ended April 1, 2017 is impacted by higher earnings in jurisdictions with higher statutory tax rates and no tax benefit for the losses associated with certain held for sale non-core businesses in Space and Defense Controls. The effective tax rate for the six months ended April 1, 2017 is lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes primarily due to a significant portion of our earnings that come from foreign operations with lower tax rates. Additionally, our effective tax rate in 2017

includes tax benefits associated with selling our European space businesses.

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Note 13 - Accumulated Other Comprehensive Income (Loss)

The changes in AOCIL, net of tax, by component for the six months ended March 31, 2018 are as follows:

	Accumulated foreign currency translation (1)	Accumulated retirement liability	Accumulated gain (loss) on derivatives	Total
AOCIL at September 30, 2017	$ (83,166)	$ (251,865)	$ (460)	$ (335,491)
Other comprehensive income (loss) before reclassifications	30,661	(1,222)	136	29,575
Amounts reclassified from AOCIL	—	10,160	519	10,679
Other comprehensive income (loss)	30,661	8,938	655	40,254
Tax Cuts and Jobs Act, reclassification from AOCIL to retained earnings (2)	—	(47,209)	132	(47,077)
AOCIL at March 31, 2018	$ (52,505)	$ (290,136)	$ 327	$ (342,314)

(1) Net gains and losses on net investment hedges are recorded as cumulative translation adjustments in AOCIL to the extent that the instruments are effective in hedging the designated risk.

(2) In the second quarter of 2018, we early adopted ASU 2018-02 and reclassified the stranded deferred tax effects resulting from the Tax Cuts and Jobs Act to retained earnings.

The amounts reclassified from AOCIL into earnings are as follows:

	Statement of earnings classification	Three Months Ended March 31, 2018	Three Months Ended April 1, 2017	Six Months Ended March 31, 2018	Six Months Ended April 1, 2017
Retirement liability:					
Prior service cost (credit)		$ (86)	$ 20	$ (171)	$ 39
Actuarial losses		7,423	9,406	14,819	18,823
Reclassification from AOCIL into earnings (1)		7,337	9,426	14,648	18,862
Tax effect		(1,796)	(3,424)	(4,488)	(6,851)
Net reclassification from AOCIL into earnings		$ 5,541	$ 6,002	$ 10,160	$ 12,011
Derivatives:					
Foreign currency contracts	Sales	$ (138)	$ 1,157	$ (256)	$ 2,454
Foreign currency contracts	Cost of sales	502	664	1,198	1,131
Interest rate swaps	Interest	(102)	63	(116)	178
Reclassification from AOCIL into earnings		262	1,884	826	3,763
Tax effect		(72)	(500)	(307)	(973)
Net reclassification from AOCIL into earnings		$ 190	$ 1,384	$ 519	$ 2,790

(1) The reclassifications are included in the computation of net periodic pension cost and postretirement benefit cost.

The amounts deferred in AOCIL are as follows:

	Net deferral in AOCIL - effective portion			
	Three Months Ended March 31, 2018	Three Months Ended April 1, 2017	Six Months Ended March 31, 2018	Six Months Ended April 1, 2017
Foreign currency contracts	$ (1,655)	$ (323)	$ (827)	$ (2,109)
Interest rate swaps	630	69	1,247	763
Net gain (loss)	(1,025)	(254)	420	(1,346)
Tax effect	256	116	(284)	376

Net deferral in AOCIL of derivatives	$(769)	$(138)	$136	$(970)

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Note 14 - Stock Employee Compensation Trust and Supplemental Retirement Plan Trust

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan (RSP). The Supplemental Retirement Plan (SERP) Trust provides funding for benefits under the SERP provisions of the Moog Inc. Plan to Equalize Retirement Income and Supplemental Retirement Income. Both the SECT and the SERP Trust hold shares as investments. The shares in the SECT and SERP Trust are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreements governing the SECT and SERP Trust, the trustees vote all shares held by the SECT and SERP Trust on all matters submitted to shareholders.

Note 15 - Earnings per Share

Basic and diluted weighted-average shares outstanding are as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Basic weighted-average shares outstanding	35,770,089	35,888,053	35,771,247	35,878,552
Dilutive effect of equity-based awards	409,769	348,785	419,208	376,250
Diluted weighted-average shares outstanding	36,179,858	36,236,838	36,190,455	36,254,802

For the three and six months ended March 31, 2018, there were 21,887 and 17,432 common shares from equity-based awards, respectively, excluded from the calculation of diluted earnings per share as they would be anti-dilutive. For the three and six months ended April 1, 2017, there were 99,978 and 107,960 common shares from equity-based awards, respectively, excluded from the calculation of diluted earnings per share as they would be anti-dilutive.

During the second quarter of 2018, the Board of Directors declared a $0.25 per share quarterly dividend payable on issued and outstanding shares of our Class A and Class B common stock on June 1, 2018 to shareholders of record at the close of business on May 15, 2018.

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Note 16 - Segment Information

Effective October 1, 2017, we made changes to our segment reporting structure that resulted in three reporting segments. Our former Components segment has been separated and merged into Space and Defense Controls and Industrial Systems. All amounts have been restated to reflect this change.

Below are sales and operating profit by segment for the three and six months ended March 31, 2018 and April 1, 2017 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, number of employees or profit.

Refer to Note 11, Restructuring, for the impact of amounts charged to expense that are reflected in the operating profit (loss) of the Industrial Systems segment.

	Three Months Ended		Six Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Net sales:				
Aircraft Controls	$311,439	$289,661	$589,973	$558,111
Space and Defense Controls	143,527	138,834	276,920	261,424
Industrial Systems	234,083	203,908	449,691	402,538
Net sales	$689,049	$632,403	$1,316,584	$1,222,073
Operating profit (loss):				
Aircraft Controls	$33,480	$31,181	$64,248	$54,292
Space and Defense Controls	16,841	11,381	33,130	20,469
Industrial Systems	(6,050)	22,265	13,196	42,428
Total operating profit	44,271	64,827	110,574	117,189
Deductions from operating profit:				
Interest expense	9,089	8,649	17,735	17,135
Equity-based compensation expense	1,499	986	3,500	3,154
Corporate and other expenses, net	8,014	6,989	15,836	12,209
Earnings before income taxes	$25,669	$48,203	$73,503	$84,691

The amounts reclassified for net sales and operating profit as a result of the revised segment reporting structure for the three and six months ended April 1, 2017 are as follows:

	Three Months Ended	Six Months Ended
Net sales:		
Space and Defense Controls	$32,986	$62,646
Industrial Systems	88,477	174,708
Total	$121,463	$237,354
Operating profit:		
Space and Defense Controls	$893	$2,885
Industrial Systems	9,947	19,409
Total	$10,840	$22,294

Segment assets for Space and Defense Controls and Industrial Systems are approximately $627,000 and $1,229,000, respectively, as of March 31, 2018, primarily as a result of the change to our segment reporting structure.

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Note 17 - Related Party Transactions

On November 20, 2017, John Scannell was elected to the Board of Directors of M&T Bank Corporation and M&T Bank. We currently engage with M&T Bank in the ordinary course of business for various financing activities, all of which were initiated prior to the election of Mr. Scannell to the Board. M&T Bank provides credit extension for routine purchases, which for the six months ended March 31, 2018 totaled $11,218. At March 31, 2018, we held a $15,000 interest rate swap with M&T Bank and outstanding leases with a total original cost of $27,516. M&T Bank also maintains an interest of approximately 12% in our U.S. revolving credit facility. Further details of the U.S. revolving credit facility can be found in Note 6, Indebtedness.

Note 18 - Commitments and Contingencies

From time to time, we are involved in legal proceedings. We are not a party to any pending legal proceedings which management believes will result in a material adverse effect on our financial condition, results of operations or cash flows.

We are engaged in administrative proceedings with governmental agencies and legal proceedings with governmental agencies and other third parties in the normal course of our business, including litigation under Superfund laws, regarding environmental matters. We believe that adequate reserves have been established for our share of the estimated cost for all currently pending environmental administrative or legal proceedings and do not expect that these environmental matters will have a material adverse effect on our financial condition, results of operations or cash flows.

In the ordinary course of business we could be subject to ongoing claims or disputes from our customers, the ultimate settlement of which could have a material adverse impact on our consolidated results of operations. While the receivables and any loss provisions recorded to date reflect management's best estimate of the projected costs to complete a given project, there may still be significant effort required to complete the ultimate deliverable. Future variability in internal cost as well as future profitability is dependent upon a number of factors including deliveries, performance and government budgetary pressures. The inability to achieve a satisfactory contractual solution, further unplanned delays, additional developmental cost growth or variations in any of the estimates used in the existing contract analysis could lead to further loss provisions. Additional losses could have a material adverse impact on our financial condition, results of operations or cash flows in the period in which the loss may be recognized.

We are contingently liable for $47,418 of standby letters of credit issued by a bank to third parties on our behalf at March 31, 2018.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company’s Annual Report filed on Form 10-K for the fiscal year ended September 30, 2017. All references to years in this Management’s Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years and amounts may differ from reported values due to rounding.

OVERVIEW

We are a worldwide designer, manufacturer and systems integrator of high performance precision motion and fluid controls and control systems for a broad range of applications in aerospace and defense and industrial markets.

Within the aerospace and defense market, our products and systems include:

- Defense market - primary and secondary flight controls for military aircraft, stabilization and automatic ammunition loading controls for armored combat vehicles, tactical and strategic missile steering controls and gun aiming controls.
- Commercial aircraft market - primary and secondary flight controls for commercial aircraft.
- Commercial space market - satellite positioning controls and thrust vector controls for space launch vehicles.

In the industrial market, our products are used in a wide range of applications including:

- Industrial automation market - injection molding, metal forming, heavy industry, material and automotive testing and pilot training simulators.
- Energy market - power generation, oil and gas exploration and wind energy.
- Medical market - enteral clinical nutrition and infusion therapy pumps, ultrasonic sensors and surgical handpieces and CT scanners.

We operate under three segments, Aircraft Controls, Space and Defense Controls and Industrial Systems. Our principal manufacturing facilities are located in the United States, Philippines, United Kingdom, Germany, Czech Republic, Costa Rica, India, China, Japan, Italy, Netherlands, Canada, Ireland and Luxembourg.

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represent 38%, 34% and 33% of our sales in 2017, 2016 and 2015, respectively. We recognize revenue on these contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is predominantly used within the Industrial Systems segment, as well as with aftermarket activity.

We concentrate on providing our customers with products designed and manufactured to the highest quality standards. Our products are applied in demanding applications, "When Performance Really Matters®." We believe we have achieved a leadership position in the high performance, precision controls market, by capitalizing on our core foundational strengths, which are our technical experts working collaboratively around the world and the capabilities we deliver for mission-critical solutions. These strengths yield a broad control product portfolio, across a diverse base of customers and end markets.

By focusing on customer intimacy and commitment to solving their most demanding technical problems, we have been able to innovate our control product franchise from one market to another, organically growing from a high-performance components supplier to a high-performance systems supplier. In addition, we continue achieving substantial content positions on the platforms on which we currently participate, seeking to be the dominant supplier in the current niche markets we serve. We also look for innovation in all aspects of our business, employing new technologies to improve productivity and to develop innovative business models.

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Our fundamental strategies to achieve our goals center around talent, lean and innovation and include:

- a strong leadership team that has positioned the company for growth,
- utilizing our global capabilities and strong engineering heritage to innovate,
- maintaining our technological excellence by solving our customers' most demanding technical problems in applications "When Performance Really Matters®,"
- continuing to invest in talent development to strengthen employee performance, and
- maximizing customer value by implementing lean enterprise principles.

These activities will help us achieve our financial objective of increasing shareholder value with sustainable competitive advantages across our segments. In doing so, we expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer base and geographic presence.

We focus on improving shareholder value through strategic revenue growth, both acquired and organic, through improving operating efficiencies and manufacturing initiatives and through utilizing low cost manufacturing facilities without compromising quality. Additionally, we take a balanced approach to capital deployment, which may include strategic acquisitions or further share buyback activity, in order to maximize shareholder returns over the long-term.

Acquisitions, Divestitures and Equity Method Investments

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value and such amounts are reflected in the respective captions on the consolidated balance sheets. The purchase price described for each acquisition below is net of any cash acquired, includes debt issued or assumed and the fair value of contingent consideration.

On March 29, 2018, we acquired VUES Brno s.r.o, located in the Czech Republic and Germany, for $63 million. VUES designs and manufactures customized electric motors, generators and solutions. This operation is included in our Industrial Systems segment.

On October 3, 2017, we, in collaboration with SIA Engineering Company, announced the joint venture company, Moog Aircraft Services Asia ("MASA"), in Singapore, of which we currently hold a 51% ownership. MASA is intended to provide maintenance, repair and overhaul services for our manufactured flight control systems. As we hold a majority ownership in MASA, but share voting control, we are accounting for this investment using the equity method. At March 31, 2018, we have made total contributions of $4 million to MASA and intend to make one additional contribution of $2 million during 2018. This operation is included in our Aircraft Controls segment.

In 2017, we acquired Rotary Transfer Systems, a manufacturer of electromechanical systems, located in Germany and France for $43 million. This acquisition is included in our Industrial Systems segment. We also sold non-core businesses in our Space and Defense Controls segment for $7 million and recorded losses in other expense of $13 million related to the sales.

CRITICAL ACCOUNTING POLICIES

On a regular basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, revenue recognition on long-term contracts, contract and contract-related loss reserves, reserves for inventory valuation, reviews for impairment of goodwill, reviews for impairment of long-lived assets, pension assumptions and income taxes. See Note 12 of the Consolidated Condensed Financial Statements included in Item 1, Financial Statements of this report for the impact of the enactment of the Tax Cuts and Jobs Act of 2017.

Other than that described below, there have been no material changes in critical accounting policies in the current year from those disclosed in our 2017 Annual Report on Form 10-K.

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Reviews for Impairment of Goodwill

Interim Test

Effective October 1, 2017, we changed our segment reporting structure from four to three reporting segments. The former Components reporting segment has been divided and merged into the Space and Defense Controls and Industrial Systems reporting segments. This change also impacted the reporting units we use to review goodwill for impairment. Based on the accounting rules that require aggregation of components with similar economic characteristics, we have changed the number of reporting units from five to four - Aircraft Controls, Space and Defense Controls, Industrial Systems and Medical Devices.

We transferred or allocated the assets and liabilities of the former Components business including the proportionate share of goodwill based on the relative fair value of the business to the new respective reporting units - Space and Defense Controls and Industrial Systems. We then compared the fair values to the carrying values of the reporting units and the resulting fair values exceeded the carrying values, so we determined that goodwill was not impaired. The fair value of each of these two reporting units exceeded the carrying amounts by over 100%. While any individual assumption could differ from those that we used, we believe the overall fair values of these reporting units are reasonable, as the values are derived from a mix of reasonable assumptions. Had we used discount rates that were 100 basis points higher or a terminal growth rate that was 100 basis points lower than those we assumed, the fair values of each of these reporting units would have continued to exceed their carrying amounts by at least 80%.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Consolidated Condensed Financial Statements included in Item 1, Financial Statements of this report for further information regarding Financial Accounting Standards Board issued Accounting Standards Updates ("ASU").

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CONSOLIDATED RESULTS OF OPERATIONS

(dollars and shares in millions, except per share data)	Three Months Ended March 31, 2018	April 1, 2017	$ Variance	% Variance	Six Months Ended March 31, 2018	April 1, 2017	$ Variance	% Variance
Net sales	$689	$632	$57	9 %	$1,317	$1,222	$95	8 %
Gross margin	28.0 %	29.3 %			28.6 %	29.3 %		
Research and development expenses	$34	$37	$(3)	(8 %)	$67	$72	$(5)	(7 %)
Selling, general and administrative expenses as a percentage of sales	14.5 %	13.8 %			14.9 %	14.1 %		
Interest expense	$9	$9	$—	5 %	$18	$17	$1	4 %
Restructuring expense	$24	$—	$24	n/a	$24	$—	$24	n/a
Other	$—	$4	$(4)	(106 %)	$(1)	$12	$(13)	(108 %)
Effective tax rate	45.6 %	34.3 %			79.2 %	27.1 %		
Net earnings attributable to Moog	$14	$32	$(18)	(56 %)	$15	$63	$(47)	(76 %)
Diluted earnings per share attributable to Moog	$0.39	$0.88	$(0.49)	(56 %)	$0.42	$1.73	$(1.31)	(76 %)

Net sales increased across all of our segments in the second quarter and in the first half of 2018 compared to the second quarter and the first half of 2017. Stronger foreign currencies, primarily the Euro relative to the U.S. Dollar, increased sales $15 million and $23 million, respectively.

Gross margin decreased in the second quarter of 2018 compared to the second quarter of 2017. Gross profit in the second quarter of 2018 includes $7 million of inventory write-down associated with the restructuring expense in Industrial Systems. In addition, Aircraft Controls' gross margin declined as cost growth on fixed-price development programs and lower amounts of high-margin legacy commercial OEM sales offset a favorable sales mix from higher military OEM and commercial aftermarket sales. In the first half of 2018 compared to the first half of 2017, gross margin excluding the second quarter inventory write-down was relatively unchanged. Improved sales mixes in Aircraft Controls and in Industrial Systems were offset by a negative sales mix in Space and Defense Controls, due to the reduced amount of last year's favorable defense controls sales.

Research and development expenses decreased in the second quarter and in the first half of 2018 compared to the same periods of 2017. Within Aircraft Controls, research and development expenses decreased $4 million and $8 million, respectively, as we had lower activity across our major commercial OEM programs. The reduced spend was partially offset by increases in research and development activities across our other two segments.

Selling, general and administrative expenses as a percentage of sales increased in the second quarter and in the first half of 2018 compared to the same periods of 2017. Administrative expense increased $6 million and $9 million, respectively, due to higher planned selling expense in select growth markets, primarily in Industrial Systems, acquisition-related expenses and higher medical claims.

After years of investment in the wind pitch control business, we concluded we no longer have a viable business model, and that our best option is to phase out our participation in this market over the next six months. Therefore, in the second quarter of 2018, we incurred $31 million of restructuring expense in Industrial Systems. Of the total expense, the charges consist of $7 million of non-cash inventory reserves, $14 million of non-cash charges, primarily for the impairment of long-lived assets, $7 million for severance and $2 million for other costs.

Other expense in the second quarter and in the first half of 2017 included losses associated with selling our non-core businesses in Space and Defense Controls.

The effective tax rate in the second quarter of 2018 was impacted by limited tax benefits associated with the restructuring charges taken in foreign jurisdictions of our Industrial Systems segment. The effective tax rate in the first half of 2018 was also significantly impacted by the enactment of the Tax Cuts and Jobs Act of 2017. Excluding the one-time special impacts due to the Act, the effective tax rate for the first half of 2018 was 29.2%.

Our effective tax rate in the first half of 2017 is lower than the U.S. statutory tax rate as result of earnings taxed in foreign jurisdictions with lower statutory tax rates and includes the tax benefits associated with selling our European space businesses in the first quarter of 2017.

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Other comprehensive income in the first half of 2018 includes $31 million of foreign currency translation income, whereas other comprehensive income in the first half of 2017 includes $29 million of foreign currency translation loss. Foreign currency translation adjustments increased $59 million during the first half of 2018 compared to the first half of 2017, primarily attributable to changes in the Euro and the British Pound.

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SEGMENT RESULTS OF OPERATIONS

Effective October 1, 2017, we changed our segment reporting structure to three reporting segments. Our former Components segment has been separated and merged into Space and Defense Controls and Industrial Systems. All amounts have been restated to conform to the current presentation.

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note 16 of the Notes to Consolidated Condensed Financial Statements included in this report.

Aircraft Controls

	Three Months Ended				Six Months Ended			
(dollars in millions)	March 31, 2018	April 1, 2017	$ Variance	% Variance	March 31, 2018	April 1, 2017	$ Variance	% Variance
Net sales - military aircraft	$156	$137	$ 19	14 %	$280	$264	$ 16	6 %
Net sales - commercial aircraft	156	153	3	2 %	310	294	16	6 %
	$311	$290	$ 22	8 %	$590	$558	$ 32	6 %
Operating profit	$33	$31	$ 2	7 %	$64	$54	$ 10	18 %
Operating margin	10.8 %	10.8 %			10.9 %	9.7 %		
Backlog					$583	$594	$ (11)	(2 %)

Aircraft Controls' net sales increased in the second quarter of 2018 compared to the second quarter of 2017, driven primarily by increases in military OEM sales. Aircraft Controls' net sales also increased in the first half of 2018 compared to the first half of 2017, driven by increased military OEM and commercial aftermarket sales.

In the second quarter of 2018 compared to the second quarter of 2017, military OEM sales increased $21 million. Sales for foreign military programs increased $6 million, military navigational aides increased $4 million after an unusually low activity in the prior year's quarter and helicopters increased $4 million. In addition, sales for the F-35 program increased $3 million due to higher orders. Partly offsetting the OEM sales increase was lower aftermarket sales, driven primarily by lower sales volumes on the V-22 program. The total military aircraft sales growth in the second quarter of 2018 contributed to the sales growth in the first half of 2018 after a relatively flat first quarter.

In the second quarter and in the first half of 2018 compared to the same periods of 2017, commercial aftermarket sales increased $11 million and $18 million, respectively. Specifically, aftermarket sales for legacy Boeing programs increased $6 million and $10 million, respectively, as a result of business recapture activities. Also higher initial provisioning orders for the Boeing 787 and Airbus A350 programs increased aftermarket sales $4 million and $8 million.

In the second quarter, lower commercial OEM sales mostly offset the commercial aftermarket sales increase, as legacy Boeing volumes decreased sales $5 million and delays and unfavorable order timing on Airbus programs decreased sales an additional $4 million. In the first half of 2018, commercial OEM sales for Boeing decreased $4 million, as legacy volume declines offset 787 growth.

Operating margin in the second quarter of 2018 remained unchanged compared to the second quarter of 2017. Operating profit benefited $4 million on lower research and development expenses, as we had lower activity on our major commercial OEM programs. However, cost growth on fixed-price funded military development programs and lower amounts of high-margin legacy commercial OEM sales more than offset a favorable sales mix from higher military OEM and commercial aftermarket sales. Operating margin in the first half of 2018 increased compared to the operating margin in the first half of 2017. Research and development expenses decreased $8 million due to lower activity on our major commercial OEM programs. Additionally, operating profit benefited from higher amounts of foreign military sales.

The decrease of twelve-month backlog for Aircraft Controls at March 31, 2018 compared to April 1, 2017 is primarily due to the timing of orders for the F-35, partly offset by increasing orders for major commercial OEM programs.

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Space and Defense Controls

	Three Months Ended				Six Months Ended			
(dollars in millions)	March 31, 2018	April 1, 2017	$ Variance	% Variance	March 31, 2018	April 1, 2017	$ Variance	% Variance
Net sales	$144	$139	$ 5	3 %	$277	$261	$ 15	6 %
Operating profit	$17	$11	$ 5	48 %	$33	$20	$ 13	62 %
Operating margin	11.7 %	8.2 %			12.0 %	7.8 %		
Backlog					$410	$371	$ 39	11 %

Space and Defense Controls' net sales increased in our space market but declined in our defense market in the second quarter of 2018 compared to the second quarter of 2017. In the first half of 2018 compared to the first half of 2017, sales increased in both our space and defense markets. Partially offsetting the sales growth in our space market were declines of $5 million in the quarter and $11 million in the first half due to lost sales associated the 2017 divestitures of non-core businesses.

In the second quarter of 2018 compared to the second quarter of 2017, sales in our space market increased $9 million. Specifically, new satellite avionics programs increased sales $7 million and production ramp ups on launch vehicle programs increased sales $7 million. These sales increases were partially offset by the lost sales associated with the divestitures. Also in the second quarter of 2018 compared to the second quarter of 2017, sales in our defense market decreased $4 million. Specifically, sales decreased $7 million in total for both domestic and foreign defense vehicles due to production wind downs and timing delays. Additionally, we had lower spares sales and order push outs for our naval products, which decreased sales $3 million. Partly offsetting these declines was $4 million of higher defense components sales.

Sales also increased in the first half of 2018 compared to the first half of 2017. Sales increased $11 million in our space market driven by the strong avionics and launch vehicle sales, including the impact of the lost sales associated with last year's divestitures. Sales also increased $4 million in our defense market in the first half of 2018 compared to the first half of 2017. Higher orders for defense components increased sales $7 million, but were partially offset by the second quarter naval sales decline.

Operating margin increased in the second quarter and in the first half of 2018 compared to the same periods of 2017 due to the absence of last year's losses associated with selling our non-core businesses. Operating margin excluding the losses would have been 11.4% and 13.0%, respectively in 2017. The decline in operating margin in the first half of 2018 compared to the adjusted first half of 2017 is due to a negative sales mix, as the prior year's defense production programs have since wound down.

Twelve-month backlog for Space and Defense Controls at March 31, 2018 compared to April 1, 2017 increased as growth in orders for components and security programs was partially offset by program completions for satellite avionics.

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Industrial Systems

(dollars in millions)	Three Months Ended March 31, 2018	April 1, 2017	$ Variance	% Variance	Six Months Ended March 31, 2018	April 1, 2017	$ Variance	% Variance
Net sales	$234	$204	$ 30	15 %	$450	$403	$ 47	12 %
Operating profit (loss)	$(6)	$22	$ (28)	(127 %)	$13	$42	$ (29)	(69 %)
Operating margin	(2.6 %)	10.9 %			2.9 %	10.5 %		
Backlog					$287	$236	$ 51	22 %

Industrial Systems' net sales increased across our four markets in the second quarter and in the first half of 2018 compared to the same periods of 2017. Also, stronger foreign currencies, primarily the Euro relative to the U.S. Dollar, increased sales $11 million and $17 million, respectively. Additionally, the recent acquisition of Rotary Transfer Systems increased sales $6 million and $12 million, respectively, primarily in our industrial automation market.

Excluding the currency effects on sales in the second quarter and in the first half of 2018 compared to the same periods of 2017, sales increased in our industrial automation market $8 million and $13 million, respectively. The increases were primarily driven by the Rotary Transfer Systems acquisition, as well as the stronger macro economic growth. Sales also increased $4 million and $7 million, respectively, in our medical market driven by higher orders for our components. In addition, sales increased $4 million and $6 million, respectively, in our energy market driven by increased shipments for energy generation and exploration products. Finally, sales increased $2 million and $5 million, respectively, in our simulation and test market due to the timing of shipments for aerospace and auto test applications.

After years of investment in the wind pitch control business, we concluded we no longer have a viable business model, and that our best option is to phase out our participation in this market over the next six months. Therefore, in the second quarter of 2018, we incurred $31 million of restructuring expense in Industrial Systems. The total expense includes $7 million for inventory reserves, $14 million of non-cash charges, primarily for the impairment of long-lived assets, $7 million for severance and $2 million for other costs.

Operating margin decreased in the second quarter of 2018 compared to the second quarter of 2017 due to the restructuring expense. Excluding the effect of this expense, operating margin in the second quarter of 2018 was relatively unchanged from operating margin in the second quarter of 2017. Incremental margin from the higher sales volume offset higher operating expenses, including increased investments in research and development and selling.

Operating margin excluding the effect of the restructuring expense in the first half of 2018 was lower compared to the same period of 2017. Through the first half of 2018, higher operating expenses more than offset the incremental margin from higher sales volumes.

The higher level of twelve-month backlog in Industrial Systems at March 31, 2018 compared to April 1, 2017 is mostly due to higher orders in our industrial automation market and for our energy generation and exploration products.

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CONSOLIDATED AND SEGMENT OUTLOOK

(dollars in millions)	2018	2017	2018 vs. 2017 $ Variance	2018 vs. 2017 % Variance
Net sales:				
Aircraft Controls	$1,195	$1,125	$70	6 %
Space and Defense Controls	557	529	28	5 %
Industrial Systems	934	843	91	11 %
	$2,687	$2,498	$189	8 %
Operating profit:				
Aircraft Controls	$128	$114	$14	12 %
Space and Defense Controls	65	49	16	34 %
Industrial Systems	69	88	(19)	(22 %)
	$261	$250	$11	4 %
Operating margin:				
Aircraft Controls	10.7 %	10.1 %		
Space and Defense Controls	11.7 %	9.2 %		
Industrial Systems	7.4 %	10.4 %		
	9.7 %	10.0 %		

2018 Outlook – We expect that all three segments will contribute to higher sales in 2018, driven primarily by military OEM sales in Aircraft Controls and industrial automation sales in Industrial Systems. We expect 2018 operating margin will decrease due to the second quarter's restructuring expense in Industrial Systems. Operating margin excluding the effect of this expense will be 10.9%, as margin expansion will be driven by the absence of 2017's losses associated with divesting non-core businesses, as well as incremental margin from higher sales. We expect that the impact of the Tax Cuts and Jobs Act will result in an unusually high effective tax rate of 48% in 2018. This will result in a 31% decrease in net earnings attributable to common shareholders to $97 million, and diluted earnings per share will range between $2.47 and $2.87 with a midpoint of $2.67. Excluding the impacts from the restructuring charge and the special impacts from the Tax Act, we expect an effective tax rate of 26.7%, net earnings attributable to common shareholders of $159 million and diluted earnings per share will range between $4.20 and $4.60, with a midpoint of $4.40, an increase of 13% compared to 2017.

2018 Outlook for Aircraft Controls – We expect 2018 sales in Aircraft Controls will increase primarily due to higher military OEM sales, driven by the continued ramp up of the F-35 program and by higher sales volumes on various other legacy programs. Partially offsetting the increases is an expected sales decline of legacy Boeing OEM programs. We expect 2018 operating margin will increase compared to 2017. We expect that research and development costs will decrease $11 million and that we will continue to realize the benefits of cost saving activities. However, we expect a negative sales mix, as sales on our mature commercial programs are replaced with sales growth on newer commercial programs.

2018 Outlook for Space and Defense Controls – We expect 2018 sales in Space and Defense Controls will increase due to sales growth from launch vehicles and satellite programs. Also, within our defense market, we expect higher missile systems and security sales will offset a decline in defense controls sales. We expect 2018 operating margin will increase, as the losses associated with divesting non-core businesses do not repeat.

2018 Outlook for Industrial Systems – We expect 2018 sales in Industrial Systems to increase across all of our major markets, lead primarily by growth in our industrial automation products. Also, we expect favorable currency adjustments and the recent acquisition of VUES Brno s.r.o to contribute to the sales growth. We expect 2018 operating margin will decrease due to the second quarter's restructuring expense. Operating margin excluding this expense will increase as we benefit from incremental margin on higher sales volumes.

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FINANCIAL CONDITION AND LIQUIDITY

(dollars in millions)	Six Months Ended March 31, 2018	April 1, 2017	$ Variance	% Variance
Net cash provided (used) by:				
Operating activities	$ 45	$ 122	$ (76)	(63 %)
Investing activities	(90)	(31)	(59)	188 %
Financing activities	(79)	(62)	(17)	28 %

Our available borrowing capacity and our cash flow from operations provide us with the financial resources needed to run our operations, reinvest in our business and make strategic acquisitions.

At March 31, 2018, our cash balances were $256 million, which is primarily held outside of the U.S. Cash flow from our U.S. operations, together with borrowings on our credit facility, fund on-going activities, debt service requirements and future growth investments. Due to provisions in the Tax Cuts and Jobs Act, we plan to repatriate substantial amounts of our existing offshore cash and future earnings back to the U.S. Through the first half of 2018, we have repatriated $91 million.

Operating activities

Net cash provided by operating activities decreased in the first half of 2018 compared to the same period of 2017. Cash used by net pension and retirement liabilities increased $61 million, primarily due to an incremental pension contribution in the second quarter of 2018. Also, cash provided by inventory decreased $35 million, primarily in Aircraft Controls.

Investing activities

Net cash used by investing activities in the first half of 2018 included $44 million for capital expenditures and $42 million for the acquisition in our Industrial Systems segment, while net cash used by investing activities in 2017 included $30 million for capital expenditures.

We expect our 2018 capital expenditures to be approximately $95 million, due to facilities investments supporting the increased production of the F-35 program, as well as engine propulsion testing.

Financing activities

Net cash used by financing activities in the first half of both 2018 and 2017 include net payments on our credit facility. Also, we expect to pay approximately $18 million of cash dividends in 2018.

Off Balance Sheet Arrangements

We do not have any material off balance sheet arrangements that have or are reasonably likely to have a material future effect on our results of operations or financial condition.

Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our 2017 Annual Report on Form 10-K, with the exception of tax payments required as a result of the Tax Cuts and Jobs Act of 2017 and accelerated pension contributions into our 2017 pension plan year. See Notes 10 and 12 of the Consolidated Condensed Financial Statements included in Item 1, Financial Statements of this report for the impact.

CAPITAL STRUCTURE AND RESOURCES

We maintain bank credit facilities to fund our short and long-term capital requirements, including for acquisitions. From time to time, we also sell debt and equity securities to fund acquisitions or take advantage of favorable market conditions.

Our U.S. revolving credit facility matures on June 28, 2021. The U.S. revolving credit facility has a capacity of $1.1 billion and also provides an expansion option, which permits us to request an increase of up to $200 million to the credit facility upon satisfaction of certain conditions. The U.S. revolving credit facility had an outstanding balance of $480 million at March 31, 2018. The weighted-average interest rate on all of the outstanding credit facility borrowings was 3.19% and is based on LIBOR plus the applicable margin, which was 1.38% at March 31, 2018 and will increase to 1.63% during the third quarter of 2018. The credit facility is secured by substantially all of our U.S. assets.

The U.S. revolving credit facility contains various covenants. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt, including letters of credit, to EBITDA for the most recent four quarters, is 3.5. We are in compliance with all covenants. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income.

We are generally not required to obtain the consent of lenders of the U.S. revolving credit facility before raising significant additional debt financing; however, certain limitations and conditions may apply that would require consent to be obtained. In recent years, we have demonstrated our ability to secure consents to access debt markets. We have also been successful in accessing equity markets from time to time. We believe that we will be able to obtain additional debt or equity financing as needed.

At March 31, 2018, we had $586 million of unused capacity, including $573 million from the U.S. revolving credit facility after considering standby letters of credit. However, our leverage ratio covenant limits our total borrowing capacity to $466 million as of March 31, 2018.

We have $300 million aggregate principal amount of 5.25% senior notes due December 1, 2022 with interest paid semiannually on June 1 and December 1 of each year. The senior notes are unsecured obligations, guaranteed on a senior unsecured basis by certain subsidiaries and contain normal incurrence-based covenants and limitations such as the ability to incur additional indebtedness, pay dividends, make other restricted payments and investments, create liens and certain corporate acts such as mergers and consolidations.

We have a trade receivables securitization facility (the "Securitization Program"), which was extended on October 23, 2017 and now matures on October 23, 2019. The Securitization Program provides up to $130 million of borrowing capacity and lowers our cost to borrow funds as compared to the U.S. revolving credit facility. Under the Securitization Program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. We had an outstanding balance of $130 million at March 31, 2018. The Securitization Program has a minimum borrowing requirement, which was $104 million at March 31, 2018. Interest on the secured borrowings under the Securitization Program was 2.71% at March 31, 2018 and is based on 30-day LIBOR plus an applicable margin.

Net debt to capitalization was 34% at March 31, 2018 and 33% at September 30, 2017.

We believe that our cash on hand, cash flows from operations and available borrowings under short and long-term arrangements will continue to be sufficient to meet our operating needs.

During the second quarter of 2018, the Board of Directors declared a $0.25 per share quarterly dividend payable on issued and outstanding shares of our Class A and Class B common stock on June 1, 2018 to shareholders of record at the close of business on May 15, 2018.

The Board of Directors has authorized a share repurchase program. This program has been amended from time to time to authorize additional repurchases that includes both Class A and Class B common stock, and allows us to buy up to an aggregate 13 million common shares. Under this program, we have purchased approximately 9.7 million shares for

$650 million as of March 31, 2018.

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ECONOMIC CONDITIONS AND MARKET TRENDS

We operate within the aerospace and defense and industrial markets. Our aerospace and defense markets are affected by market conditions and program funding levels, while our industrial markets are influenced by general capital investment trends and economic conditions. A common factor throughout our markets is the continuing demand for technologically advanced products.

Aerospace and Defense

Approximately two-thirds of our 2017 sales were generated in aerospace and defense markets. Within aerospace and defense, we serve three end markets: defense, commercial aircraft and space.

The defense market is dependent on military spending for development and production programs. Aircraft production programs are typically long-term in nature, offering predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the Lockheed Martin F-35 Joint Strike Fighter, FA-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. The tactical and strategic missile, missile defense and defense controls markets are dependent on many of the same market conditions as military aircraft, including overall military spending and program funding levels. Our security and surveillance product line is dependent on government funding at federal and local levels, as well as private sector demand.

Reductions in the U.S. Department of Defense's mandatory and discretionary budgeted spending, which became effective on March 1, 2013, resulting from the Budget Control Act of 2011, has had ramifications for the domestic aerospace and defense market. As originally passed, the Budget Control Act provided that, in addition to an initial significant reduction in future domestic defense spending, further automatic cuts to defense spending authorization (which is generally referred to as sequestration) of approximately $500 billion through the Federal Government's 2021 fiscal year would be triggered by the failure of Congress to produce a deficit reduction bill. The sequestration spending cuts were intended to be uniform by category for programs, projects and activities within accounts. The Bipartisan Budget Act of 2013 and the Bipartisan Budget Act of 2015 provided stability and modest growth in Department of Defense spending through 2017. However, future budgets beyond 2017 are uncertain with respect to the overall levels of defense spending. Currently, we expect approximately $740 million of U.S. defense sales in 2018.

The commercial aircraft market is dependent on a number of factors, including global demand for air travel, which generally follows underlying economic growth. As such, the commercial aircraft market has historically exhibited cyclical swings which tend to track the overall economy. In recent years, the development of new, more fuel-efficient commercial air transports has helped drive increased demand in the commercial aircraft market, as airlines replace older, less fuel-efficient aircraft with newer models in an effort to reduce operating costs. The aftermarket is driven by usage of the existing aircraft fleet and the age of the installed fleet, and is impacted by fleet re-sizing programs for passenger and cargo aircraft. Changes in aircraft utilization rates affect the need for maintenance and spare parts impacting aftermarket sales. Boeing and Airbus have historically adjusted production in line with air traffic volume. Demand for our commercial aircraft products is in large part dependent on new aircraft production, which is increasing as Boeing and Airbus work to fulfill large backlogs of unfilled orders.

The commercial space market is comprised of large satellite customers, traditionally communications companies. Trends for this market, as well as for commercial launch vehicles, follow demand for increased capacity. This, in turn tends to track with underlying demand for increased consumption of telecommunication services, satellite replacement and global navigation needs. The space market is also partially dependent on the governmental-authorized levels of funding for satellite communications, as well as investment for commercial and exploration activities.

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Industrial

Approximately one-third of our 2017 sales were generated in industrial markets. Within industrial, we serve three end markets: industrial automation, energy and medical.

The industrial automation market we serve is influenced by several factors including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. We experience challenges from the need to react to the demands of our customers, who are in large part sensitive to international and domestic economic conditions.

The energy market we serve is affected by changing oil and natural gas prices, global urbanization, the resulting change in supply and demand for global energy and the political climate and corresponding public support for investments in renewable energy generation capacity. Historically, drivers for global growth include investments in power generation infrastructure, including renewable energy, and exploration in search of new oil and gas resources. However, the significant decline in the price of crude oil has reduced investment in exploration activities. This reduced investment has directly affected our energy business. Currently, we expect approximately $34 million of oil exploration-related sales in 2018, down from approximately $100 million in 2014.

The medical market we serve is influenced by economic conditions, regulatory environments, hospital and outpatient clinic spending on equipment, population demographics, medical advances, patient demands and the need for precision control components and systems. Advances in medical technology and medical treatments have had the effect of extending average life spans, in turn resulting in greater need for medical services. These same technology and treatment advances also drive increased demand from the general population as a means to improve quality of life. Access to medical insurance, whether through government funded health care plans or private insurance, also affects the demand for medical services.

Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Aircraft Controls and Industrial Systems. About one-quarter of our 2017 sales were denominated in foreign currencies. During the first six months of 2018, average foreign currency rates generally strengthened against the U.S. dollar compared to 2017. The translation of the results of our foreign subsidiaries into U.S. dollars increased sales by $23 million compared to the same period one year ago.

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Cautionary Statement

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as "may," "will," "should," "believes," "expects," "expected," "intends," "projects," "approximate," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume" and "assume," a forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. These important factors, risks and uncertainties include:

- the markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate;
- we operate in highly competitive markets with competitors who may have greater resources than we possess;
- we depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs;
- we make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings;
- we enter into fixed-price contracts, which could subject us to losses if we have cost overruns;
- we may not realize the full amounts reflected in our backlog as revenue, which could adversely affect our future revenue and growth prospects;
- if our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted;
- contracting on government programs is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment;
- the loss of The Boeing Company as a customer or a significant reduction in sales to The Boeing Company could adversely impact our operating results;
- our new product research and development efforts may not be successful which could reduce our sales and earnings;
- our inability to adequately enforce and protect our intellectual property or defend against assertions of infringement could prevent or restrict our ability to compete;
- our business operations may be adversely affected by information systems interruptions, intrusions or new software implementations;
- our indebtedness and restrictive covenants under our credit facilities could limit our operational and financial flexibility;
- significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could adversely affect our earnings and equity and increase our pension funding requirements;
- a write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth;
- our sales and earnings may be affected if we cannot identify, acquire or integrate strategic acquisitions, or if we engage in divesting activities;
- our operations in foreign countries expose us to political and currency risks and adverse changes in local legal and regulatory environments;
- unforeseen exposure to additional income tax liabilities may affect our operating results;
- government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business;
- governmental regulations and customer demands related to conflict minerals may adversely impact our operating results;
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the failure or misuse of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages;

- future terror attacks, war, natural disasters or other catastrophic events beyond our control could negatively impact our business;
- our operations are subject to environmental laws, and complying with those laws may cause us to incur significant costs; and
- we are involved in various legal proceedings, the outcome of which may be unfavorable to us.

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These factors are not exhaustive. New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Refer to the Company's Annual Report on Form 10-K for the year ended September 30, 2017 for a complete discussion of our market risk. There have been no material changes in the current year regarding this market risk information.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective as of the end of the period covered by this report, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting. There have been no changes during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table summarizes our purchases of our common stock for the quarter ended March 31, 2018.

Period	(a) Total Number of Shares Purchased (1)(2)	(b) Average Price Paid Per Share	(c) Total number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	(d) Maximum Number (or Approx. Dollar Value) of Shares that May Yet Be Purchased Under Plans or Programs (3)
December 31, 2017 - January 31, 2018	64,460	$ 88.89	—	3,349,819
February 1, 2018 - February 28, 2018	8,692	83.99	100	3,349,719
March 1, 2018 - March 31, 2018	181	85.61	—	3,349,719
Total	73,333	$ 88.30	100	3,349,719

(1) Reflects purchases by the Moog Inc. Stock Employee Compensation Trust Agreement ("SECT") of shares of Class B common stock from the Moog Inc. Retirement Savings Plan ("RSP") at average prices as follows: 38,669 shares at $89.01 per share during January; and 7,750 shares at $83.74 per share during February. In connection with the issuance of shares to the Employee Stock Purchase Plan ("ESPP"), we purchased 21,871 Class B shares at $88.74 per share from the SECT.

(2) In connection with the exercise of equity-based compensation awards, we accept delivery of shares to pay for the exercise price and withhold shares for tax withholding obligations. In January, we accepted delivery of 3,920 shares at $88.49 per share, in February we accepted delivery of 842 shares at $86.31 per share and in March, we accepted delivery of 181 shares at $85.61 per share, in connection with the exercise of equity-based awards.

(3) The Board of Directors has authorized a share repurchase program. This program has been amended from time to time to authorize additional repurchases up to an aggregate 13 million common shares. The program permits the purchase of shares of Class A or Class B common stock in open market or privately negotiated transactions at the discretion of management. In February, we purchased 100 Class B shares at an average price of $83.95 per share.

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Item 6. Exhibits.

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Interactive Date files (submitted electronically herewith)

(101.INS) XBRL Instance Document

(101.SCH) XBRL Taxonomy Extension Schema Document

(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document

(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document

(101.LAB) XBRL Taxonomy Extension Label Linkbase Document

(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		Moog Inc.
		(Registrant)
Date:	April 27, 2018	By /s/ John R. Scannell John R. Scannell Chairman Chief Executive Officer (Principal Executive Officer)
Date:	April 27, 2018	By /s/ Donald R. Fishback Donald R. Fishback Vice President Chief Financial Officer (Principal Financial Officer)
Date:	April 27, 2018	By /s/ Jennifer Walter Jennifer Walter Vice President - Finance Controller (Principal Accounting Officer)