

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

April 29, 2013

FLAHERTY & CRUMRINE TOTAL RETURN FUND

To the Shareholders of Flaherty & Crumrine Total Return Fund:

The new fiscal year is off to a fine start total return on *net asset value* for the first fiscal quarter² was +4.4%. Over the same period total return based on income plus change in the Fund's *market price* was +5.1%.

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

Once again redemptions of preferred securities outpaced issuance. Since December 1, 2012, redemptions³ totaled \$30.1 billion. Over the same period, \$16.8 billion of new preferred securities were brought to market. *During the past four months, the preferred securities market has shrunk by \$13.3 billion, or 3.7%.*

It is instructive to break these numbers down between bank and non-bank securities. Since December 1, 2012, redemptions of bank preferred securities have totaled \$17.6 billion, or 44% of total preferred redemptions. Since mid-March, however, bank calls have spiked and comprise over 70% of total redemptions. The pace quickened immediately after regulators announced results from their annual review of capital at large banks. So far, banks have been slow to replace preferred capital new bank issues have totaled a paltry \$3.9 billion since December¹ of last year.

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

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

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

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

² December 1, 2012 February 28, 2013

³ Announced or implemented.

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

Sincerely,

Donald F. Crumrine
Chairman

March 28, 2013

Robert M. Ettinger
President

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OVERVIEW

February 28, 2013 (Unaudited)

Fund Statistics

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

Moody's Ratings

	% of Net Assets
A	1.5%
BBB	59.1%
BB	30.7%
Below BB	2.5%
Not Rated*	4.5%
Below Investment Grade**	22.1%

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

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

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

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

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XL Group PLC

2.7%

	% of Net Assets***
Holdings Generating Qualified Dividend Income (QDI) for Individuals	42%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	25%

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

Flaherty & Crumrine Total Return Fund Incorporated

PORTFOLIO OF INVESTMENTS

February 28, 2013 (Unaudited)

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

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PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2013 (Unaudited)

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

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PORTFOLIO OF INVESTMENTS (Continued)

February 28, 2013 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
Financial Services (Continued)		
	General Electric Capital Corp:	
\$ 1,550,000	General Electric Capital Corp., 7.125%, Series A	\$ 1,793,090*
	HSBC PLC:	
94,897	HSBC Finance Corporation, 6.36% Pfd., Series B	2,432,352*
		6,549,867
Insurance 24.6%		
	Ace Ltd.:	
\$ 1,550,000	Ace Capital Trust II, 9.70% 04/01/30	2,259,125 ⁽¹⁾⁽²⁾⁽³⁾
	Aon Corporation:	
\$ 1,875,000	AON Corp, 8.205% 01/01/27	2,409,210
	Arch Capital Group:	
26,512	Arch Capital Group, Ltd., 6.75% Pfd., Series C	728,881 ^{** (1)(3)}
	AXA SA:	
\$ 1,016,000		