

FLAHERTY & CRUMRINE TOTAL RETURN FUND INC

Form N-30B-2

October 29, 2014

*FLAHERTY & CRUMRINE TOTAL RETURN FUND*

To the Shareholders of Flaherty & Crumrine Total Return Fund ( FLC ):

Your Fund performed well during its third fiscal quarter<sup>1</sup>, delivering +3.6% total return on net asset value<sup>2</sup>. For the first nine months of fiscal 2014, the Fund's return on NAV was an impressive +15.6%. While third quarter *market* performance was +1.0%, year-to-date market performance was +17.5% at August 31<sup>st</sup>.

U.S. economic growth appears to be running around 3% currently, after averaging just 1.3% in 2014's first half. Job growth is up, unemployment is down and inflation remains low. The Fed is not filling its monetary punch bowl as quickly as before, but, while it's always hard to predict what the Fed will do, it probably won't start to raise short-term interest rates until mid-2015 or later. In contrast, economic growth abroad has slowed, with most developed countries trailing the U.S. recovery and monetary policy in many of those countries is easing further.

Although long-term interest rates in the U.S. will probably rise modestly over coming quarters, we think any upward movement will be limited by moderate GDP growth and strong investor demand for yield. Credit conditions continue to improve for most issuers of preferred securities, as earnings remain healthy and companies continue to build capital. With this backdrop, we believe prospective returns remain attractive for long-term investors.

The Fund's portfolio benefited from small declines in intermediate and long-term interest rates during the quarter, as well as on-going demand for higher yields of preferred securities. Supply of new issues remains steady—a key measure of market health. From December 2013 through September 2014, U.S. and foreign companies issued 103 new securities in the United States, raising just under \$64 billion. Over the same period, issuers redeemed 67 preferred securities totaling \$25 billion.

New issue supply was dominated by banks tailoring their capital to meet new regulatory requirements. Large U.S. banks (those deemed to be a systemically important financial institution, or SIFI) have issued traditional non-cumulative perpetual preferred stock. Non-U.S. SIFI banks are utilizing a preferred stock variation termed Contingent Convertible Securities, or CoCos. As you know from prior letters, the Fund has not yet purchased any CoCos, but we continue to evaluate them as potential investments.

With foreign economies lagging recovery in the U.S. and foreign banks issuing securities we have not yet been inclined to buy, the portion of the portfolio invested in foreign securities has drifted lower this fiscal year. Through September 30<sup>th</sup>, this portion declined from 25.2% of the portfolio to 17%. We anticipate this rate could fall further through more issuer redemptions.

As we discussed last quarter, another portfolio trend is a continued shift to fixed-to-float securities. These have coupons that are *fixed* for an initial period, typically five or ten years. Afterwards, coupons *float* based on a formula set at issuance. Prices on floating rate issues typically are less sensitive to changes in benchmark interest rates; this effect has spilled over to fixed-to-float preferred securities as well. If long-term interest rates begin to rise, as we expect they will eventually, these securities should tend to outperform.

<sup>1</sup> June 1, 2014 – August 31, 2014

<sup>2</sup> Following methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund's leverage and expenses.

issues with fixed-for-life coupons, all other things being equal. This fiscal year through September 30<sup>th</sup>, the portion of the portfolio in this structure increased from 43.7% to 52.8%. We continue to look for opportunities to add fixed-to-float holdings. Although these issues yield a bit less than many fixed-for-life securities, and thus may reduce portfolio income at the margin, we believe owning fixed-to-float securities is prudent and consistent with our interest-rate outlook.

As always, we encourage you to visit the Fund's website, [www.preferredincome.com](http://www.preferredincome.com), for current information on preferred-securities markets, the Fund and the broader economy.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

October 1, 2014

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OVERVIEW****August 31, 2014 (Unaudited)****Fund Statistics**

Net Asset Value	\$	21.14
Market Price	\$	19.95
Discount		5.63%
Yield on Market Price		8.18%
Common Stock Shares Outstanding		9,900,625

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

A	2.1%
BBB	57.4%
BB	31.0%
Below BB	2.2%
Not Rated**	6.2%
Below Investment Grade***	19.6%

\* Ratings are from Moody's Investors Service, Inc. Not Rated securities are those with no ratings available from Moody's.

\*\* Does not include net other assets and liabilities of 1.1%.

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

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

Liberty Mutual Group	5.3%
JPMorgan Chase	4.7%
MetLife	4.4%
HSBC PLC	4.1%
Wells Fargo & Company	4.0%
Fifth Third Bancorp	3.9%
M&T Bank Corporation	3.7%
Banco Santander, S.A.	3.6%

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Axis Capital Holdings Ltd	3.1%
Citigroup	2.6%
	<b>% of Net Assets***</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	58%
Holdings Generating Income Eligible for the Corporate Dividend Received Deduction (DRD)	43%

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

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

August 31, 2014 (Unaudited)

Shares/\$ Par		Value	
<b>Preferred Securities 93.7%</b>			
<b>Banking 44.7%</b>			
6,700	Astoria Financial Corp., 6.50% Pfd., Series C	\$ 164,360	*
439,755	Banco Santander, 10.50% Pfd., Series 10	11,302,363	**(3)
Barclays Bank PLC:			
81,750	Barclays Bank PLC, 7.10% Pfd.	2,098,522	**(3)
8,800	Barclays Bank PLC, 7.75% Pfd., Series 4	227,216	**(3)
130,500	Barclays Bank PLC, 8.125% Pfd., Series 5	3,382,560	**(1)(3)
Citigroup:			
144,400	Citigroup, Inc., 6.875% Pfd., Series K	3,909,269	*(1)(2)
155,338	Citigroup, Inc., 7.125% Pfd., Series J	4,324,610	*(1)(2)
32,000	City National Corporation, 6.75% Pfd., Series D	896,640	*
CoBank ACB:			
19,000	CoBank ACB, 6.125% Pfd., Series G, 144A****	1,736,720	*
25,000	CoBank ACB, 6.25% Pfd., 144A****	2,602,345	*(1)
\$ 10,000,000	Colonial BancGroup, 7.114%, 144A****	15,000	(4)(5)
30,500	Cullen/Frost Bankers, Inc., 5.375% Pfd., Series A	743,438	*
441,269	Fifth Third Bancorp, 6.625% Pfd., Series I	12,113,496	*(1)
First Horizon:			
875	First Tennessee Bank, Adj. Rate Pfd., 3.75% <sup>(6)</sup> , 144A****	648,238	*
3	FT Real Estate Securities Company, 9.50% Pfd., 144A****	4,057,500	
140,750	First Niagara Financial Group, Inc., 8.625% Pfd.	4,005,956	*(1)
12,137	First Republic Bank, 6.70% Pfd.	318,627	*
Goldman Sachs Group:			
\$ 390,000	Goldman Sachs, 5.70%, Series L	404,585	*
60,000	Goldman Sachs, 6.375% Pfd., Series K	1,559,400	*
HSBC PLC:			
\$ 1,400,000	HSBC Capital Funding LP, 10.176%, 144A****	2,107,000	(1)(3)
200,000	HSBC Holdings PLC, 8.00% Pfd., Series 2	5,380,500	**(1)(3)
\$ 200,000	HSBC USA Capital Trust I, 7.808% 12/15/26, 144A****	202,470	
\$ 275,000	HSBC USA Capital Trust II, 8.38% 05/15/27, 144A****	278,662	(1)
59,109	HSBC USA, Inc., 6.50% Pfd., Series H	1,510,974	*(1)
ING Groep NV:			
30,000	ING Groep NV, 6.375% Pfd.	760,800	**(3)
50,000	ING Groep NV, 7.05% Pfd.	1,285,075	**(3)
31,425	ING Groep NV, 7.20% Pfd.	810,812	**(3)
57,500	ING Groep NV, 7.375% Pfd.	1,492,125	**(3)

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

Shares/\$ Par		Value	
<b>Preferred Securities (Continued)</b>			
<b>Banking (Continued)</b>			
JPMorgan Chase:			
\$ 750,000	JPMorgan Chase & Company, 6.00%, Series R	\$ 772,875	*
69,200	JPMorgan Chase & Company, 6.70% Pfd., Series T	1,786,052	*(1)(2)
\$ 4,113,000	JPMorgan Chase & Company, 6.75%, Series S	4,436,899	*(1)(2)
\$ 7,000,000	JPMorgan Chase & Company, 7.90%, Series I	7,778,750	*(1)
\$ 1,000,000	Lloyds Banking Group PLC, 6.657%, 144A****	1,097,500	**(3)
M&T Bank Corporation:			
\$ 3,500,000	M&T Bank Corporation, 6.450%, Series E	3,780,000	*(1)(2)
\$ 7,648,000	M&T Bank Corporation, 6.875%, Series D, 144A****	7,846,443	*(1)(2)
Morgan Stanley:			
40,000	Morgan Stanley, 6.875% Pfd., Series F	1,080,400	*(1)
86,900	Morgan Stanley, 7.125% Pfd., Series E	2,429,854	*(1)(2)
228,045	PNC Financial Services Group, Inc. ,6.125% Pfd., Series P	6,321,134	*(1)
\$ 2,515,000	Rabobank Nederland, 11.00%, 144A****	3,338,662	(1)(3)
Royal Bank of Scotland:			
5,000	Royal Bank of Scotland Group PLC, 6.40% Pfd., Series M	124,450	**(3)
10,000	Royal Bank of Scotland Group PLC, 6.60% Pfd., Series S	250,300	**(3)
97,100	Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T	2,493,528	**(3)
3,000	Sovereign REIT, 12.00% Pfd., Series A, 144A****	4,029,852	
157,400	State Street Corporation., 5.90% Pfd., Series D	4,105,386	*(1)
63,000	US Bancorp, 6.50% Pfd., Series F	1,840,955	*
Wells Fargo:			
81,100	Wells Fargo & Company, 5.85% Pfd.	2,118,738	*
106,200	Wells Fargo & Company, 6.625% Pfd., Series R	2,988,468	*(1)
\$ 1,458,000	Wells Fargo & Company, 7.98%, Series K	1,654,830	*
198,700	Wells Fargo & Company, 8.00% Pfd., Series J	5,861,650	*(1)
Zions Bancorporation:			
5,000	Zions Bancorporation, 6.30% Pfd., Series G	129,688	*
\$ 1,500,000	Zions Bancorporation, 7.20%, Series J	1,589,550	*(1)
125,000	Zions Bancorporation, 7.90% Pfd., Series F	3,500,000	*(1)
		139,695,227	

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

Shares/\$ Par		Value	
<b>Preferred Securities (Continued)</b>			
<b>Financial Services 1.9%</b>			
\$ 2,300,000	General Electric Capital Corp., 7.125%, Series A	\$ 2,715,281	*(1)
	HSBC PLC:		
128,497	HSBC Finance Corporation, 6.36% Pfd., Series B	3,230,607*	
		5,945,888	
<b>Insurance 24.1%</b>			
	Ace Ltd.:		
\$ 1,550,000	Ace Capital Trust II, 9.70% 04/01/30	2,286,250	(1)(2)(3)
54,900	Allstate Corp., 6.625% Pfd., Series E	1,438,462	*(1)
\$ 1,875,000	Aon Corporation, 8.205% 01/01/27	2,413,639	(1)(2)
80,000	Arch Capital Group, Ltd., 6.75% Pfd., Series C	2,153,000	***(1)(3)
10,000	Aspen Insurance Holdings Ltd., 5.95% Pfd.	258,900	***(3)
	AXA SA:		
\$ 620,000	AXA SA, 6.379%, 144A****	675,800	***(1)(2)(3)
\$ 500,000	AXA SA, 8.60% 12/15/30	677,190	(3)
358,650	Axis Capital Holdings Ltd., 6.875% Pfd., Series C	9,705,966	***(1)(3)
160,000	Delphi Financial Group, 7.376% Pfd., 05/15/37	4,010,000	(1)(2)
39,000	Endurance Specialty Holdings, 7.50% Pfd., Series B	1,026,188	***(3)
\$ 5,289,000	Everest Re Holdings, 6.60% 05/15/37	5,586,506	(1)(2)
\$ 8,300,000	Liberty Mutual Group, 10.75% 06/15/58, 144A****	12,948,000	(1)(2)
	MetLife:		
\$ 577,000	MetLife Capital Trust IV, 7.875% 12/15/37, 144A****	740,002	(1)(2)
\$ 5,335,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	7,775,762	(1)(2)
\$ 3,130,000	MetLife, Inc., 10.75% 08/01/39	5,086,250	(1)(2)
31,000	PartnerRe Ltd., 7.25% Pfd., Series E	832,350	***(1)(3)
75,000	Principal Financial Group, 6.518% Pfd., Series B	1,954,688	*(1)
\$ 804,000	Prudential Financial, Inc., 5.625% 06/15/43	866,310	(1)(2)
	QBE Insurance:		
\$ 1,600,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	1,742,330	(1)(3)
	The Travelers Companies:		
\$ 1,584,700	USF&G Capital, 8.312% 07/01/46, 144A****	2,178,016	(1)(2)
	Unum Group:		
\$ 2,490,000	Provident Financing Trust I, 7.405% 03/15/38	2,937,251	(1)

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2014 (Unaudited)**

Shares/\$ Par		Value	
<b>Preferred Securities (Continued)</b>			
<b>Insurance (Continued)</b>			
XL Group PLC:			
\$ 8,250,000	XL Capital Ltd., 6.50%, Series E	\$ 7,992,187	(1)(3)
		75,285,047	
<b>Utilities 15.7%</b>			
6,050	Alabama Power Company, 6.45% Pfd.	162,594	*(1)
33,700	Baltimore Gas & Electric Company, 6.70% Pfd., Series 1993	3,422,656	*(1)
Commonwealth Edison:			
\$ 3,160,000	COMED Financing III, 6.35% 03/15/33	3,262,700	(1)(2)
\$ 3,100,000	Dominion Resources, Inc., 7.50% 06/30/66	3,361,950	(1)(2)
83,000	Entergy Arkansas, Inc., 6.45% Pfd.	2,108,723	*(1)
59,850	Entergy Louisiana, Inc., 6.95% Pfd.	5,994,355	*(1)
70,791	Georgia Power Company, 6.50% Pfd., Series 2007A	7,731,708	*(1)
17,800	Indianapolis Power & Light Company, 5.65% Pfd.	1,866,775	*(1)
50,000	Integrays Energy Group, Inc., 6.00% Pfd.	1,317,125	(1)(2)
Nextera Energy:			
\$ 1,997,000	FPL Group Capital, Inc., 6.65% 06/15/67	2,043,218	(1)(2)
\$ 1,500,000	FPL Group Capital, Inc., 7.30% 09/01/67, Series D	1,658,622	(1)(2)
PECO Energy:			
\$ 3,600,000	PECO Energy Capital Trust IV, 5.75% 06/15/33	3,580,704	(1)(2)
PPL Corp:			
\$ 3,450,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	3,520,680	(1)(2)
\$ 3,900,000	Puget Sound Energy, Inc., 6.974% 06/01/67	4,104,571	(1)(2)
44,864	Southern California Edison, 6.50% Pfd., Series D	4,768,204	*(1)
		48,904,585	
<b>Energy 2.8%</b>			
\$ 750,000	DCP Midstream LLC, 5.85% 05/21/43, 144A****	731,250	
\$ 7,050,000	Enbridge Energy Partners LP, 8.05% 10/01/37	7,966,500	(1)(2)
		8,697,750	
<b>Real Estate Investment Trust (REIT) 3.3%</b>			
Duke Realty Corp.:			
8,000	Duke Realty Corp, 6.50% Pfd., Series K	201,300	
21,000	Duke Realty Corp, 6.60% Pfd., Series L	528,282	
7,500	Equity CommonWealth, 7.25% Pfd., Series E	190,500	
52,436	Kimco Realty Corporation, 6.90% Pfd., Series H	1,382,213	(1)



Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Real Estate Investment Trust (REIT) (Continued)</b>		
National Retail Properties:		
35,000	National Retail Properties, Inc., 5.70% Pfd., Series E	\$ 825,783
14,970	National Retail Properties, Inc., 6.625% Pfd., Series D	396,443
PS Business Parks:		
6,698	PS Business Parks, Inc., 5.70% Pfd., Series V	160,300
7,128	PS Business Parks, Inc., 5.75% Pfd., Series U	170,644
56,000	PS Business Parks, Inc., 6.45% Pfd., Series S	1,438,220 (1)(2)
35,000	PS Business Parks, Inc., 6.875% Pfd., Series R	917,000
148,030	Realty Income Corporation, 6.625% Pfd., Series F	3,890,228 (1)(2)
8,215	Weingarten Realty Investors, 6.50% Pfd., Series F	210,242
		10,311,155
<b>Miscellaneous Industries 1.2%</b>		
37,400	Ocean Spray Cranberries, Inc., 6.25% Pfd., 144A****	3,396,388 *
7,828	Stanley Black & Decker, Inc., 5.75% Pfd., 07/25/52	196,189 (1)
		3,592,577
<b>Total Preferred Securities</b>		
(Cost \$278,970,872)		292,432,229
<b>Corporate Debt Securities 5.0%</b>		
<b>Banking 1.9%</b>		
\$ 3,741,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	4,817,469 (1)(2)
24,770	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	608,413
20,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes	535,000
		5,960,882
<b>Financial Services 0.4%</b>		
28,603	Affiliated Managers Group, Inc., 6.375% 08/15/42	730,850
\$ 4,726,012	Lehman Brothers, Guaranteed Note, Variable Rate, 5.843% 12/16/16, 144A****	426,286 (4)(5)
4,193	Raymond James Financial, 6.90% 03/15/42	113,892
		1,271,028
<b>Insurance 1.2%</b>		
\$ 3,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	3,630,798 (1)(2)
		3,630,798

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

Shares/\$ Par		Value
<b>Corporate Debt Securities (Continued)</b>		
<b>Energy 0.4%</b>		
\$ 940,000	Energy Transfer Partners LP, 8.25% 11/15/29	\$ 1,345,343 (1)
		1,345,343
<b>Real Estate Investment Trust (REIT) 0.0%</b>		
7,031	Equity CommonWealth, 7.50% 11/15/19	144,557
		144,557
<b>Communication 0.3%</b>		
38,300	Qwest Corporation, 7.375% 06/01/51	1,001,641
		1,001,641
<b>Miscellaneous Industries 0.8%</b>		
	Pulte Group Inc.:	
\$ 2,160,000	Pulte Homes, Inc., 7.875% 06/15/32	2,446,200 (1)(2)
		2,446,200
<b>Total Corporate Debt Securities</b>		
(Cost \$12,613,917)		15,800,449
<b>Common Stock 0.2%</b>		
<b>Banking 0.2%</b>		
13,500	CIT Group, Inc.	647,460 *
		647,460
<b>Total Common Stock</b>		
(Cost \$2,533,093)		647,460

Flaherty &amp; Crumrine Total Return Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

Shares/\$ Par	Value
<b>Money Market Fund 0.1%</b>	
165,023	
BlackRock Liquidity Funds: T-Fund, Institutional Class	\$ 165,023
<b>Total Money Market Fund</b> (Cost \$165,023)	165,023
<b>Total Investments</b> (Cost \$294,282,905***)	99.0% 309,045,161
<b>Other Assets And Liabilities</b> (Net)	1.0% 3,150,094
<b>Total Managed Assets</b>	100.0% \$ 312,195,255
<b>Loan Principal Balance</b>	(102,900,000)
<b>Total Net Assets Available To Common Stock</b>	\$ 209,295,255

\* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\* Securities distributing Qualified Dividend Income only.

\*\*\* Aggregate cost of securities held.

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2014, these securities amounted to \$62,205,024 or 19.9% of total managed assets.

(1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$200,276,746 at August 31, 2014.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was \$97,687,966 at August 31, 2014.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 2014.

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

The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

**ABBREVIATIONS:**

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

Flaherty &amp; Crumrine Total Return Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>****For the period from December 1, 2013 through August 31, 2014 (Unaudited)**

	Value
<b>OPERATIONS:</b>	
Net investment income	\$ 12,196,184
Net realized gain/(loss) on investments sold during the period	7,925,804
Change in net unrealized appreciation/(depreciation) of investments	8,497,206
<b>Net increase in net assets resulting from operations</b>	<b>28,619,194</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>	(13,027,055)
<b>Total Distributions to Common Stock Shareholders</b>	<b>(13,027,055)</b>
<b>FUND SHARE TRANSACTIONS:</b>	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	57,310
<b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b>	<b>57,310</b>
<b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>	<b>\$ 15,649,449</b>
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>	
Beginning of period	\$ 193,645,806
Net increase in net assets during the period	15,649,449
End of period	\$ 209,295,255

(1) These tables summarize the nine months ended August 31, 2014 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2013.

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

Flaherty &amp; Crumrine Total Return Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2013 through August 31, 2014 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

Net asset value, beginning of period	\$ 19.56
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**INVESTMENT OPERATIONS:**

Net investment income	1.23
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Net realized and unrealized gain/(loss) on investments.	1.67
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Total from investment operations	2.90
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**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income	(1.32)
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Total distributions to Common Stock Shareholders	(1.32)
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Net asset value, end of period	\$ 21.14
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Market value, end of period	\$ 19.95
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Common Stock shares outstanding, end of period	9,900,625
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**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

Net investment income	8.09%*
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Operating expenses including interest expense	1.80%*
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Operating expenses excluding interest expense	1.29%*
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**SUPPLEMENTAL DATA:**

Portfolio turnover rate	23%**
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Total managed assets, end of period (in 000 s)	\$ 312,195
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Ratio of operating expenses including interest expense to total managed assets	1.19%*
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Ratio of operating expenses excluding interest expense to total managed assets	0.85%*
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<sup>(1)</sup> These tables summarize the nine months ended August 31, 2014 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2013.

\* Annualized.

\*\* Not annualized.

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

Information presented under heading Supplemental Data includes loan principal balance.

Flaherty &amp; Crumrine Total Return Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)****Per Share of Common Stock (Unaudited)**

	<b>Total Dividends Paid</b>	<b>Net Asset Value</b>	<b>NYSE Closing Price</b>	<b>Dividend Reinvestment Price<sup>(1)</sup></b>
December 31, 2013	\$ 0.2280	\$ 19.24	\$ 18.57	\$ 18.67
January 31, 2014	0.1360	19.59	18.73	18.75
February 28, 2014	0.1360	19.95	19.25	19.24
March 31, 2014	0.1360	20.17	19.76	19.91
April 30, 2014	0.1360	20.41	20.56	20.41
May 30, 2014	0.1360	20.84	20.17	20.17
June 30, 2014	0.1360	20.94	20.05	20.03
July 31, 2014	0.1360	20.90	19.31	19.12
August 29, 2014	0.1360	21.14	19.95	19.92

(1) Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine Total Return Fund Incorporated

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

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

At August 31, 2014, the aggregate cost of securities for federal income tax purposes was \$305,096,441, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$26,133,875 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$22,185,155.

### 2. Additional Accounting Standards

*Fair Value Measurements:* The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

Level 1 quoted prices in active markets for identical securities

Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of August 31, 2014 is as follows:

	Total Value at August 31, 2014	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$ 139,695,227	\$ 111,242,785	\$ 28,437,442	\$ 15,000
Financial Services	5,945,888	5,945,888		
Insurance	75,285,047	52,778,065	22,506,982	
Utilities	48,904,585	11,901,595	37,002,990	
Energy	8,697,750	7,966,500	731,250	
Real Estate Investment Trust (REIT)	10,311,155	10,311,155		
Miscellaneous Industries	3,592,577	196,189	3,396,388	

Flaherty &amp; Crumrine Total Return Fund Incorporated

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

	Total Value at August 31, 2014	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Corporate Debt Securities</b>				
Banking	\$ 5,960,882	\$ 1,143,413	\$ 4,817,469	\$
Financial Services	1,271,028	844,742		426,286
Insurance	3,630,798		3,630,798	
Energy	1,345,343		1,345,343	
Real Estate Investment Trust (REIT)	144,557	144,557		
Communication	1,001,641	1,001,641		
Miscellaneous Industries	2,446,200		2,446,200	
<b>Common Stock</b>				
Banking	647,460	647,460		
Money Market Fund	165,023	165,023		
<b>Total Investments</b>	<b>\$ 309,045,161</b>	<b>\$ 204,289,013</b>	<b>\$ 104,314,862</b>	<b>\$ 441,286</b>

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

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

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



Flaherty &amp; Crumrine Total Return Fund Incorporated

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

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

	<b>Total Investments</b>	<b>Preferred Securities</b>	<b>Corporate Debt Securities</b>
		<b>Banking</b>	<b>Financial Services</b>
<b>Balance as of 11/30/13</b>	\$ 498,046	\$ 15,000	\$ 483,046
Accrued discounts/premiums			
Realized gain/(loss)			
Change in unrealized appreciation/(depreciation)	(56,760)		(56,760)
Purchases			
Sales			
Transfers in			
Transfers out			
<b>Balance as of 08/31/14</b>	\$ 441,286	\$ 15,000	\$ 426,286

For the nine months ended August 31, 2014, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$56,760.

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

<b>Category</b>	<b>Fair Value at 08/31/14</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Input Range (Wgt Avg)</b>
<b>Preferred Securities</b>				
Banking	\$ 15,000	Bankruptcy recovery	Credit/Structure-specific recovery	0.00%-0.50% (0.15%)
<b>Corporate Debt Securities</b>				
Securities	426,286	Bankruptcy recovery	Credit/Structure-specific recovery	7%-11% (9%)

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

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**Directors**

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

**Officers**

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated

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**Servicing Agent**

Destra Capital Investments LLC

1-877-855-3434

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

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

If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent  
BNY Mellon c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

1-866-351-7446

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

Quarterly  
Report  
August 31, 2014

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