

CORNERSTONE TOTAL RETURN FUND INC  
Form N-CSR  
March 09, 2007

=====

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 811-02363

CORNERSTONE TOTAL RETURN FUND, INC.

(Exact name of registrant as specified in charter)

383 Madison Avenue, New York, New York 10179

-----  
(Address of principal executive offices) (Zip code)

Jodi Levine  
383 Madison Avenue, New York, New York 10179

-----  
(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 272-3550

Date of fiscal year end: December 31, 2006

Date of reporting period: December 31, 2006

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

ITEM 1. REPORTS TO STOCKHOLDERS.

The report of Cornerstone Total Return Fund, Inc. (the "Registrant") to stockholders for the year ended December 31, 2006 follows.

=====

CORNERSTONE TOTAL  
RETURN FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2006

=====

CONTENTS

|   |    |
|---|----|
| Portfolio Summary   | 1  |
| Summary Schedule of Investments   | 2  |
| Statement of Assets and Liabilities   | 4  |
| Statement of Operations   | 5  |
| Statement of Changes in Net Assets  | 6  |
| Financial Highlights  | 7  |
| Notes to Financial Statements   | 8  |
| Report of Independent Registered Public Accounting Firm                         | 12 |
| Tax Information   | 13 |
| Additional Information Regarding the Fund's Directors<br>and Corporate Officers | 14 |

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|   |    |
|---|----|
| Description of Dividend Reinvestment Plan       | 17 |
| Proxy Voting and Portfolio Holdings Information | 19 |
| Privacy Policy Notice                           | 19 |
| Summary of General Information                  | 20 |
| Shareholder Information                         | 20 |

=====

-----

CORNERSTONE TOTAL RETURN FUND, INC.  
 PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2006 (UNAUDITED)

-----

SECTOR ALLOCATION

| Sector                     | Percent of<br>Net Assets |
|----------------------------|--------------------------|
| Financials                 | 19.6                     |
| Information Technology     | 14.1                     |
| Healthcare                 | 10.4                     |
| Industrials                | 9.8                      |
| Energy                     | 9.6                      |
| Consumer Discretionary     | 9.6                      |
| Consumer Staples           | 9.1                      |
| Closed-End Funds           | 8.0                      |
| Telecommunication Services | 3.4                      |
| Utilities                  | 2.8                      |
| Materials                  | 2.3                      |
| Other                      | 1.3                      |

TOP TEN HOLDINGS, BY ISSUER

Percent of

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

| Holding                                   | Sector                 | Net Assets |
|---|------------------------|------------|
| 1. Exxon Mobil Corporation                | Energy                 | 4.7        |
| 2. General Electric Company               | Industrials            | 3.7        |
| 3. Citigroup Inc.                         | Financials             | 2.7        |
| 4. Microsoft Corporation                  | Information Technology | 2.5        |
| 5. Dreman/Claymore Dividend & Income Fund | Closed-End Funds       | 2.2        |
| 6. Johnson & Johnson                      | Healthcare             | 2.0        |
| 7. Adams Express Company                  | Closed-End Funds       | 1.9        |
| 8. Bank of America Corporation            | Financials             | 1.7        |
| 9. Procter & Gamble Company (The)         | Consumer Staples       | 1.7        |
| 10. American International Group, Inc.    | Financials             | 1.7        |

1

CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2006

| Description                            | No. of<br>Shares | Value      |
|--|------------------|------------|
| EQUITY SECURITIES - 99.14%             |                  |            |
| UNITED STATES - 98.82%                 |                  |            |
| CLOSED-END FUNDS - 7.95%               |                  |            |
| Adams Express Company                  | 70,400           | \$ 976,448 |
| Boulder Total Return Fund, Inc.        | 13,900           | 310,526    |
| Dreman/Claymore Dividend & Income Fund | 49,500           | 1,137,510  |
| Liberty All-Star Growth Fund, Inc.     | 140,800          | 756,096    |
| Other Closed-End Funds (a)             |                  | 984,167    |
|  |                  | 4,164,747  |
| CONSUMER DISCRETIONARY - 9.32%         |                  |            |
| Home Depot, Inc. (The)                 | 9,000            | 361,440    |
| McDonald's Corporation                 | 8,100            | 359,073    |
| Time Warner Inc. ^                     | 17,000           | 370,260    |
| Walt Disney Company (The)              | 8,000            | 274,160    |
| Other Consumer Discretionary (a)       |                  | 3,518,426  |
|  |                  | 4,883,359  |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|                                |        |           |
|--------------------------------|--------|-----------|
| CONSUMER STAPLES - 9.09%       |        |           |
| Altria Group, Inc.             | 7,700  | 660,814   |
| Coca-Cola Company (The)        | 13,500 | 651,375   |
| PepsiCo, Inc. ^                | 5,000  | 312,750   |
| Procter & Gamble Company (The) | 13,972 | 897,980   |
| Wal-Mart Stores, Inc.          | 19,000 | 877,420   |
| Other Consumer Staples (a)     |        | 1,362,843 |

-----  
4,763,182  
-----

|                         |        |           |
|-------------------------|--------|-----------|
| ENERGY - 9.57%          |        |           |
| Chevron Corporation     | 10,068 | 740,300   |
| Exxon Mobil Corporation | 32,000 | 2,452,163 |
| Schlumberger Limited    | 5,000  | 315,800   |
| Other Energy (a)        |        | 1,502,875 |

-----  
5,011,138  
-----

|                                    |        |           |
|------------------------------------|--------|-----------|
| FINANCIALS - 19.62%                |        |           |
| American International Group, Inc. | 12,331 | 883,639   |
| Bank of America Corporation ^      | 17,021 | 908,751   |
| Citigroup Inc. ^                   | 25,600 | 1,425,920 |

| Description | No. of<br>Shares | Value |
|-------------|------------------|-------|
|-------------|------------------|-------|

-----

|  |        |            |
|--|--------|------------|
| FINANCIALS (CONTINUED)                   |        |            |
| Fannie Mae                               | 6,200  | \$ 368,218 |
| Franklin Resources, Inc.                 | 2,500  | 275,425    |
| Goldman Sachs Group, Inc. (The)          | 3,000  | 598,050    |
| JPMorgan Chase & Co.                     | 12,700 | 613,410    |
| M&T Bank Corporation                     | 2,500  | 305,400    |
| Morgan Stanley                           | 3,700  | 301,291    |
| St. Paul Travelers Companies, Inc. (The) | 5,092  | 273,389    |
| Wachovia Corporation                     | 5,600  | 318,920    |
| Wells Fargo & Company                    | 18,000 | 640,080    |
| Other Financials (a)                     |        | 3,360,577  |

-----  
10,273,070  
-----

|                                 |        |           |
|---------------------------------|--------|-----------|
| HEALTHCARE - 10.36%             |        |           |
| Amgen Inc. *                    | 8,300  | 566,973   |
| Johnson & Johnson               | 15,500 | 1,023,310 |
| Merck & Co. Inc.                | 8,700  | 379,320   |
| Pfizer Inc.                     | 24,960 | 646,464   |
| UnitedHealth Group Incorporated | 10,000 | 537,300   |
| Other Healthcare (a)            |        | 2,274,063 |

-----  
5,427,430  
-----

|                                      |        |           |
|--------------------------------------|--------|-----------|
| INDUSTRIALS - 9.83%                  |        |           |
| FedEx Corp.                          | 2,500  | 271,550   |
| General Electric Company             | 52,000 | 1,934,920 |
| United Parcel Service, Inc., Class B | 4,000  | 299,920   |
| United Technologies Corporation ^    | 4,400  | 275,088   |

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|                       |  |           |
|-----------------------|--|-----------|
| Other Industrials (a) |  | 2,369,846 |
|                       |  | -----     |
|                       |  | 5,151,324 |
|                       |  | -----     |

INFORMATION TECHNOLOGY - 14.08%

|   |        |           |
|---|--------|-----------|
| Apple Computer, Inc. *                      | 5,000  | 424,200   |
| Cisco Systems, Inc. *                       | 24,500 | 669,585   |
| Google Inc. ^ *                             | 1,000  | 460,480   |
| Hewlett-Packard Company                     | 10,000 | 411,900   |
| Intel Corporation                           | 19,500 | 394,875   |
| International Business Machines Corporation | 5,700  | 553,755   |
| Microsoft Corporation                       | 43,000 | 1,283,980 |
| Oracle Corporation *                        | 33,600 | 575,904   |

=====

See accompanying notes to financial statements

2

-----

CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2006 (CONCLUDED)

-----

| Description                            | No. of<br>Shares | Value      |
|--|------------------|------------|
|  |                  | -----      |
| INFORMATION TECHNOLOGY (CONTINUED)     |                  |            |
| Texas Instruments Incorporated         | 13,500           | \$ 388,800 |
| Other Information Technology (a)       |                  | 2,204,955  |
|  |                  | -----      |
|  |                  | 7,368,434  |
|  |                  | -----      |
| MATERIALS - 2.32%                      |                  |            |
| E. I. du Pont de Nemours and Company   | 5,800            | 282,518    |
| Other Materials (a)                    |                  | 934,671    |
|  |                  | -----      |
|  |                  | 1,217,189  |
|  |                  | -----      |
| REAL ESTATE INVESTMENT TRUST - 0.48%   |                  |            |
| Total Real Estate Investment Trust (a) |                  | 253,225    |
|  |                  | -----      |
| TELECOMMUNICATION SERVICES - 3.39%     |                  |            |
| AT&T Inc.                              | 24,699           | 882,989    |
| Verizon Communications Inc.            | 10,000           | 372,400    |
| Other Telecommunication Services (a)   |                  | 519,957    |
|  |                  | -----      |
|  |                  | 1,775,346  |
|  |                  | -----      |
| UTILITIES - 2.81%                      |                  |            |
| TXU Corp.                              | 7,400            | 401,154    |
| Other Utilities (a)                    |                  | 1,069,076  |
|  |                  | -----      |
|  |                  | 1,470,230  |
|  |                  | -----      |
| TOTAL UNITED STATES                    |                  |            |
| (cost - \$44,010,264)                  |                  | 51,758,674 |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|   |                                |              |
|---|--------------------------------|--------------|
| CZECH REPUBLIC - 0.32%  |                                |              |
| CONSUMER DISCRETIONARY - 0.32%  |                                |              |
| Total Consumer Discretionary # (a)  |                                | 166,762      |
| TOTAL CZECH REPUBLIC<br>(cost - \$894,864)  |                                | 166,762      |
| TOTAL EQUITY SECURITIES<br>(cost - \$44,905,128)  |                                | 51,925,436   |
|   | Principal<br>Amount<br>(000's) | Value        |
| SHORT-TERM INVESTMENTS - 2.73%  |                                |              |
| REPURCHASE AGREEMENTS - 2.73%   |                                |              |
| Bear, Stearns & Co. Inc. +<br>(Agreements dated 12/29/2006<br>to be repurchased at \$1,433,098) (b) | \$ 1,432                       | \$ 1,432,470 |
| TOTAL SHORT-TERM INVESTMENTS<br>(cost - \$1,432,470)  |                                | 1,432,470    |
| TOTAL INVESTMENTS - 101.87%<br>(cost - \$46,337,598)  |                                | 53,357,906   |
| LIABILITIES IN EXCESS OF<br>OTHER ASSETS - (1.87)%  |                                | (978,676)    |
| NET ASSETS - 100.00%  |                                | \$52,379,230 |

See accompanying notes to financial statements.  
3

CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2006

ASSETS

|  |               |
|--|---------------|
| Investments, at value, including collateral for securities<br>on loan of \$961,405 (Cost \$46,337,598) (1) | \$ 53,357,906 |
| Receivables:   |               |
| Dividends  | 85,764        |
| Interest   | 1,627         |
| Prepaid expenses   | 1,509         |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|  |               |
|--|---------------|
| Total Assets   | 53,446,806    |
| -----  |               |
| LIABILITIES  |               |
| Payables:  |               |
| Upon return of securities loaned   | 961,405       |
| Investment management fees   | 44,357        |
| Directors' fees  | 14,500        |
| Other accrued expenses   | 46,365        |
| Due to custodian   | 949           |
| -----  |               |
| Total Liabilities  | 1,067,576     |
| -----  |               |
| NET ASSETS (applicable to 5,167,874 shares of<br>common stock outstanding) | \$ 52,379,230 |
| =====  |               |
| NET ASSET VALUE PER SHARE (\$52,379,230 / 5,167,874)                       | \$ 10.14      |
| =====  |               |

NET ASSETS CONSISTS OF

|  |               |
|--|---------------|
| Capital stock, \$0.01 par value; 5,167,874 shares<br>issued and outstanding (15,000,000 shares authorized) | \$ 51,679     |
| Paid-in capital  | 60,678,188    |
| Accumulated net realized loss on investments   | (15,370,945)  |
| Net unrealized appreciation in value of investments  | 7,020,308     |
| -----  |               |
| Net assets applicable to shares outstanding  | \$ 52,379,230 |
| =====  |               |

-----  
(1) Includes securities out on loan to brokers with a market value of \$954,730.

=====  
See accompanying notes to financial statements.

4

-----  
CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2006  
-----

INVESTMENT INCOME

Income:

|                         |              |
|-------------------------|--------------|
| Dividends               | \$ 1,145,598 |
| Interest                | 20,639       |
| Securities lending      | 14,335       |
| -----                   |              |
| Total Investment Income | 1,180,572    |
| -----                   |              |



Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|                             |          |
|-----------------------------|----------|
| Expenses:                   |          |
| Investment management fees  | 522,164  |
| Directors' fees             | 55,498   |
| Legal and audit fees        | 53,635   |
| Administration fees         | 52,282   |
| Accounting fees             | 32,837   |
| Transfer agent fees         | 28,999   |
| Custodian fees              | 12,872   |
| Printing                    | 10,551   |
| Insurance                   | 6,643    |
| Stock exchange listing fees | 6,282    |
| Miscellaneous               | 1,176    |
|                             | -----    |
| Total Expenses              | 782,939  |
| Less: Fees paid indirectly  | (30,564) |
|                             | -----    |
| Net Expenses                | 752,375  |
|                             | -----    |
| Net Investment Income       | 428,197  |
|                             | -----    |

|  |              |
|--|--------------|
| NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS                |              |
| Net realized loss from investments                             | (50,353)     |
| Capital gain distributions from regulated investment companies | 103,660      |
| Net change in unrealized appreciation in value of investments  | 6,318,611    |
|  | -----        |
| Net realized and unrealized gain on investments                | 6,371,918    |
|  | -----        |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS           | \$ 6,800,115 |
|  | =====        |

=====  
See accompanying notes to financial statements.

5

-----  
CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF CHANGES IN NET ASSETS  
-----

|   | For the Years Ended<br>December 31, |            |
|---|-------------------------------------|------------|
|   | 2006                                | 2005       |
|   | -----                               | -----      |
| DECREASE IN NET ASSETS                    |                                     |            |
| Operations:                               |                                     |            |
| Net investment income                     | \$ 428,197                          | \$ 299,210 |
| Net realized loss from investments        | (50,353)                            | (464,943)  |
| Capital gain distributions from regulated |                                     |            |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|  |               |               |
|--|---------------|---------------|
| investment companies   | 103,660       | --            |
| Net change in unrealized appreciation/(depreciation)<br>in value of investments  | 6,318,611     | 1,364,595     |
| Net increase in net assets resulting from operations   | 6,800,115     | 1,198,862     |
| Dividends and distributions to shareholders:   |               |               |
| Net investment income  | (428,197)     | (299,210)     |
| Return-of-capital  | (10,248,116)  | (9,996,313)   |
| Total dividends and distributions to shareholders  | (10,676,313)  | (10,295,523)  |
| Capital stock transactions:  |               |               |
| Proceeds from 200,573 and 167,470 shares newly issued<br>in reinvestment of dividends and distributions,<br>respectively | 2,061,112     | 1,925,600     |
| Total decrease in net assets   | (1,815,086)   | (7,171,061)   |
| NET ASSETS   |               |               |
| Beginning of year  | 54,194,316    | 61,365,377    |
| End of year  | \$ 52,379,230 | \$ 54,194,316 |

See accompanying notes to financial statements.

6

CORNERSTONE TOTAL RETURN FUND, INC.  
FINANCIAL HIGHLIGHTS

Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each year indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

|                                 | For the Years Ended December 31, |      |      |      |
|---------------------------------|----------------------------------|------|------|------|
|                                 | 2006                             | 2005 | 2004 | 2003 |
| PER SHARE OPERATING PERFORMANCE |                                  |      |      |      |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Net asset value, beginning of year   | \$ 10.91  | \$ 12.78  | \$ 13.89  | \$ 12.89  |
|  | -----     | -----     | -----     | -----     |
| Net investment income#   | 0.09      | 0.06      | 0.10      | 0.08      |
| Net realized and unrealized gain/(loss)<br>on investments  | 1.25      | 0.18      | 0.87      | 2.91      |
|  | -----     | -----     | -----     | -----     |
| Net increase/(decrease) in net assets<br>resulting from operations   | 1.34      | 0.24      | 0.97      | 2.99      |
|  | -----     | -----     | -----     | -----     |
| Dividends and distributions to shareholders:   |           |           |           |           |
| Net investment income  | (0.09)    | (0.06)    | (0.10)    | (0.08)    |
| Return-of-capital  | (2.02)    | (2.05)    | (2.01)    | (1.91)    |
|  | -----     | -----     | -----     | -----     |
| Total dividends and distributions to<br>shareholders   | (2.11)    | (2.11)    | (2.11)    | (1.99)    |
|  | -----     | -----     | -----     | -----     |
| Capital stock transactions:  |           |           |           |           |
| Anti-dilutive effect due to<br>capital stock repurchased   | --        | --        | --        | --        |
| Anti-dilutive/(dilutive) effect<br>due to shares issued in<br>reinvestment of dividends<br>and distributions | --        | --        | 0.03      | --        |
|  | -----     | -----     | -----     | -----     |
| Total capital stock transactions   | --        | --        | 0.03      | --        |
|  | -----     | -----     | -----     | -----     |
| Net asset value, end of year   | \$ 10.14  | \$ 10.91  | \$ 12.78  | \$ 13.89  |
|  | =====     | =====     | =====     | =====     |
| Market value, end of year  | \$ 19.62  | \$ 14.65  | \$ 17.95  | \$ 17.95  |
|  | =====     | =====     | =====     | =====     |
| Total investment return (a)  | 64.15%    | (2.07)%   | 15.11%    | 82.96%    |
|  | =====     | =====     | =====     | =====     |
| RATIOS/SUPPLEMENTAL DATA   |           |           |           |           |
| Net assets, end of year (000 omitted)  | \$ 52,379 | \$ 54,194 | \$ 61,365 | \$ 65,642 |
| Ratio of expenses to average net assets,<br>net of fee waivers, if any (b)                                   | 1.44%     | 1.47%     | 1.41%     | 1.20%     |
| Ratio of expenses to average net assets,<br>excluding fee waivers, if any (c)                                | 1.50%     | 1.52%     | 1.45%     | 1.43%     |
| Ratio of expenses to average net assets,<br>net of fee waivers, if any (c)                                   | 1.50%     | 1.50%     | 1.43%     | 1.23%     |
| Ratio of net investment income to<br>average net assets  | 0.82%     | 0.53%     | 0.75%     | 0.65%     |
| Portfolio turnover rate  | 11.29%    | 9.84%     | 12.15%    | 3.62%     |

See accompanying notes to financial statements.

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS

---

### NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Cornerstone Total Return Fund, Inc. (the "Fund") was incorporated in New York on March 16, 1973 and commenced investment operations on May 15, 1973. Its investment objective is to seek capital appreciation with current income as a secondary objective by investing primarily in U.S. and non-U.S. companies. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, diversified management investment company.

The following is a summary of significant accounting policies consistently followed by the Fund:

**MANAGEMENT ESTIMATES:** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make certain estimates and assumptions that may affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**PORTFOLIO VALUATION:** Investments are stated at value in the accompanying financial statements. All equity securities shall be valued at the closing price on the exchange or market on which the security is primarily traded ("Primary Market"). If the security did not trade on the Primary Market, it shall be valued at the closing price on another exchange where it trades. If there are no such sale prices, the value shall be the most recent bid, and if there is no bid, the security shall be valued at the most recent asked. If no pricing service is available and there are more than two dealers, the value shall be the mean of the highest bid and lowest ask. If there is only one dealer, then the value shall be the mean if bid and ask are available, otherwise the value shall be the bid. All other securities and assets are valued as determined in good faith by the Board of Directors. Short-term investments having a maturity of 60 days or less are valued on the basis of amortized cost. Securities and assets for which market quotations are not readily available are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of financial and non-financial information about the company; comparisons to the valuation and changes in valuation of similar securities, including reference to special reports prepared by analysts and or reports published in the financial press, the financial conditions and prospects of the issuer available, including considering any recent management or capital structure changes or other recent events that may impact the price of the security; and evaluation of any other information that could be indicative of the value of the security. At December 31, 2006, the Fund held 0.32% of its net assets in securities valued in good faith by the Board of Directors with an aggregate cost of \$894,867 and a fair value of \$166,762. The net asset value per share of the Fund is calculated weekly and on the last business day of the month with the exception of those days on which the American Stock Exchange, LLC is closed.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, the Fund is in the

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

process of reviewing SFAS 157 against its current valuation policies to determine future applicability.

=====

8

-----

-----

CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

-----

**REPURCHASE AGREEMENTS:** The Fund has agreed to purchase securities from financial institutions subject to the seller's agreement to repurchase them at an agreed-upon time and price ("repurchase agreements"). The financial institutions with whom the Fund enters into repurchase agreements are banks and broker/dealers, which Cornerstone Advisors, Inc. (the Fund's "Investment Manager" or "Cornerstone") considers creditworthy. The seller under a repurchase agreement will be required to maintain the value of the securities as collateral, subject to the agreement at not less than the repurchase price plus accrued interest. Cornerstone monitors daily, the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Fund to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

**INVESTMENT TRANSACTIONS AND INVESTMENT INCOME:** Investment transactions are accounted for on the trade date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes. Interest income is recorded on an accrual basis; dividend income is recorded on the ex-dividend date.

**TAXES:** No provision is made for U.S. federal income or excise taxes as it is the Fund's intention to continue to qualify as a regulated investment company and to make the requisite distributions to its shareholders which will be sufficient to relieve it from all or substantially all U.S. federal income and excise taxes.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. ("FIN") 48, Accounting for Uncertainty in Income Taxes. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The Fund does not expect the FASB's issuance of FIN 48 to materially impact the Fund's financial condition or results of operations.

**DISTRIBUTIONS TO SHAREHOLDERS:** Effective January 2002, the Fund initiated a fixed, monthly distribution to shareholders. On November 29, 2006, this distribution policy was updated to provide for the annual resetting of the monthly distribution amount per share, beginning in 2007, based on the Fund's net asset value on the last business day in each October. The terms of the distribution policy will be reviewed and approved at least annually by the Fund's Board of Directors and can be modified at their discretion. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, which will either be short-term or long-term capital gains or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

return on the Fund's investment portfolio. The Fund plans to maintain this distribution policy even if regulatory requirements would make part of a return-of-capital, necessary to maintain the distribution, taxable to shareholders and to disclose that portion of the distribution that is classified as ordinary income. Although it has no current intention to do so, the Board may terminate this distribution policy at any time and such termination may have an adverse effect on the market price for the Fund's common shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to this distribution policy, an additional distribution may be made to avoid the payment of a 4% U.S. federal excise tax, and to the extent that the aggregate amount

=====

9

-----  
CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
-----

distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. A return-of-capital distribution reduces the cost basis of an investor's shares in the Fund. Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

### NOTE B. AGREEMENTS

Cornerstone serves as the Fund's Investment Manager with respect to all investments. As compensation for its investment management services, Cornerstone receives from the Fund, an annual fee, calculated weekly and paid monthly, equal to 1.00% of the Fund's average weekly net assets. During the year ended December 31, 2006, Cornerstone voluntarily agreed to waive its management fees from the Fund to the extent that the Fund's net monthly operating expenses (including basic legal fees but excluding other legal expenses) exceed a rate of 0.125% of average net assets. For the year ended December 31, 2006, Cornerstone earned \$522,164 for investment management services, of which no amounts were required to be waived. The Investment Manager may discontinue such undertaking at any time during the fiscal year without notice to fund shareholders.

Included in the Statement of Operations, under the caption FEES PAID INDIRECTLY, are expense offsets of \$30,564 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$39,035 for the year ended December 31, 2006 for legal services to Blank Rome LLP ("Blank"), counsel to the Fund. Thomas R. Westle, partner of Blank, serves as Secretary of the Fund.

### NOTE C. INVESTMENT IN SECURITIES

For the year ended December 31, 2006, purchases and sales of securities, other than short-term investments, were \$5,900,360 and \$14,369,287 respectively.

# Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

## NOTE D. SECURITIES LENDING

To generate additional income, the Fund may lend up to 33(1)/3% of its total assets. The Fund receives payments from borrowers equivalent to the dividends and interest that would have been earned on securities lent while simultaneously seeking to earn interest on the investment of cash collateral. Loans are subject to termination by the Fund or the borrower at any time, and are, therefore, not considered to be illiquid investments. Loans of securities are required at all times to be secured by collateral equal to at least 100% of the market value of securities on loan. However, in the event of default or bankruptcy of the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. In the event that the borrower fails to return securities, and collateral maintained by the lender is insufficient to cover the value of loaned securities, the borrower is obligated to pay the amount of the shortfall (and interest thereon) to the Fund. However, there can be no assurance the Fund can recover this amount. The value of securities on loan to brokers at December 31, 2006, was \$954,730. During the year ended December 31, 2006, the Fund earned \$14,335 in securities lending income which is included under the caption SECURITIES LENDING in the Statement of Operations.

## NOTE E. FEDERAL INCOME TAXES

Income and capital gains distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments of losses deferred due to wash sales and Post-October losses (as later defined), and excise tax regulations.

The tax character of dividends and distributions paid during the years ended December 31, for the Fund were as follows:

| ORDINARY INCOME |           | RETURN-OF-CAPITAL |             |
|-----------------|-----------|-------------------|-------------|
| 2006            | 2005      | 2006              | 2005        |
| \$428,197       | \$299,210 | \$10,248,116      | \$9,996,313 |

10

-----  
CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
-----

At December 31, 2006 the components of distributable earnings on a tax basis, for the Fund were as follows:

|                               |                |
|-------------------------------|----------------|
| Accumulated net realized loss | \$(15,319,316) |
| Unrealized appreciation       | 6,968,679      |
|                               | -----          |
| Total accumulated deficit     | \$ (8,350,637) |
|                               | =====          |

Under current tax law, certain capital losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year ("Post-October losses"). For the tax period ended December 31, 2006, the Fund did not incur Post-October losses.

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

At December 31, 2006, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$15,319,316, of which \$12,887,270 expires in 2008, \$1,170,157 expires in 2009, \$425,706 expires in 2011, \$358,321 expires in 2012, \$420,772 expires in 2013 and \$57,090 expires in 2014.

At December 31, 2006, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were \$46,389,227, \$10,503,487, \$(3,534,808) and \$6,968,679, respectively.

=====  
11

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors  
Cornerstone Total Return Fund, Inc.  
New York, New York

We have audited the accompanying statement of assets and liabilities of Cornerstone Total Return Fund, Inc., including the schedule of investments as of December 31, 2006, the related statement of operations for the year then ended, the statement of changes in 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. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.



Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Cornerstone Total Return Fund, Inc. as of December 31, 2006, 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.

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania  
February 7, 2007

=====  
12

2006 TAX INFORMATION (UNAUDITED)

Cornerstone Total Return Fund, Inc. (the "Fund") is required by Subchapter M of the Internal Revenue Code of 1986, as amended, to advise its shareholders within 60 days of the Fund's year end (December 31, 2006) as to the U.S. federal tax status of the dividends and distributions received by the Fund's shareholders in respect of such fiscal year. As indicated in this notice, significant portions of the Fund's distributions for 2006 were comprised of a return-of-capital; accordingly these distributions do NOT represent yield or investment return on the Fund's portfolio.

During the year ended December 31, 2006 the following dividends and distributions per share were paid by the Fund:

SOURCES OF DIVIDENDS AND DISTRIBUTIONS  
(PER SHARE AMOUNTS)

|                      |           |           |           |           |           |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| PAYMENT DATES:       | 1/31/06   | 2/28/06   | 3/31/06   | 4/28/06   | 5/31/06   |
| Ordinary Income(1)   | \$ 0.0076 | \$ 0.0076 | \$ 0.0076 | \$ 0.0076 | \$ 0.0076 |
| Return-of-Capital(2) | \$ 0.1684 | \$ 0.1684 | \$ 0.1684 | \$ 0.1684 | \$ 0.1684 |
|                      | -----     | -----     | -----     | -----     | -----     |
| Total:               | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 |
|                      | =====     | =====     | =====     | =====     | =====     |
| <br>                 |           |           |           |           |           |
| PAYMENT DATES:       | 7/31/06   | 8/31/06   | 9/29/06   | 10/31/06  | 11/30/06  |
| Ordinary Income(1)   | \$ 0.0076 | \$ 0.0076 | \$ 0.0076 | \$ 0.0076 | \$ 0.0076 |
| Return-of-Capital(2) | \$ 0.1684 | \$ 0.1684 | \$ 0.1684 | \$ 0.1684 | \$ 0.1684 |
|                      | -----     | -----     | -----     | -----     | -----     |
| Total:               | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 |
|                      | =====     | =====     | =====     | =====     | =====     |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

The Fund has met the requirements to pass through all of its (100%) ordinary income dividends as qualified dividends, which are subject to a maximum federal tax rate of 15%. This is reported in Box 1b on Form 1099-DIV. Ordinary income dividends should be reported as dividend income on Form 1040. Please note that to utilize the lower tax rate for qualifying dividend income, shareholders generally must have held their shares in the Fund for at least 61 days during the 121 day period beginning 60 days before the ex-dividend date.

Foreign shareholders will generally be subject to U.S. withholding tax on the amount of the actual ordinary income dividend paid by the Fund.

In general, distributions received by tax-exempt recipients (e.g., IRA's and Keoghs) need not be reported as taxable income for U.S. federal income tax purposes. However, some retirement trusts (e.g., corporate, Keogh and 403(b) (7) plans) may need this information for their annual information reporting.

Shareholders are strongly advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund.

13

ADDITIONAL INFORMATION REGARDING THE FUND'S DIRECTORS  
AND CORPORATE OFFICERS (UNAUDITED)

| NAME AND<br>ADDRESS*<br>(BIRTH DATE)   | POSITION(S)<br>HELD WITH FUND   | PRINCIPAL OCCUPATION<br>OVER LAST 5 YEARS  | POSITION<br>WITH FUND<br>SINCE |
|--|---|--|--------------------------------|
| Ralph W.<br>Bradshaw**<br>(Dec. 1950)  | Chairman of the<br>Board of<br>Directors and<br>President   | President, Cornerstone Advisors, Inc.;<br>Financial Consultant; President and<br>Director of Cornerstone Strategic<br>Value Fund, Inc.   | 2001                           |
| William A.<br>Clark**<br>(Oct. 1945)   | Director and Vice<br>President  | Director and Stockholder of Cornerstone<br>Advisors, Inc.; Director and Vice President<br>of Cornerstone Strategic Value Fund, Inc.;<br>former financial consultant of Deep<br>Discount Advisors, Inc. | 2004                           |
| Glenn W.<br>Wilcox, Sr.<br>(Dec. 1931) | Director; Audit<br>Committee<br>Chairman,<br>Nominating and<br>Corporate<br>Governance<br>Committee<br>Member | Chairman of the Board and Chief<br>Executive Officer of Wilcox Travel<br>Agency, Inc.; Director of Cornerstone<br>Strategic Value Fund, Inc.   | 2001                           |
| Thomas H.                              | Director; Audit,  | Independent Financial Adviser; Director  | 2002                           |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|                                   |  |  |      |
|-----------------------------------|--|--|------|
| Lenagh<br>(Nov. 1924)             | Nominating and<br>Corporate<br>Governance<br>Committee<br>Member                     | of Photonics Products Group; Director of<br>Cornerstone Total Return Fund, Inc.;<br>Director of Adams Express and<br>Petroleum and Resources; Retired<br>Treasurer and Investment Manager of<br>Ford Foundation.   |      |
| Edwin<br>Meese III<br>(Dec. 1931) | Director; Audit,<br>Nominating and<br>Corporate<br>Governance<br>Committee<br>Member | Distinguished Fellow, The Heritage<br>Distinguished Fellow, The Heritage<br>Foundation Washington D.C.;<br>Distinguished Visiting Fellow at the<br>Hoover Institution, Stanford University;<br>Senior Adviser, Revelation L.P .; formerly<br>U.S. Attorney General under President<br>Ronald Reagan; Director of Cornerstone<br>Strategic Value Fund, Inc. | 2001 |

=====

14

ADDITIONAL INFORMATION REGARDING THE FUND'S DIRECTORS  
AND CORPORATE OFFICERS (UNAUDITED) (CONTINUED)

| NAME AND<br>ADDRESS*<br>(BIRTH DATE) | POSITION(S)<br>HELD WITH FUND  | PRINCIPAL OCCUPATION<br>OVER LAST 5 YEARS  | POSITION<br>WITH FUND<br>SINCE |
|--------------------------------------|--|--|--------------------------------|
| -----                                | -----  | -----  | -----                          |
| Scott B. Rogers<br>(July 1955)       | Director; Audit,<br>Nominating and<br>Corporate<br>Governance<br>Committee<br>Member                                 | Chairman, Board of Health Partners,<br>Inc.; Chief Executive Officer, Asheville<br>Buncombe Community Christian<br>Ministry; and President, ABCCM<br>Doctor's Medical Clinic; Appointee, NC<br>Governor's Commission on Welfare to<br>Work; Director of Cornerstone<br>Strategic Value Fund, Inc.                | 2001                           |
| Andrew A.<br>Strauss<br>(Nov. 1953)  | Director;<br>Chairman of<br>Nominating and<br>Corporate<br>Governance<br>Committees and<br>Audit Committee<br>Member | Attorney and senior member of Strauss<br>& Associates, P.A., Attorneys, Asheville<br>and Hendersonville, NC; previous<br>President of White Knight Healthcare,<br>Inc. and LMV Leasing, Inc., a wholly<br>owned subsidiary of Xerox Credit<br>Corporation; Director of Cornerstone<br>Strategic Value Fund, Inc. | 2001                           |

=====

ADDITIONAL INFORMATION REGARDING THE FUND'S DIRECTORS  
AND CORPORATE OFFICERS (UNAUDITED) (CONCLUDED)

| NAME AND<br>ADDRESS*<br>(BIRTH DATE)  | POSITION<br>POSITION(S)<br>HELD WITH FUND | PRINCIPAL OCCUPATION<br>OVER LAST 5 YEARS  |
|---|---|--|
| Gary A. Bentz<br>(June 1956)  | Chief Compliance<br>Officer               | Chairman and Chief Financial Officer of<br>Cornerstone Advisors, Inc.; previous<br>Director, Vice President and Treasurer of the<br>Fund and Cornerstone Strategic Value Fund,<br>Inc., Financial Consultant, C.P.A., Chief<br>Compliance Officer of Cornerstone Strategic<br>Value Fund, Inc. |
| Thomas R. Westle<br>405 Lexington Avenue<br>New York, NY 10174<br>(Dec. 1953) | Secretary                                 | Partner, Blank Rome LLP, a law firm;<br>previous partner, Spitzer & Feldman P.C.,<br>a law firm; Secretary of Cornerstone Strategic<br>Value Fund, Inc.  |
| Jodi B. Levine<br>(Aug. 1969)   | Treasurer                                 | Associate Director, Bear, Stearns & Co. Inc.;<br>Treasurer of Cornerstone Strategic Value<br>Fund, Inc.  |

DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED)

Cornerstone Total Return Fund, Inc. operates a Dividend Reinvestment Plan (the "Plan"), sponsored and administered by American Stock Transfer & Trust Company

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

(the "Agent"), pursuant to which the Fund's income dividends or capital gains or other distributions (each, a "Distribution" and collectively, "Distributions"), net of any applicable U.S. withholding tax, are reinvested in shares of the Fund. American Stock Transfer & Trust Company serves as the Agent that administers the Plan for the shareholders in the Plan.

Shareholders automatically participate in the Fund's Plan, unless and until an election is made to withdraw from the Plan on behalf of such participating shareholder. Shareholders who do not wish to have Distributions automatically reinvested should so notify the Agent at P.O. Box 922, Wall Street Station, New York, New York 10269-0560. Under the Plan, the Fund's Distributions to shareholders are reinvested in full and fractional shares as described below.

When the Fund declares a Distribution the Agent, on the shareholder's behalf, will (i) receive additional authorized shares from the Fund either newly issued or repurchased from shareholders by the Fund and held as treasury stock ("Newly Issued Shares") or (ii) purchase outstanding shares on the open market, on the American Stock Exchange, LLC or elsewhere, with cash allocated to it by the Fund ("Open Market Purchases").

The method for determining the number of shares to be received when Distributions are reinvested will vary depending upon whether the net asset value of the Fund's shares is higher or lower than its market price. If the net asset value of the Fund's shares is lower than its market price, the number of Newly Issued Shares received will be determined by dividing the amount of the Distribution either by the Fund's net asset value per share or by 95% of its market price, whichever is higher. If the net asset value of the Fund's shares is higher than its market price, shares acquired by the Agent in Open Market Purchases will be allocated to the reinvesting shareholders based on the average cost of such Open Market Purchases.

Whenever the Fund declares a Distribution and the net asset value of the Fund's shares is higher than its market price, the Agent will apply the amount of such Distribution payable to Plan participants of the Fund in Fund shares (less such Plan participant's pro rata share of brokerage commissions incurred with respect to Open Market Purchases in connection with the reinvestment of such Distribution) to the purchase on the open market of Fund shares for such Plan participant's account. Such purchases will be made on or after the payable date for such Distribution, and in no event more than 30 days after such date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of federal securities laws. The Agent may aggregate a Plan participant's purchases with the purchases of other Plan participants, and the average price (including brokerage commissions) of all shares purchased by the Agent shall be the price per share allocable to each Plan participant.

Registered shareholders who do not wish to have their Distributions automatically reinvested should so notify the Fund in writing. If a shareholder has not elected to receive cash Distributions and the Agent does not receive notice of an election to receive cash Distributions prior to the record date of any Distribution, the shareholder will automatically receive such Distributions in additional shares.

Participants in the Plan may withdraw from the Plan by providing written notice to the Agent at least 30 days prior to the applicable Distribution payment date. When a Participant withdraws from the Plan, or upon suspension or termination of the Plan at the sole discretion of the Fund's Board of Directors, certificates for whole shares credited to his or her account under the Plan will, upon request, be issued. Whether or not a participant requests that certificates for whole shares be issued, a cash payment will be made for any fraction of a share credited to such account.

The Agent will maintain all shareholder accounts in the Plan and furnish written

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

confirmations of all transactions in the accounts, including information needed by shareholders for personal and tax records. The Agent will hold shares in the account of the Plan

=====

17

DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED) (CONCLUDED)

participant in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan. Each participant, nevertheless, has the right to receive certificates for whole shares owned. The Agent will distribute all proxy solicitation materials to participating shareholders.

In the case of shareholders, such as banks, brokers or nominees, that hold shares for others who are beneficial owners participating in the Plan, the Agent will administer the Plan on the basis of the number of shares certified from time to time by the record shareholder as representing the total amount of shares registered in the shareholder's name and held for the account of beneficial owners participating in the Plan.

Neither the Agent nor the Fund shall have any responsibility or liability beyond the exercise of ordinary care for any action taken or omitted pursuant to the Plan, nor shall they have any duties, responsibilities or liabilities except such as expressly set forth herein. Neither shall they be liable hereunder for any act done in good faith or for any good faith omissions to act, including, without limitation, failure to terminate a participants account prior to receipt of written notice of his or her death or with respect to prices at which shares are purchased or sold for the participants account and the terms on which such purchases and sales are made, subject to applicable provisions of the federal securities laws.

All correspondence concerning the Plan should be directed to the Agent at P.O. Box 922, Wall Street Station, New York, New York 10269-0560. Certain transactions can be performed online at [www.amstock.com](http://www.amstock.com) or by calling the toll free number 888-556-0422.

=====

18

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

### PROXY VOTING AND PORTFOLIO HOLDINGS INFORMATION (UNAUDITED)

Information regarding how the Cornerstone Total Return Fund, Inc. (the "Fund") voted proxies related to its portfolio securities during the 12-month period ended June 30 of each year as well as the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities are available by calling (212) 272-3550 or on the website of the Securities and Exchange Commission, <http://www.sec.gov>.

This report incorporates a Summary Schedule of Investments for the Fund. A complete Schedule of Investments for the Fund may be obtained free of charge by contacting the Fund at (212) 272-3550.

The Fund files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling (202) 551-8090.

### PRIVACY POLICY NOTICE (UNAUDITED)

The following is a description of Cornerstone Total Return Fund, Inc.'s (the "Fund") policies regarding disclosure of nonpublic personal information that you provide to the Fund or that the Fund collects from other sources. In the event that you hold shares of the Fund through a broker-dealer or other financial intermediary, the privacy policy of the financial intermediary would govern how your nonpublic personal information would be shared with unaffiliated third parties.

**CATEGORIES OF INFORMATION THE FUND COLLECTS.** The Fund collects the following nonpublic personal information about you:

1. Information from the Consumer: this category includes information the Fund receives from you on or in applications or other forms, correspondence, or conversations (such as your name, address phone number, social security number, assets, income and date of birth); and
2. Information about the Consumer's transactions: this category includes information about your transactions with the Fund, its affiliates, or others (such as your account number and balance, payment history, parties to transactions, cost basis information, and other financial information).

**CATEGORIES OF INFORMATION THE FUND DISCLOSES.** The Fund does not disclose any nonpublic personal information about their current or former shareholders to unaffiliated third parties, except as required or permitted by law. The Fund is permitted by law to disclose all of the information it collects, as described above, to its service providers (such as the Fund's custodian, administrator and transfer agent) to process your transactions and otherwise provide services to you.

**CONFIDENTIALITY AND SECURITY.** The Fund restricts access to your nonpublic personal information to those persons who require such information to provide products or services to you. The Fund maintains physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

=====

SUMMARY OF GENERAL INFORMATION (UNAUDITED)

Cornerstone Total Return Fund, Inc. is a closed-end, diversified investment company whose shares trade on the American Stock Exchange, LLC. Its investment objective is to seek capital appreciation with current income as a secondary objective by investing primarily in U.S. and non-U.S. companies. The Fund is managed by Cornerstone Advisors, Inc.

SHAREHOLDER INFORMATION (UNAUDITED)

The Fund is listed on the American Stock Exchange, LLC (symbol "CRF"). The share price is published in: THE NEW YORK TIMES (daily) under the designation "Cnrstn TR" and THE WALL STREET JOURNAL (daily) and BARRON'S (each Monday) under the designation "CornstnTtlRtn." The net asset value per share is available weekly and may be obtained by contacting the Fund at the general inquiry phone number.

-----

NOTICE IS HEREBY GIVEN IN ACCORDANCE WITH SECTION 23(C) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, THAT CORNERSTONE TOTAL RETURN FUND, INC. MAY FROM TIME TO TIME PURCHASE SHARES OF ITS CAPITAL STOCK IN THE OPEN MARKET.

-----

-----

This report, including the financial statements herein, is sent to the shareholders of the Fund 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 the report.

-----



CORNERSTONE TOTAL RETURN FUND, INC.

ITEM 2. CODE OF ETHICS.

(a) As of the end of the period covered by this report, the Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal accounting officer, and persons performing similar functions.

(c) and (d). During the period covered by this report, there was no amendment to, and no waiver granted from, any provision of the code of ethics that applies to the Registrant's principal executive officer, principal accounting officer, and persons performing similar functions.

(f) (1) Pursuant to Item 12(a), the Registrant is attaching as an exhibit (EX-99.CODE ETH) a copy of its code of ethics that applies to its principal executive officer, principal financial officer, and persons performing similar functions.

(f) (3) The Registrant undertakes to provide to any person without charge, upon request, a copy of its code of ethics. This can be accomplished by calling the Registrant at (212)272-3550.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

(a) (1) The registrant's board of directors has determined that it does not have an audit committee financial expert serving on its audit committee.

(a) (2) Not applicable

(a) (3) At this time, the registrant believes that the experience provided by each member of the audit committee together offer the registrant adequate oversight for the registrant's level of financial complexity.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(a) through (d). The information in the table below is provided for services rendered to the registrant by its independent registered public accounting firm, Tait, Weller & Baker LLP, for the Registrant's fiscal years ended December 31, 2006 and December 31, 2005.

|                    | 2006     | 2005     |
|--------------------|----------|----------|
|                    | ----     | ----     |
| Audit Fees         | \$13,000 | \$12,300 |
| Audit-related Fees | --       | --       |
| Tax Fees (1)       | \$ 2,500 | \$ 2,300 |
| All Other Fees     | --       | --       |
|                    | -----    | -----    |

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|       |          |          |
|-------|----------|----------|
| Total | \$15,500 | \$14,600 |
|       | =====    | =====    |

(1) Tax services in connection with the registrant's excise tax calculations and review of the registrant's applicable tax returns.

(e) (1) Audit Committee Pre-Approval Policies and Procedures.

Before the auditor is (i) engaged by the Registrant to render audit, audit related or permissible non-audit services to the Registrant or (ii) with respect to non-audit services to be provided by the auditor to the Registrant's investment adviser or any entity in the investment Registrant complex, if the nature of the services provided relate directly to the operations or financial reporting of the Registrant, either: (a) the Audit Committee shall pre-approve such engagement; or (b) such engagement shall be entered into pursuant to pre-approval policies and procedures established by the Audit Committee. Any such policies and procedures must be detailed as to the particular service and not involve any delegation of the Audit Committee's responsibilities to the Registrant's investment adviser. The Audit Committee may delegate to one or more of its members the authority to grant pre-approvals. The pre-approval policies and procedures shall include the requirement that the decisions of any member to whom authority is delegated under this provision shall be presented to the full Audit Committee at its next scheduled meeting. Under certain limited circumstances, pre-approvals are not required if certain de minimis thresholds are not exceeded, as such thresholds are set forth by the Audit Committee and in accordance with applicable SEC rules and regulations.

(e) (2) None of the services provided to the Registrant described in paragraphs (b)-(d) of Item 4 were pre-approved by the Audit Committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of regulation S-X.

(f) No disclosures are required by this Item 4(f).

(g) There were no non-audit fees billed by Tait, Weller & Baker LLP for services rendered to the Registrant, 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) or any entity controlling, controlled by, or under common control with the investment advisor that provides ongoing services to the Registrant for the Registrant's last two fiscal years (December 31, 2005 and December 31, 2006).

(h) No disclosures are required by this Item 4(h).

### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

(a) The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934, as amended. Glenn Wilcox (Chair), Edwin Meese, Thomas Lenagh, Andy Strauss and Scott Rogers are the members of the Registrant's audit committee.

(b) Not applicable.

### ITEM 6. SCHEDULE OF INVESTMENTS.

-----  
CORNERSTONE TOTAL RETURN FUND, INC.

# Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2006

| DESCRIPTION                                   | NO. OF<br>SHARES | VALUE      |
|---|------------------|------------|
| EQUITY SECURITIES - 99.14%                    |                  |            |
| UNITED STATES - 98.82%                        |                  |            |
| CLOSED-END FUNDS - 7.95%                      |                  |            |
| Adams Express Company                         | 70,400           | \$ 976,448 |
| Boulder Total Return Fund, Inc.               | 13,900           | 310,526    |
| Central Europe and Russia Fund, Inc. (The)    | 2,500            | 134,525    |
| Cohen & Steers Select Utility Fund, Inc.      | 6,000            | 146,880    |
| Dreman/Claymore Dividend & Income Fund        | 49,500           | 1,137,510  |
| H&Q Healthcare Investors                      | 5,100            | 83,997     |
| H&Q Life Sciences Investors                   | 6,000            | 80,880     |
| Japan Equity Fund ^                           | 13,000           | 109,980    |
| John Hancock Bank and Thrift Opportunity Fund | 9,000            | 90,630     |
| Liberty All-Star Growth Fund, Inc.            | 140,800          | 756,096    |
| Neuberger Berman Real Estate Income Fund Inc. | 8,500            | 236,895    |
| Petroleum & Resources Corporation             | 3,000            | 100,380    |
|   |                  | -----      |
|   |                  | 4,164,747  |
|   |                  | -----      |
| CONSUMER DISCRETIONARY - 9.32%                |                  |            |
| Bed Bath & Beyond Inc. ^ *                    | 2,500            | 95,250     |
| Best Buy Co., Inc. ^                          | 3,750            | 184,462    |
| CBS Corporation                               | 2,000            | 62,360     |
| Coach, Inc. *                                 | 2,500            | 107,400    |
| Comcast Corporation, Special Class A *        | 4,500            | 188,460    |
| Comcast Corporation, Class A *                | 6,008            | 254,319    |
| Ford Motor Company                            | 14,000           | 105,140    |
| Fortune Brands, Inc. ^                        | 2,500            | 213,475    |
| Goodyear Tire & Rubber Company (The) *        | 2,500            | 52,475     |
| Harley-Davidson, Inc.                         | 2,500            | 176,175    |
| Hilton Hotels Corporation                     | 2,500            | 87,250     |
| Home Depot, Inc. (The)                        | 9,000            | 361,440    |
| J.C. Penney Company, Inc.                     | 2,500            | 193,400    |
| Kohl's Corporation *                          | 2,500            | 171,075    |
| Lowe's Companies, Inc.                        | 4,900            | 152,635    |
| Marriott International, Inc., Class A         | 5,000            | 238,600    |
| Mattel, Inc.                                  | 4,500            | 101,970    |
| McDonald's Corporation                        | 8,100            | 359,073    |
| McGraw-Hill Companies, Inc. (The)             | 2,500            | 170,050    |
| Nordstrom, Inc.                               | 2,500            | 123,350    |
| Office Depot, Inc. *                          | 2,500            | 95,425     |
| Omnicom Group Inc. ^                          | 1,500            | 156,810    |
| Staples, Inc.                                 | 3,150            | 84,105     |
| Starbucks Corporation *                       | 2,500            | 88,550     |
| Target Corporation                            | 4,600            | 262,430    |
| Time Warner Inc. ^                            | 17,000           | 370,260    |
| TJX Companies, Inc. (The)                     | 2,500            | 71,200     |
| Viacom Inc., Class B *                        | 2,000            | 82,060     |
| Walt Disney Company (The)                     | 8,000            | 274,160    |
|   |                  | -----      |
|   |                  | 4,883,359  |
|   |                  | -----      |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

| DESCRIPTION                                   | NO. OF<br>SHARES | VALUE     |
|---|------------------|-----------|
| -----   |                  |           |
| CONSUMER STAPLES - 9.09%                      |                  |           |
| Altria Group, Inc.                            | 7,700            | 660,814   |
| Archer-Daniels-Midland Company                | 3,000            | 95,880    |
| Campbell Soup Company                         | 3,200            | 124,448   |
| Coca-Cola Company (The)                       | 13,500           | 651,375   |
| Colgate-Palmolive Company                     | 2,500            | 163,100   |
| ConAgra Foods, Inc.                           | 2,500            | 67,500    |
| CVS Corporation                               | 3,000            | 92,730    |
| General Mills, Inc.                           | 2,500            | 144,000   |
| H.J. Heinz Company                            | 2,700            | 121,527   |
| Kroger Co. (The)                              | 3,600            | 83,052    |
| PepsiCo, Inc. ^                               | 5,000            | 312,750   |
| Procter & Gamble Company (The)                | 13,972           | 897,980   |
| Safeway Inc. ^                                | 4,900            | 169,344   |
| Sara Lee Corporation                          | 2,600            | 44,278    |
| Walgreen Co.                                  | 5,600            | 256,984   |
| Wal-Mart Stores, Inc.                         | 19,000           | 877,420   |
|   |                  | -----     |
|   |                  | 4,763,182 |
|   |                  | -----     |
| ENERGY - 9.57%                                |                  |           |
| Anadarko Petroleum Corp.                      | 5,000            | 217,600   |
| BJ Services Company                           | 3,000            | 87,960    |
| Chevron Corporation                           | 10,068           | 740,300   |
| ConocoPhillips ^                              | 2,500            | 179,875   |
| Devon Energy Corporation                      | 2,500            | 167,700   |
| El Paso Corporation                           | 3,000            | 45,840    |
| Exxon Mobil Corporation                       | 32,000           | 2,452,163 |
| Halliburton Company                           | 5,000            | 155,250   |
| Marathon Oil Corp.                            | 2,500            | 231,250   |
| Norsk Hydro ADR                               | 2,500            | 76,675    |
| Occidental Petroleum Corporation              | 2,500            | 122,075   |
| Peabody Energy Corporation ^                  | 2,500            | 101,025   |
| Schlumberger Limited                          | 5,000            | 315,800   |
| XTO Energy, Inc.                              | 2,500            | 117,625   |
|   |                  | -----     |
|   |                  | 5,011,138 |
|   |                  | -----     |
| FINANCIALS - 19.62%                           |                  |           |
| AFLAC Incorporated                            | 1,500            | 69,000    |
| American Express Company                      | 3,500            | 212,345   |
| American International Group, Inc.            | 12,331           | 883,639   |
| Ameriprise Financial, Inc.                    | 1,220            | 66,490    |
| Aon Corporation                               | 2,500            | 88,350    |
| Bank of America Corporation ^                 | 17,021           | 908,751   |
| BB&T Corporation                              | 4,500            | 197,685   |
| Charles Schwab Corporation (The)              | 8,200            | 158,588   |
| Chubb Corporation (The)                       | 5,000            | 264,550   |
| Cincinnati Financial Corporation              | 2,500            | 113,275   |
| Citigroup Inc. ^                              | 25,600           | 1,425,920 |
| Countrywide Financial Corporation ^           | 3,500            | 148,575   |
| Fannie Mae                                    | 6,200            | 368,218   |
| Franklin Resources, Inc.                      | 2,500            | 275,425   |
| Freddie Mac                                   | 3,300            | 224,070   |
| Goldman Sachs Group, Inc. (The)               | 3,000            | 598,050   |
| Hartford Financial Services Group, Inc. (The) | 1,600            | 149,296   |
| JPMorgan Chase & Co.                          | 12,700           | 613,410   |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

KeyCorp 2,500 95,075

2

| DESCRIPTION                                  | NO. OF<br>SHARES | VALUE      |
|--|------------------|------------|
| Lehman Brothers Holdings Inc.                | 2,500            | 195,300    |
| M&T Bank Corporation                         | 2,500            | 305,400    |
| Mellon Financial Corporation                 | 2,300            | 96,945     |
| Merrill Lynch & Co., Inc.                    | 1,100            | 102,410    |
| Metlife, Inc.                                | 3,000            | 177,030    |
| Moody's Corporation                          | 2,000            | 138,120    |
| Morgan Stanley                               | 3,700            | 301,291    |
| Northern Trust Corporation                   | 1,100            | 66,759     |
| PNC Financial Services Group, Inc.           | 1,400            | 103,656    |
| Prudential Financial, Inc.                   | 2,500            | 214,650    |
| Regions Financial Corporation                | 1,993            | 74,538     |
| SLM Corporation                              | 2,500            | 121,925    |
| St. Paul Travelers Companies, Inc. (The)     | 5,092            | 273,389    |
| State Street Corporation                     | 1,600            | 107,904    |
| Synovus Corporation                          | 2,500            | 77,075     |
| Wachovia Corporation                         | 5,600            | 318,920    |
| Wells Fargo & Company                        | 18,000           | 640,080    |
| Western Union Company ^                      | 4,325            | 96,966     |
|  |                  | -----      |
|  |                  | 10,273,070 |
|  |                  | -----      |
| HEALTHCARE - 10.36%                          |                  |            |
| Aetna Inc. ^                                 | 4,000            | 172,720    |
| Amgen Inc. *                                 | 8,300            | 566,973    |
| Biomet, Inc.                                 | 2,500            | 103,175    |
| Caremark Rx, Inc.                            | 2,500            | 142,775    |
| Eli Lilly and Company                        | 4,100            | 213,610    |
| Gilead Sciences, Inc. *                      | 2,500            | 162,325    |
| Johnson & Johnson                            | 15,500           | 1,023,310  |
| Laboratory Corporation of America Holdings * | 2,500            | 183,675    |
| Medco Health Solutions, Inc. *               | 1,531            | 81,817     |
| Medtronic, Inc.                              | 4,500            | 240,795    |
| Merck & Co. Inc.                             | 8,700            | 379,320    |
| Pfizer Inc.                                  | 24,960           | 646,464    |
| Schering-Plough Corporation ^                | 8,400            | 198,576    |
| St. Jude Medical, Inc. *                     | 2,500            | 91,400     |
| Stryker Corporation ^                        | 2,000            | 110,220    |
| UnitedHealth Group Incorporated              | 10,000           | 537,300    |
| Waters Corporation *                         | 2,500            | 122,425    |
| Wyeth  | 5,000            | 254,600    |
| Zimmer Holdings, Inc. *                      | 2,500            | 195,950    |
|  |                  | -----      |
|  |                  | 5,427,430  |
|  |                  | -----      |
| INDUSTRIALS - 9.83%                          |                  |            |
| 3M Co.                                       | 2,500            | 194,825    |
| Boeing Company (The)                         | 1,400            | 124,376    |
| Caterpillar Inc.                             | 2,500            | 153,325    |
| CSX Corporation                              | 5,000            | 172,150    |
| Danaher Corporation ^                        | 2,500            | 181,100    |
| Dover Corporation ^                          | 1,000            | 49,020     |
| FedEx Corp.                                  | 2,500            | 271,550    |

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|                              |        |           |
|------------------------------|--------|-----------|
| General Dynamics Corporation | 2,500  | 185,875   |
| General Electric Company     | 52,000 | 1,934,920 |
| Honeywell International Inc. | 3,300  | 149,292   |
| Illinois Tool Works Inc.     | 5,000  | 230,950   |
| Lockheed Martin Corporation  | 2,500  | 230,175   |

3

| DESCRIPTION                                 | NO. OF<br>SHARES | VALUE     |
|---|------------------|-----------|
| <hr style="border-top: 1px dashed black;"/> |                  |           |
| Norfolk Southern Corporation                | 2,500            | 125,725   |
| Raytheon Company                            | 2,500            | 132,000   |
| Rockwell Automation, Inc.                   | 2,500            | 152,700   |
| Southwest Airlines Co.                      | 6,100            | 93,452    |
| United Parcel Service, Inc., Class B        | 4,000            | 299,920   |
| United Technologies Corporation ^           | 4,400            | 275,088   |
| Waste Management, Inc.                      | 5,300            | 194,881   |
|   |                  | -----     |
|   |                  | 5,151,324 |
|   |                  | -----     |
| INFORMATION TECHNOLOGY - 14.08%             |                  |           |
| Advanced Micro Devices *                    | 2,500            | 50,875    |
| Agilent Technologies Inc. *                 | 5,000            | 174,250   |
| Altera Corporation ^ *                      | 2,500            | 49,200    |
| Apple Computer, Inc. *                      | 5,000            | 424,200   |
| Applied Materials, Inc. ^                   | 8,000            | 147,600   |
| Broadcom Corporation - Class A *            | 2,500            | 80,775    |
| Cisco Systems, Inc. *                       | 24,500           | 669,585   |
| Corning Incorporated *                      | 3,500            | 65,485    |
| Dell Inc. *                                 | 5,700            | 143,013   |
| eBay Inc. *                                 | 4,000            | 120,280   |
| EMC Corporation *                           | 8,000            | 105,600   |
| First Data Corporation                      | 4,325            | 110,374   |
| Fiserv, Inc. *                              | 2,500            | 131,050   |
| Google Inc. ^ *                             | 1,000            | 460,480   |
| Hewlett-Packard Company                     | 10,000           | 411,900   |
| Intel Corporation                           | 19,500           | 394,875   |
| International Business Machines Corporation | 5,700            | 553,755   |
| Intuit Inc. *                               | 2,500            | 76,275    |
| Microsoft Corporation                       | 43,000           | 1,283,980 |
| Motorola, Inc.                              | 11,100           | 228,216   |
| Network Appliance, Inc. *                   | 2,500            | 98,200    |
| Oracle Corporation *                        | 33,600           | 575,904   |
| Paychex, Inc.                               | 2,500            | 98,850    |
| QUALCOMM Inc.                               | 6,800            | 256,972   |
| Texas Instruments Incorporated              | 13,500           | 388,800   |
| Xerox Corporation *                         | 3,000            | 50,850    |
| Yahoo! Inc. *                               | 8,500            | 217,090   |
|   |                  | -----     |
|   |                  | 7,368,434 |
|   |                  | -----     |
| MATERIALS - 2.32%                           |                  |           |
| Air Products & Chemicals, Inc.              | 2,500            | 175,700   |
| Alcoa Inc.                                  | 3,000            | 90,030    |
| Dow Chemical Company (The)                  | 3,500            | 139,790   |
| E. I. du Pont de Nemours and Company        | 5,800            | 282,518   |
| International Paper Company                 | 2,300            | 78,430    |
| Monsanto Company                            | 3,546            | 186,271   |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|                                      |        |           |
|--------------------------------------|--------|-----------|
| Nucor Corporation ^                  | 2,500  | 136,650   |
| Rohm and Hass Company                | 2,500  | 127,800   |
|                                      |        | -----     |
|                                      |        | 1,217,189 |
|                                      |        | -----     |
| REAL ESTATE INVESTMENT TRUST - 0.48% |        |           |
| Simon Property Group, Inc. ^         | 2,500  | 253,225   |
|                                      |        | -----     |
|                                      |        | 253,225   |
|                                      |        | -----     |
| TELECOMMUNICATIONS SERVICES - 3.39%  |        |           |
| AT&T Inc.                            | 24,699 | 882,989   |

4

| DESCRIPTION                               | NO. OF<br>SHARES | VALUE      |
|---|------------------|------------|
| -----                                     |                  |            |
| BellSouth Corporation                     | 5,200            | 244,972    |
| Nokia ADR                                 | 2,500            | 50,800     |
| Qwest Communications International Inc. * | 10,000           | 83,700     |
| Sprint Nextel Corporation ^               | 7,437            | 140,485    |
| Verizon Communications Inc.               | 10,000           | 372,400    |
|   |                  | -----      |
|   |                  | 1,775,346  |
|   |                  | -----      |
| UTILITIES - 2.81%                         |                  |            |
| AES Corporation (The) *                   | 3,000            | 66,120     |
| Alleghany Energy Inc. *                   | 2,500            | 114,775    |
| American Electric Power Company, Inc.     | 5,500            | 234,190    |
| Duke Energy Corporation ^                 | 6,600            | 219,186    |
| FirstEnergy Corp.                         | 2,500            | 150,525    |
| Southern Company (The)                    | 2,500            | 92,150     |
| TXU Corp.                                 | 7,400            | 401,154    |
| Williams Companies, Inc. (The)            | 2,500            | 65,300     |
| Xcel Energy, Inc.                         | 5,500            | 126,830    |
|   |                  | -----      |
|   |                  | 1,470,230  |
|   |                  | -----      |
| TOTAL UNITED STATES                       |                  |            |
| (cost - \$44,010,264)                     |                  | 51,758,674 |
|   |                  | -----      |
| CZECH REPUBLIC - 0.32%                    |                  |            |
| CONSUMER DISCRETIONARY - 0.32%            |                  |            |
| Bonton a.s. * #                           | 137,180          | 3,861      |
| Bonton Book a.s. * #                      | 68,590           | 32,860     |
| Bonton Film Entertainment a.s. * #        | 68,590           | 82,149     |
| Bonton Music a.s. * #                     | 68,590           | 45,428     |
| Bonton Pictures a.s. * #                  | 68,590           | 2,464      |
|   |                  | -----      |
|   |                  | 166,762    |
|   |                  | -----      |
| TOTAL CZECH REPUBLIC                      |                  |            |
| (cost - \$894,864)                        |                  | 166,762    |
|   |                  | -----      |
| TOTAL EQUITY SECURITIES                   |                  |            |
| (cost - \$44,905,128)                     |                  | 51,925,436 |

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

|  | PRINCIPAL<br>AMOUNT<br>(000'S)<br>----- |         |
|--|---|---------|
| SHORT-TERM INVESTMENTS - 2.73%   |   |         |
| REPURCHASE AGREEMENTS - 2.73%  |   |         |
| Bear, Stearns and Co., Inc. + ++<br>(Agreement dated 12/29/2006 to be<br>repurchased at \$657,099), 2.6565%,<br>1/2/2007, collateralized by \$676,013<br>in U.S. Treasury Bond Strips) | \$ 657                                  | 656,905 |
| Bear, Stearns and Co., Inc.<br>(Agreement dated 12/29/2006 to<br>be repurchased at \$471,319), 4.8500%,<br>1/2/2007, collateralized by \$486,340<br>in U.S. Treasury Bond Strips)      | 471                                     | 471,065 |
| Bear, Stearns and Co., Inc. + ++<br>(Agreement dated 12/29/2006 to be<br>repurchased at \$304,680), 5.3130%,<br>1/2/2007, collateralized by \$313,689 in<br>U.S. Treasury Bond Strips) | 305                                     | 304,500 |

5

| DESCRIPTION  | NO. OF<br>SHARES | VALUE        |
|--|------------------|--------------|
| -----  |                  |              |
|  |                  | 1,432,470    |
|  |                  | -----        |
| TOTAL SHORT-TERM INVESTMENTS<br>(cost - \$1,432,470) |                  | 1,432,470    |
|  |                  | -----        |
| TOTAL INVESTMENTS - 101.87%                          |                  | 53,357,906   |
|  |                  | -----        |
| (cost - \$46,337,598)                                |                  | 53,357,906   |
|  |                  | -----        |
| LIABILITIES IN EXCESS OF OTHER ASSETS - (1.87)%      |                  | (978,676)    |
|  |                  | -----        |
| NET ASSETS - 100.00%                                 |                  | \$52,379,230 |
|  |                  | =====        |

ADR American Depositary Receipt

\* Non-income producing security.

+ Stated interest rate, before rebate earned by borrower of securities on loan.

++ Represents investment purchased with collateral received for securities on loan.

^ Security or a portion thereof is out on loan.



## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

# Securities are fair valued in accordance with procedures established by the Board of Directors.

At December 31, 2006, the Fund held 0.32% of its net assets in securities valued in good faith by the Board of Directors with an aggregate cost of \$894,864 and a fair value of \$166,762.

6

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS  
CORNERSTONE TOTAL RETURN FUND, INC.  
NEW YORK, NEW YORK

We have audited the accompanying statement of assets and liabilities of Cornerstone Total Return Fund, Inc., including the schedule of investments as of December 31, 2006, the related statement of operations for the year then ended, the statement of changes in 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. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

securities owned as of December 31, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Cornerstone Total Return Fund, Inc. as of December 31, 2006, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of investments in securities as of December 31, 2006 appearing in Item 6 of this Form N-CSR is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Fund's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TAIT, WELLER & BAKER LLP

PHILADELPHIA, PENNSYLVANIA  
FEBRUARY 7, 2007

### ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Registrant has delegated the voting of proxies relating to its voting securities to its investment adviser, Cornerstone Advisors, Inc. (the "Investment Manager"). The respective Proxy Voting Policies and Procedures of the Registrant and the Investment Manager are attached as Exhibit 99.VOTEREG.

### ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1) All information contained in this item and its subparts is as of the date of this filing, unless otherwise noted. Ralph W. Bradshaw and William A. Clark are employees of Cornerstone Advisors, Inc. (the Investment Manager) and portfolio managers of the Fund. Mr. Bradshaw has acted as the portfolio manager since 2001. Mr. Clark has acted as the portfolio manager since 2003. Ralph W. Bradshaw occupation for the last five years is President of Cornerstone Advisors, Inc. and a Financial Consultant. William A. Clark occupation for the last five years is Director and Stockholder of Cornerstone Advisors, Inc. and a former financial consultant of Deep Discount Advisors, Inc.

(a)(2)(i) Ralph W. Bradshaw and William A. Clark

(a)(2)(ii)(A) Registered Investment Companies - Ralph W. Bradshaw and William A. Clark each manages one other registered closed-end fund (Cornerstone Strategic Value Fund, Inc.) As of December 31, 2006, the total assets of Cornerstone Strategic Value Fund, Inc. was \$141.6 million.

(a)(2)(ii)(B) Not applicable

(a)(2)(ii)(C) Not applicable

## Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

(a) (2) (iii) None. Ralph W. Bradshaw and William A. Clark manage no accounts where the Advisory Fee is based on the performance of the account.

(a) (2) (iv) None.

(a) (3) As of the most recent fiscal year end December 31, 2006, the compensation paid to both Ralph W. Bradshaw and William A. Clark was fixed.

(a) (4) The dollar range of equity securities owned in the registrant beneficially by each portfolio manager is as follows: for Ralph W. Bradshaw it is in the range of \$50,001-\$100,000 and for William A. Clark it is also in the range of \$50,001-\$100,000.

(b) None.

### ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT COMPANY AND AFFILIATED PURCHASERS.

None.

### ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

### ITEM 11. CONTROLS AND PROCEDURES.

(a) The Registrant's principal executive officer and principal financial officer have evaluated the Registrant's disclosure controls and procedures as of a date within 90 days of this filing and have concluded that the Registrant's disclosure controls and procedures are effective, as of such date, in ensuring that information required to be disclosed by the registrant in this Form N-CSR was recorded, processed, summarized, and reported timely.

(b) The Registrant's principal executive officer and principal financial officer are aware of no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's last fiscal half-year that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

### ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached as EX-99.CODE ETH.

(a) (2) Separate certifications of Principal Executive and Financial Officers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 attached as EX-99.CERT.

(b) Certification of Principal Executive and Financial Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished as EX-99.906 CERT.

(99) Proxy Voting Policies of the Registrant attached as EX-99.VOTEREG.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

By: /s/ Ralph W. Bradshaw  
-----

Name: Ralph W. Bradshaw  
Title: Principal Executive Officer  
Date: March 9, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Cornerstone Total Return Fund, Inc.

By: /s/ Ralph W. Bradshaw  
-----

Name: Ralph W. Bradshaw  
Title: Principal Executive Officer  
Date: March 9, 2007

By: /s/ Jodi B. Levine  
-----

Name: Jodi B. Levine  
Title: Principal Financial Officer  
Date: March 9, 2007