

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

CORNERSTONE TOTAL RETURN FUND INC  
Form N-CSR  
March 10, 2008

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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)

Kayadti A. Madison  
383 Madison Avenue, New York, New York 10179

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(Name and address of agent for service)

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

Date of fiscal year end: December 31, 2007

Date of reporting period: December 31, 2007

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.

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ITEM 1. REPORTS TO STOCKHOLDERS.

The report of Cornerstone Total Return Fund, Inc. (the "Registrant") to stockholders for the year ended December 31, 2007 follows.

CORNERSTONE TOTAL  
RETURN FUND, INC.

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ANNUAL REPORT  
DECEMBER 31, 2007

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CORNERSTONE TOTAL RETURN FUND, INC.  
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2007 (UNAUDITED)  
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## SECTOR ALLOCATION

| Sector                     | Percent of<br>Net Assets |
|----------------------------|--------------------------|
| Information Technology     | 16.1                     |
| Financials                 | 15.4                     |
| Energy                     | 11.6                     |
| Healthcare                 | 10.7                     |
| Industrials                | 10.7                     |
| Consumer Staples           | 9.8                      |
| Consumer Discretionary     | 7.5                      |
| Closed-End Funds           | 7.5                      |
| Telecommunication Services | 3.7                      |
| Materials                  | 3.2                      |
| Utilities                  | 2.9                      |

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Other 0.9

## TOP TEN HOLDINGS, BY ISSUER

| Holding                                       | Sector                     | Percent of<br>Net Assets |
|---|----------------------------|--------------------------|
| 1. Exxon Mobil Corporation                    | Energy                     | 6.6                      |
| 2. General Electric Company                   | Industrials                | 4.0                      |
| 3. Microsoft Corporation                      | Information Technology     | 2.9                      |
| 4. AT&T Inc.                                  | Telecommunication Services | 2.6                      |
| 5. Johnson & Johnson                          | Healthcare                 | 2.3                      |
| 6. Adams Express Company                      | Closed-End Funds           | 2.2                      |
| 7. Apple Computer, Inc.                       | Information Technology     | 2.2                      |
| 8. Chevron Corporation                        | Energy                     | 2.1                      |
| 9. Wal-Mart Stores, Inc.                      | Consumer Staples           | 1.9                      |
| 10. Dreman/Claymore Dividend<br>& Income Fund | Closed-End Funds           | 1.9                      |

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CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2007

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| Description                            | No. of<br>Shares | Value      |
|--|------------------|------------|
| EQUITY SECURITIES - 99.53%             |                  |            |
| CLOSED-END FUNDS - 7.48%               |                  |            |
| Adams Express Company (a)              | 70,400           | \$ 994,048 |
| Dreman/Claymore Dividend & Income Fund | 53,500           | 845,300    |
| Liberty All-Star Growth Fund, Inc.     | 39,075           | 232,887    |
| Other Closed-End Funds (a) (b)         |                  | 1,326,682  |
|  |                  | -----      |
|  |                  | 3,398,917  |
|  |                  | -----      |
| CONSUMER DISCRETIONARY - 7.53%         |                  |            |
| Amazon.com, Inc. ^ *                   | 2,500            | 231,600    |
| Home Depot, Inc. (The)                 | 13,500           | 363,690    |
| McDonald's Corporation                 | 5,100            | 300,441    |
| Time Warner Inc.                       | 17,000           | 280,670    |
| Walt Disney Company (The)              | 8,000            | 258,240    |
| Other Consumer Discretionary (b)       |                  | 1,984,114  |
|  |                  | -----      |
|  |                  | 3,418,755  |
|  |                  | -----      |
| CONSUMER STAPLES - 9.77%               |                  |            |
| Altria Group, Inc. ^                   | 7,700            | 581,966    |
| Coca-Cola Company (The)                | 11,000           | 675,070    |
| PepsiCo, Inc.                          | 5,000            | 379,500    |
| Procter & Gamble Company (The)         | 11,472           | 842,274    |
| Wal-Mart Stores, Inc.                  | 18,500           | 879,305    |
| Other Consumer Staples (b)             |                  | 1,077,448  |
|  |                  | -----      |
|  |                  | 4,435,563  |
|  |                  | -----      |
| ENERGY - 11.61%                        |                  |            |
| Chevron Corporation                    | 10,068           | 939,646    |

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|   |        |           |
|---|--------|-----------|
| Exxon Mobil Corporation                     | 32,000 | 2,998,081 |
| Schlumberger Limited                        | 5,000  | 491,850   |
| Other Energy (b)                            |        | 844,800   |
|   |        | -----     |
|   |        | 5,274,377 |
|   |        | -----     |
| FINANCIALS - 15.41%                         |        |           |
| American International Group, Inc.          | 12,331 | 718,897   |
| Bank of America Corporation                 | 14,521 | 599,136   |
| Citigroup Inc.                              | 25,600 | 753,664   |
| Franklin Resources, Inc.                    | 2,500  | 286,075   |
| Goldman Sachs Group, Inc. (The)             | 3,000  | 645,150   |
| JPMorgan Chase & Co.                        | 10,200 | 445,230   |
| Prudential Financial, Inc.                  | 2,500  | 232,600   |
| Travelers Companies, Inc. (The)             | 5,092  | 273,950   |
| Wells Fargo & Company                       | 18,000 | 543,420   |
| Other Financials (b)                        |        | 2,499,827 |
|   |        | -----     |
|   |        | 6,997,949 |
|   |        | -----     |
| HEALTHCARE - 10.70%                         |        |           |
| Johnson & Johnson                           | 15,500 | 1,033,850 |
| Merck & Co. Inc.                            | 13,700 | 796,107   |
| UnitedHealth Group Incorporated ^           | 7,500  | 436,500   |
| Other Healthcare (b)                        |        | 2,592,523 |
|   |        | -----     |
|   |        | 4,858,980 |
|   |        | -----     |
| INDUSTRIALS - 10.67%                        |        |           |
| General Electric Company                    | 49,000 | 1,816,431 |
| Lockheed Martin Corporation                 | 2,500  | 263,150   |
| United Parcel Service, Inc., Class B        | 4,000  | 282,880   |
| United Technologies Corporation             | 4,400  | 336,776   |
| Other Industrials (b)                       |        | 2,146,975 |
|   |        | -----     |
|   |        | 4,846,212 |
|   |        | -----     |
| INFORMATION TECHNOLOGY - 16.08%             |        |           |
| Apple Computer, Inc. *                      | 5,000  | 990,400   |
| Cisco Systems, Inc. *                       | 22,000 | 595,540   |
| Google Inc. *                               | 1,000  | 691,480   |
| Hewlett-Packard Company                     | 10,000 | 504,800   |
| Intel Corporation                           | 13,000 | 346,580   |
| International Business Machines Corporation | 3,200  | 345,920   |
| Microsoft Corporation                       | 37,500 | 1,335,000 |
| Oracle Corporation *                        | 28,600 | 645,788   |
| QUALCOMM Inc.                               | 6,800  | 267,580   |
| Texas Instruments Incorporated              | 11,000 | 367,400   |
| Other Information Technology (b)            |        | 1,209,525 |
|   |        | -----     |
|   |        | 7,300,013 |
|   |        | -----     |

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2007 (CONCLUDED)

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| Description                            | No. of Shares | Value      |
|--|---------------|------------|
| MATERIALS - 3.25%                      |               |            |
| Air Products & Chemicals, Inc.         | 2,500         | \$ 246,575 |
| E. I. du Pont de Nemours and Company   | 5,800         | 255,722    |
| Freeport-McMoRan Copper & Gold, Inc.   | 2,500         | 256,100    |
| Monsanto Company                       | 3,546         | 396,053    |
| Other Materials (b)                    |               | 322,094    |
|  |               | -----      |
|  |               | 1,476,544  |
|  |               | -----      |
| REAL ESTATE INVESTMENT TRUST - 0.48%   |               |            |
| Total Real Estate Investment Trust (b) |               | 217,150    |
|  |               | -----      |
| TELECOMMUNICATION SERVICES - 3.66%     |               |            |
| AT&T Inc.                              | 28,589        | 1,188,159  |
| Verizon Communications Inc. ^          | 7,500         | 327,675    |
| Other Telecommunication Services (b)   |               | 145,045    |
|  |               | -----      |
|  |               | 1,660,879  |
|  |               | -----      |
| UTILITIES - 2.89%                      |               |            |
| American Electric Power Company, Inc.  | 5,500         | 256,080    |
| Dominion Resources, Inc. ^             | 5,000         | 237,250    |
| Other Utilities (b)                    |               | 819,157    |
|  |               | -----      |
|  |               | 1,312,487  |
|  |               | -----      |
| TOTAL EQUITY SECURITIES                |               |            |
| (cost - \$36,665,722)                  |               | 45,197,826 |
|  |               | -----      |

| Description   | Principal Amount (000's) | Value         |
|---|--------------------------|---------------|
| SHORT-TERM INVESTMENTS - 4.00%  |                          |               |
| REPURCHASE AGREEMENTS - 4.00%   |                          |               |
| Bear, Stearns & Co. Inc. +<br>(Agreements dated 12/31/2007 to<br>be repurchased at \$1,815,830) (c) | \$ 1,815                 | \$ 1,815,457  |
|   |                          | -----         |
| TOTAL SHORT-TERM INVESTMENTS<br>(cost - \$1,815,457)  |                          | 1,815,457     |
|   |                          | -----         |
| TOTAL INVESTMENTS - 103.53%   |                          |               |
| (cost - \$38,481,179)   |                          | 47,013,283    |
|   |                          | -----         |
| LIABILITIES IN EXCESS OF<br>OTHER ASSETS - (3.53)%  |                          |               |
|   |                          | (1,602,202)   |
|   |                          | -----         |
| NET ASSETS - 100.00%  |                          |               |
|   |                          | \$ 45,411,081 |
|   |                          | =====         |

\* Non-income producing security.

^ Security or a portion thereof is out on loan.

+ Includes investments purchased with collateral received for securities on loan.

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- (a) Affiliated investment. The fund holds 2.19% and 0.26% (based on net assets) of Adams Express Company and Petroleum and Resources Corporation, respectively. A director of the Fund also serves as a director to such companies. During the fiscal year there were no purchases or sales of these securities.
- (b) Represents issues not identified as a top 50 holding in terms of market value and issues or issuers not exceeding 1% of net assets individually or in the aggregate, respectively, as of December 31, 2007.
- (c) At December 31, 2007, the maturity date for all repurchase agreements held was January 2, 2008, with interest rates ranging from 1.50% to 4.50% and collateralized by \$1,871,985 in U.S. Treasury Bond Strips maturing May 15, 2012.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2007  
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ASSETS

|  |               |
|--|---------------|
| Investments, at value, including collateral for securities on loan of \$1,571,207: |               |
| Unaffiliated issuers (cost - \$37,482,890) (1)                                     | \$ 45,903,255 |
| Affiliated issuers (cost - \$998,289)  | 1,110,028     |
|  | -----         |
| Total investments (cost - \$38,481,179)  | 47,013,283    |
| Receivables:   |               |
| Dividends  | 68,591        |
| Foreign reclaims   | 19,141        |
| Investments sold   | 9,552         |
| Interest   | 1,377         |
| Prepaid expenses   | 1,379         |
|  | -----         |
| Total Assets   | 47,113,323    |
|  | -----         |

LIABILITIES

|                                  |           |
|----------------------------------|-----------|
| Payables:                        |           |
| Upon return of securities loaned | 1,571,207 |
| Investments purchased            | 40,787    |
| Investment management fees       | 38,812    |
| Directors' fees                  | 13,293    |
| Other accrued expenses           | 37,577    |
| Due to custodian                 | 566       |
|                                  | -----     |
| Total Liabilities                | 1,702,242 |
|                                  | -----     |

|   |               |
|---|---------------|
| NET ASSETS (applicable to 5,343,138 shares of common stock outstanding) | \$ 45,411,081 |
|   | =====         |
| NET ASSET VALUE PER SHARE (\$45,411,081 / 5,343,138)                    | \$ 8.50       |
|   | =====         |

NET ASSETS CONSISTS OF

|   |            |
|---|------------|
| Capital stock, \$0.01 par value; 5,343,138 shares issued and outstanding (15,000,000 shares authorized) | \$ 53,431  |
| Paid-in capital   | 52,043,713 |
| Accumulated net realized loss on investments and foreign  |            |

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|   |               |
|---|---------------|
| currency related transactions   | (15,220,731)  |
| Net unrealized appreciation in value of investments and translation of foreign currency | 8,534,668     |
|   | -----         |
| Net assets applicable to shares outstanding   | \$ 45,411,081 |
|   | =====         |

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 (1) Includes securities out on loan to brokers with a market value of \$1,540,013.

See accompanying notes to financial statements.

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 CORNERSTONE TOTAL RETURN FUND, INC.  
 STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2007  
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INVESTMENT INCOME

Income:

|   |              |
|---|--------------|
| Dividends (including \$85,442 earned from affiliated issuers) | \$ 1,061,922 |
| Interest  | 18,705       |
| Securities lending  | 23,190       |
|   | -----        |
| Total Investment Income                                       | 1,103,817    |
|   | -----        |

Expenses:

|                             |         |
|-----------------------------|---------|
| Investment management fees  | 496,035 |
| Directors' fees             | 58,998  |
| Administration fees         | 49,631  |
| Legal and audit fees        | 39,574  |
| Printing                    | 32,248  |
| Accounting fees             | 31,376  |
| Transfer agent fees         | 27,102  |
| Custodian fees              | 11,998  |
| Insurance                   | 6,269   |
| Stock exchange listing fees | 6,245   |
|                             | -----   |

|                              |          |
|------------------------------|----------|
| Total Expenses               | 759,476  |
| Less: Management fee waivers | (5,723)  |
| Less: Fees paid indirectly   | (15,218) |
|                              | -----    |

|              |         |
|--------------|---------|
| Net Expenses | 738,535 |
|              | -----   |

|                       |         |
|-----------------------|---------|
| Net Investment Income | 365,282 |
|                       | -----   |

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS AND FOREIGN CURRENCY RELATED TRANSACTIONS

|   |           |
|---|-----------|
| Net realized gain from investments and foreign currency related transactions                      | 31,417    |
| Capital gain distributions from regulated investment companies                                    | 116,984   |
| Net change in unrealized appreciation in value of investments and translation of foreign currency | 1,514,360 |
|   | -----     |

|   |           |
|---|-----------|
| Net realized and unrealized gain on investments and foreign currency related transactions | 1,662,761 |
|   | -----     |

|  |              |
|--|--------------|
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | \$ 2,028,043 |
|--|--------------|

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See accompanying notes to financial statements.

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

|   | For the Years Ended<br>December 31, |               |
|---|-------------------------------------|---------------|
|   | 2007                                | 2006          |
|   | -----                               | -----         |
| DECREASE IN NET ASSETS  |                                     |               |
| Operations:   |                                     |               |
| Net investment income   | \$ 365,282                          | \$ 428,197    |
| Net realized gain/(loss) from investments and<br>foreign currency related transactions                                | 31,417                              | (50,353)      |
| Capital gain distributions from regulated investment companies  | 116,984                             | 103,660       |
| Net change in unrealized appreciation in value of investments   | 1,514,360                           | 6,318,611     |
|   | -----                               | -----         |
| Net increase in net assets resulting from operations  | 2,028,043                           | 6,800,115     |
|   | -----                               | -----         |
| Dividends and distributions to shareholders:  |                                     |               |
| Net investment income   | (363,469)                           | (428,197)     |
| Net realized capital gains  | (150,214)                           | --            |
| Return-of-capital   | (10,698,032)                        | (10,248,116)  |
|   | -----                               | -----         |
| Total dividends and distributions to shareholders   | (11,211,715)                        | (10,676,313)  |
|   | -----                               | -----         |
| Capital stock transactions:   |                                     |               |
| Proceeds from 175,264 and 200,573 shares newly issued<br>in reinvestment of dividends and distributions, respectively | 2,215,523                           | 2,061,112     |
|   | -----                               | -----         |
| Total decrease in net assets  | (6,968,149)                         | (1,815,086)   |
|   | -----                               | -----         |
| NET ASSETS  |                                     |               |
| Beginning of year   | 52,379,230                          | 54,194,316    |
|   | -----                               | -----         |
| End of year   | \$ 45,411,081                       | \$ 52,379,230 |
|   | =====                               | =====         |

See accompanying notes to financial statements.

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 CORNERSTONE TOTAL RETURN FUND, INC.  
 FINANCIAL HIGHLIGHTS  
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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 |           |           |           |
|---|------------------------------|-----------|-----------|-----------|
|   | 2007                         | 2006      | 2005      | 2004      |
| <b>PER SHARE OPERATING PERFORMANCE</b>  |                              |           |           |           |
| Net asset value, beginning of year  | \$ 10.14                     | \$ 10.91  | \$ 12.78  | \$ 12.78  |
| Net investment income #   | 0.07                         | 0.09      | 0.06      | 0.06      |
| Net realized and unrealized gain on investments and foreign currency related transactions | 0.32                         | 1.25      | 0.18      | 0.18      |
| Net increase in net assets resulting from operations                                      | 0.39                         | 1.34      | 0.24      | 0.24      |
| <b>Dividends and distributions to shareholders:</b>                                       |                              |           |           |           |
| Net investment income   | (0.07)                       | (0.09)    | (0.06)    | (0.06)    |
| Net realized capital gains  | (0.03)                       | --        | --        | --        |
| Return-of-capital   | (2.04)                       | (2.02)    | (2.05)    | (2.05)    |
| Total dividends and distributions to shareholders   | (2.14)                       | (2.11)    | (2.11)    | (2.11)    |
| <b>Capital stock transactions:</b>  |                              |           |           |           |
| Anti-dilutive effect due to shares issued in reinvestment of dividends and distributions  | 0.11                         | --        | --        | --        |
| Net asset value, end of year  | \$ 8.50                      | \$ 10.14  | \$ 10.91  | \$ 12.78  |
| Market value, end of year   | \$ 9.80                      | \$ 19.62  | \$ 14.65  | \$ 14.65  |
| Total investment return (a)   | (40.97)%                     | 64.15%    | (2.07)%   | (2.07)%   |
| <b>RATIOS/SUPPLEMENTAL DATA</b>   |                              |           |           |           |
| Net assets, end of year (000 omitted)   | \$ 45,411                    | \$ 52,379 | \$ 54,194 | \$ 60,000 |
| Ratio of expenses to average net assets, net of fee waivers, if any (b)                   | 1.49%                        | 1.44%     | 1.47%     | 1.47%     |
| Ratio of expenses to average net assets, excluding fee waivers, if any (c)                | 1.53%                        | 1.50%     | 1.52%     | 1.52%     |
| Ratio of expenses to average net assets, net of fee waivers, if any (c)                   | 1.52%                        | 1.50%     | 1.50%     | 1.50%     |
| Ratio of net investment income to average net assets                                      | 0.74%                        | 0.82%     | 0.53%     | 0.53%     |
| Portfolio turnover rate   | 11.00%                       | 11.29%    | 9.84%     | 9.84%     |

# Based on average shares outstanding.

(a) Total investment return at market value is based on the changes in market price of a share during the year and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(b) Expenses are net of fees paid indirectly.

(c) Expenses exclude the reduction for fees paid indirectly.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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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, 2007, the Fund held no securities valued in good faith by the Board of Directors. 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.

On September 20, 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires

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additional disclosure about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of January 1, 2008, the Fund adopted SFAS No. 157. The Fund has performed an analysis of all existing investments to determine the significance and character of all inputs to their fair value determination. Based on this assessment the Fund does not believe any adjustments will be required for the first quarter 2008.

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

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**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 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 July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), an interpretation of FASB Statement No. 109. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more likely than not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is effective during the first required financial reporting period for fiscal years beginning after December 15, 2006. Management adopted FIN 48 on June 29, 2007 and reviewed any uncertain tax positions for open tax years 2004 through 2007. There was no material impact to the financial statements or disclosures thereto as a result

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of the adoption of this pronouncement.

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 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

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

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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 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, 2007, 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, 2007, Cornerstone earned \$496,035 for investment management services, of which it waived \$5,723. 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 \$15,218 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

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The Fund paid or accrued approximately \$23,142 for the year ended December 31, 2007 for legal services to Blank Rome LLP ("Blank"), counsel to the Fund. Thomas R. Westle, partner of Blank, served as Secretary of the Fund.

### NOTE C. INVESTMENT IN SECURITIES

For the year ended December 31, 2007, purchases and sales of securities, other than short-term investments, were \$5,443,932 and \$13,715,006 respectively.

### NOTE D. SHARE REPURCHASE PROGRAM

As has been done in the past to enhance shareholder value, pursuant to Section 23 of the Investment Company Act of 1940, as amended, the Fund may again in the future purchase shares of its common stock on the open market from time to time, at such times, and in such amounts as may be deemed advantageous to the Fund. Nothing herein shall be considered a commitment to purchase such shares. The Fund had no repurchases during the year ended December 31, 2007. No limit has been placed on the number of shares to be repurchased by the Fund other than those imposed by federal securities laws.

To the extent such purchases are made they will be in accordance with federal securities laws, with shares repurchased held in treasury for future use by the Fund.

### NOTE E. 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

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

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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, 2007, was \$1,540,013. During the year ended December 31, 2007, the Fund earned \$23,190 in securities lending income which is included under the caption SECURITIES LENDING in the Statement of Operations.

### NOTE F. 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.

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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 |              |
|-----------------|-----------|-------------------|--------------|
| 2007            | 2006      | 2007              | 2006         |
| \$513,683       | \$428,197 | \$10,698,032      | \$10,248,116 |

At December 31, 2007 the components of the accumulated deficit on a tax basis, for the Fund were as follows:

|                               |                 |
|-------------------------------|-----------------|
| Accumulated net realized loss | \$ (14,881,286) |
| Other accumulated losses      | (287,816)       |
| Unrealized appreciation       | 8,483,039       |
|                               | -----           |
| Total accumulated deficit     | \$ (6,686,063)  |
|                               | =====           |

Accounting principles generally accepted in the United States of America require that certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. For the year ended December 31, 2007, the Fund decreased net investment income by \$1,813, decreased net realized loss by \$152,027 and decreased paid-in capital by \$150,214. 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, 2007, the Fund incurred Post-October losses in the amount of \$287,816.

At December 31, 2007, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$14,881,286, of which \$12,449,240 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, 2007, 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 \$38,532,808, \$11,097,845, (\$2,617,370), \$8,480,475, respectively.

#### NOTE G. SUBSEQUENT EVENTS

Effective January 31, 2008, William A. Clark resigned from the Board of Directors. Mr. Clark remains as Vice President of the Fund. Effective February 15, 2008, Thomas R. Westle was replaced by Gary A. Bentz as Secretary of the Fund.

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#### 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

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December 31, 2007, and the related statement of operations for the year then ended, the statements 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 its 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, 2007, 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, 2007, 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 26, 2008

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### 2007 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, 2007) 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. The \$11,211,715 in dividend and distributions paid to shareholders in respect of such year, is represented by \$513,683 of ordinary income, and \$10,698,032 of return-of-capital.

As indicated in this notice, significant portions of the Fund's distributions for 2007 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, 2007 the following dividends and distributions per share were paid by the Fund:

#### SOURCES OF DIVIDENDS AND DISTRIBUTIONS (PER SHARE AMOUNTS)

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| PAYMENT DATES:       | 1/31/07  | 2/28/07  | 3/30/07  | 4/30/07  | 5/31/07  | 6/29/07  |
|----------------------|----------|----------|----------|----------|----------|----------|
|                      | -----    | -----    | -----    | -----    | -----    | -----    |
| Ordinary Income(1)   | \$0.0082 | \$0.0082 | \$0.0082 | \$0.0082 | \$0.0082 | \$0.0082 |
| Return-of-Capital(2) | \$0.1698 | \$0.1698 | \$0.1698 | \$0.1698 | \$0.1698 | \$0.1698 |
| Total:               | \$0.1780 | \$0.1780 | \$0.1780 | \$0.1780 | \$0.1780 | \$0.1780 |

  

| PAYMENT DATES:       | 7/31/07  | 8/31/07  | 9/28/07  | 10/31/07 | 11/30/07 | 12/31/07 |
|----------------------|----------|----------|----------|----------|----------|----------|
|                      | -----    | -----    | -----    | -----    | -----    | -----    |
| Ordinary Income(1)   | \$0.0082 | \$0.0082 | \$0.0082 | \$0.0082 | \$0.0082 | \$0.0082 |
| Return-of-Capital(2) | \$0.1698 | \$0.1698 | \$0.1698 | \$0.1698 | \$0.1698 | \$0.1698 |
| Total:               | \$0.1780 | \$0.1780 | \$0.178  | \$0.1780 | \$0.1780 | \$0.1780 |

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- (1) ORDINARY INCOME DIVIDENDS- This is the total per share amount of ordinary income dividends and short-term capital gain distributions (if applicable) included in the amount reported in Box 1a on Form 1099-DIV.
  - (2) RETURN-OF-CAPITAL - This is the per share amount of return-of-capital, or sometimes called nontaxable, distributions reported in Box 3 - under the title "Nondividend distributions" - on Form 1099-DIV. This amount should NOT be reported as taxable income on your current return. Rather, it should be treated as a reduction in the original cost basis of your investment in the Fund.

The Fund has met the requirements to pass through all (100%) of its ordinary income dividends as qualified dividends, which are subject to a maximum 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. They will generally not be entitled to foreign tax credit or deduction for the withholding taxes 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.



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| NAME AND ADDRESS* (BIRTH DATE)  | POSITION(S) HELD WITH FUND  | PRINCIPAL OCCUPATION OVER LAST 5 YEARS  | POSITION WITH FUND SINCE |
|---------------------------------|---|---|--------------------------|
| Ralph W. Bradshaw** (Dec. 1950) | Chairman of the Board of Directors and President                      | President, Cornerstone Advisors, Inc.; Financial Consultant; President and Director of Cornerstone Strategic Value Fund, Inc.; President and Trustee of Cornerstone Progressive Return Fund.  | 2001                     |
| Thomas H. Lenagh (Nov. 1924)    | Director; Audit, Nominating and Corporate Governance Committee Member | Independent Financial Adviser; Director of Photonics Products Group; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund; Director of Adams Express Company and Petroleum and Resources Corporation.   | 2002                     |
| Edwin Meese III (Dec. 1931)     | Director; Audit, Nominating and Corporate Governance Committee Member | Distinguished Fellow, The Heritage Foundation Washington D.C.; Distinguished Visiting Fellow at the Hoover Institution, Stanford University; Senior Adviser, Revelation L.P.; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund.   | 2001                     |
| Scott B. Rogers (July 1955)     | Director; Audit, Nominating and Corporate Governance Committee Member | Chairman, Board of Health Partners, Inc.; Chief Executive Officer, Asheville Buncombe Community Christian Ministry; and President, ABCCM Doctor's Medical Clinic; Appointee, NC Governor's Commission on Welfare to Work; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund. | 2001                     |

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

| NAME AND ADDRESS* (BIRTH DATE) | POSITION(S) HELD WITH FUND  | PRINCIPAL OCCUPATION OVER LAST 5 YEARS   | POSITION WITH FUND SINCE |
|--------------------------------|---|--|--------------------------|
| Andrew A. Strauss (Nov. 1953)  | Director; Chairman of Nominating and Corporate Governance Committee and Audit Committee | Attorney and senior member of Strauss & Associates, P.A., Attorneys, Asheville and Hendersonville, NC; previous President of White Knight Healthcare, Inc. and LMV Leasing, Inc., a wholly owned subsidiary of Xerox Credit Corporation; Director of Cornerstone | 2001                     |

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|                                     |   |   |      |
|-------------------------------------|---|---|------|
|                                     | Member  | Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund.   |      |
| Glenn W. Wilcox, Sr.<br>(Dec. 1931) | Director;<br>Chairman of Audit Committee, Nominating and Corporate Governance Committee<br>Member | Chairman of the Board, Tower Associates, Inc.; Chairman of the Board and Chief Executive Officer of Wilcox Travel Agency, Inc.; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund. | 2001 |

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

| NAME AND ADDRESS*<br>(BIRTH DATE) | POSITION(S)<br>HELD WITH FUND          | PRINCIPAL OCCUPATION<br>OVER LAST 5 YEARS   | PO<br>WI<br>SI |
|-----------------------------------|--|---|----------------|
| -----                             | -----                                  | -----   | -----          |
| Gary A. Bentz<br>(June 1956)      | Chief Compliance Officer and Secretary | Chairman and Chief Financial Officer of Cornerstone Advisors, Inc.; previous Director, Vice President and Treasurer of the Fund and Cornerstone Strategic Value Fund, Inc., Financial Consultant, C.P.A., Chief Compliance Officer and Secretary of Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund. | 20             |
| William A. Clark<br>(Oct. 1945)   | Vice President                         | Director and Stockholder of Cornerstone Advisors, Inc.; Vice President and former Director of Cornerstone Strategic Value Fund, Inc.; Vice President and former Trustee of Cornerstone Progressive Return Fund; Financial Consultant; former Director of Investors First Fund, Inc.   | 20             |
| Kayadti A. Madison<br>(Feb. 1974) | Treasurer                              | Associate Director of Bear, Stearns & Co. Inc. since 2007 and Vice President from 2005 to 2007. Senior fund administrator of Bear Stearns Funds Management Inc. from 1999 to 2005. Treasurer of Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund.   | 20             |

\* The mailing address of each Director and/or Officer with respect to the Fund's operation is 383 Madison Ave. -- 23rd Floor, New York, NY 10179.

\*\* Designates a director who is an "interested person" of the Fund as defined by the Investment Company Act of 1940, as amended. Mr. Bradshaw is an interested person of the Fund by virtue of his current position with the Investment Advisor of the Fund.

DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED)

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

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 their broker, or if a registered shareholder, the Agent in writing at P.O. Box 922, Wall Street Station, New York, New York 10269-0560. Such written notice must be received by the Agent prior to the record date of the Distribution or the shareholder will receive such Distribution in shares through the Plan. 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.

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

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credited to such account.

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

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### DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED) (CONCLUDED)

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.

The automatic reinvestment of Distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Distributions.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan.

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 877-864-4833.

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### 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>.

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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.

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### 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.

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## SHAREHOLDER INFORMATION (UNAUDITED)

The Fund is listed on the American Stock Exchange, LLC (symbol "CRF"). The previous week's net asset value per share, market price, and related premium or discount are published each Monday in THE WALL STREET JOURNAL under the designation "CornrstnTtRtn Fd" and BARRON'S under the designation "Cornerstone Total Return". Such information 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.

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## CORNERSTONE TOTAL RETURN FUND, INC.

### DIRECTORS AND CORPORATE OFFICERS

|                      |   |
|----------------------|---|
| Ralph W. Bradshaw    | Chairman of the Board of Directors<br>and President |
| Thomas H. Lenagh     | Director  |
| Edwin Meese III      | Director  |
| Scott B. Rogers      | Director  |
| Andrew A. Strauss    | Director  |
| Glenn W. Wilcox, Sr. | Director  |
| Gary A. Bentz        | Chief Compliance Officer and Secretary              |
| William A. Clark     | Vice President                                      |
| Kayadti A. Madison   | Treasurer   |

|   |   |
|---|---|
| INVESTMENT MANAGER<br>Cornerstone Advisors, Inc.<br>One West Pack Square<br>Suite 1650<br>Asheville, NC 28801 | STOCK TRANSFER AGENT AND REGISTRAR<br>American Stock Transfer & Trust Co.<br>59 Maiden Lane<br>New York, NY 10038 |
|---|---|

|   |  |
|---|--|
| ADMINISTRATOR<br>Bear Stearns Funds Management Inc.<br>383 Madison Avenue<br>New York, NY 10179 | INDEPENDENT REGISTERED PUBLIC<br>ACCOUNTING FIRM<br>Tait, Weller & Baker LLP<br>1818 Market Street<br>Suite 2400<br>Philadelphia, PA 19103 |
|---|--|

|  |   |
|--|---|
| CUSTODIAN<br>Custodial Trust Company<br>101 Carnegie Center<br>Princeton, NJ 08540 | LEGAL COUNSEL<br>Blank Rome LLP<br>405 Lexington Avenue<br>New York, NY 10174 |
|--|---|

EXECUTIVE OFFICES  
383 Madison Avenue  
New York, NY 10179

For shareholder inquiries, registered shareholders should call (800) 937-5449. For general inquiries, please call (212) 272-3550.

[LOGO]

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AMERICAN  
STOCK EXCHANGE (R)  
LISTED  
CRF (TM)

## 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) (1), 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, 2007 and December 31, 2006.

|                    | 2007     | 2006     |
|--------------------|----------|----------|
| Audit Fees         | \$13,600 | \$13,000 |
| Audit-related Fees | --       | --       |
| Tax Fees (1)       | \$ 2,700 | \$ 2,500 |
| All Other Fees     | --       | --       |
| Total              | \$16,300 | \$15,500 |
|                    | =====    | =====    |

(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

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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 adviser (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, 2006 and December 31, 2007).

(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.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2007

=====

| DESCRIPTION                | NO. OF<br>SHARES | VALUE      |
|----------------------------|------------------|------------|
| -----                      |                  |            |
| EQUITY SECURITIES - 99.53% |                  |            |
| CLOSED-END FUNDS - 7.48%   |                  |            |
| Adams Express Company (a)  | 70,400           | \$ 994,048 |



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|   |        |           |
|---|--------|-----------|
| Alpine Global Premier Properties Fund         | 3,000  | 40,050    |
| Boulder Total Return Fund, Inc. ^             | 7,500  | 164,175   |
| Central Europe and Russia Fund, Inc. (The) ^  | 2,500  | 145,050   |
| Denali Fund (The)                             | 8,500  | 147,985   |
| Dreman/Claymore Dividend & Income Fund        | 53,500 | 845,300   |
| H&Q Healthcare Investors                      | 11,400 | 188,442   |
| H&Q Life Sciences Investors                   | 6,000  | 79,500    |
| Japan Equity Fund *                           | 13,000 | 96,200    |
| John Hancock Bank and Thrift Opportunity Fund | 15,000 | 92,850    |
| Liberty All-Star Growth Fund, Inc.            | 39,075 | 232,887   |
| Petroleum & Resources Corporation (a)         | 3,000  | 115,980   |
| Templeton Emerging Markets Fund ^             | 3,000  | 69,600    |
| Zweig Fund, Inc. ^                            | 37,000 | 186,850   |
|   |        | -----     |
|   |        | 3,398,917 |
|   |        | -----     |
| <br>CONSUMER DISCRETIONARY - 7.53%            |        |           |
| Amazon.com, Inc. ^ *                          | 2,500  | 231,600   |
| Bed Bath & Beyond Inc. *                      | 2,500  | 73,475    |
| Best Buy Co., Inc.                            | 2,500  | 131,625   |
| Coach, Inc. *                                 | 2,500  | 76,450    |
| Comcast Corporation, Class A *                | 9,012  | 164,559   |
| Comcast Corporation, Special Class A *        | 4,250  | 77,010    |
| DIRECTV Group, Inc. (The) *                   | 4,000  | 92,480    |
| Ford Motor Company *                          | 14,000 | 94,220    |
| Gap, Inc. (The) ^                             | 3,000  | 63,840    |
| Goodyear Tire & Rubber Company (The) *        | 2,500  | 70,550    |
| Home Depot, Inc. (The)                        | 13,500 | 363,690   |
| Johnson Controls, Inc. ^                      | 2,500  | 90,100    |
| Marriott International, Inc., Class A ^       | 5,000  | 170,900   |
| Mattel, Inc. ^                                | 4,500  | 85,680    |
| McDonald's Corporation                        | 5,100  | 300,441   |
| News Corporation, Class B ^                   | 7,500  | 159,375   |
| NIKE, Inc., Class B                           | 2,500  | 160,600   |
| Omnicom Group Inc.                            | 3,000  | 142,590   |
| Staples, Inc. ^                               | 3,150  | 72,670    |
| Starbucks Corporation *                       | 2,500  | 51,175    |
| Tata Motors Limited ^ ADR                     | 2,500  | 47,150    |
| Time Warner Inc.                              | 17,000 | 280,670   |
| TJX Companies, Inc. (The)                     | 2,500  | 71,825    |
| Viacom Inc., Class B *                        | 2,000  | 87,840    |
| Walt Disney Company (The)                     | 8,000  | 258,240   |
|   |        | -----     |
|   |        | 3,418,755 |
|   |        | -----     |
| <br>CONSUMER STAPLES - 9.77%                  |        |           |
| Altria Group, Inc. ^                          | 7,700  | 581,966   |
| Coca-Cola Company (The)                       | 11,000 | 675,070   |
| Colgate-Palmolive Company                     | 2,500  | 194,900   |
| ConAgra Foods, Inc.                           | 2,500  | 59,475    |
| CVS Corporation                               | 4,175  | 165,956   |
| H.J. Heinz Company                            | 2,700  | 126,036   |
| Kraft Foods Inc, Class A                      | 5,328  | 173,853   |
| Kroger Co. (The) ^                            | 3,600  | 96,156    |
| PepsiCo, Inc.                                 | 5,000  | 379,500   |
| Procter & Gamble Company (The)                | 11,472 | 842,274   |
| Safeway Inc.                                  | 1,900  | 64,999    |
| Sysco Corporation ^                           | 2,500  | 78,025    |
| Walgreen Co.                                  | 3,100  | 118,048   |
| Wal-Mart Stores, Inc.                         | 18,500 | 879,305   |

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|                                       |        |           |
|---------------------------------------|--------|-----------|
|                                       |        | -----     |
|                                       |        | 4,435,563 |
|                                       |        | -----     |
| ENERGY - 11.61%                       |        |           |
| Chevron Corporation                   | 10,068 | 939,646   |
| Exxon Mobil Corporation               | 32,000 | 2,998,081 |
| Halliburton Company                   | 2,500  | 94,775    |
| Marathon Oil Corp. ^                  | 2,500  | 152,150   |
| NiSource Inc.                         | 2,500  | 47,225    |
| Peabody Energy Corporation            | 2,500  | 154,100   |
| Schlumberger Limited                  | 5,000  | 491,850   |
| Spectra Energy Corporation            | 2,500  | 64,550    |
| Weatherford International Ltd. *      | 2,500  | 171,500   |
| XTO Energy, Inc. ^                    | 3,125  | 160,500   |
|                                       |        | -----     |
|                                       |        | 5,274,377 |
|                                       |        | -----     |
| FINANCIALS - 15.41%                   |        |           |
| AFLAC Incorporated                    | 1,500  | 93,945    |
| American Express Company              | 3,500  | 182,070   |
| American International Group, Inc.    | 12,331 | 718,897   |
| Ameriprise Financial, Inc.            | 1,220  | 67,234    |
| Aon Corporation                       | 2,500  | 119,225   |
| Bank of America Corporation           | 14,521 | 599,136   |
| Bank of New York Mellon Corporation ^ | 2,300  | 112,148   |
| BB&T Corporation ^                    | 2,000  | 61,340    |
| Charles Schwab Corporation (The)      | 8,200  | 209,510   |
| Chubb Corporation (The)               | 2,000  | 109,160   |
| Citigroup Inc.                        | 25,600 | 753,664   |
| Discover Financial Services           | 1,850  | 27,898    |
| Fannie Mae                            | 3,200  | 127,936   |
| Fifth Third Bancorp ^                 | 2,500  | 62,825    |
| Franklin Resources, Inc.              | 2,500  | 286,075   |
| Freddie Mac                           | 3,300  | 112,431   |
| Goldman Sachs Group, Inc. (The)       | 3,000  | 645,150   |
| JPMorgan Chase & Co.                  | 10,200 | 445,230   |
| Lehman Brothers Holdings Inc.         | 2,500  | 163,600   |
| Metlife, Inc.                         | 3,000  | 184,860   |
| Morgan Stanley                        | 3,700  | 196,507   |
| Prudential Financial, Inc.            | 2,500  | 232,600   |
| SLM Corporation ^                     | 2,500  | 50,350    |
| State Street Corporation ^            | 1,600  | 129,920   |
| SunTrust Banks, Inc. ^                | 2,500  | 156,225   |
| Synovus Corporation                   | 2,500  | 60,200    |
| Travelers Companies, Inc. (The)       | 5,092  | 273,950   |
| UnumProvident Corporation ^           | 2,500  | 59,475    |
| Wachovia Corporation ^                | 5,600  | 212,968   |
| Wells Fargo & Company                 | 18,000 | 543,420   |
|                                       |        | -----     |
|                                       |        | 6,997,949 |
|                                       |        | -----     |
| HEALTHCARE - 10.70%                   |        |           |
| Aetna Inc.                            | 4,000  | 230,920   |
| Amgen Inc. *                          | 2,500  | 116,100   |
|                                       |        |           |
|                                       | NO. OF |           |
|                                       | SHARES | VALUE     |
|                                       |        | -----     |
| Baxter International Inc.             | 2,500  | 145,125   |
| Bristol-Myers Squibb Company ^        | 4,000  | 106,080   |
| Celgene Corporation ^ *               | 2,500  | 115,525   |

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|  |        |           |
|--|--------|-----------|
| Eli Lilly and Company                        | 4,100  | 218,899   |
| Gilead Sciences, Inc. *                      | 5,000  | 230,050   |
| Johnson & Johnson                            | 15,500 | 1,033,850 |
| Laboratory Corporation of America Holdings * | 2,500  | 188,825   |
| McKesson Corporation                         | 2,500  | 163,775   |
| Medco Health Solutions, Inc. ^ *             | 1,531  | 155,243   |
| Medtronic, Inc. ^                            | 4,500  | 226,215   |
| Merck & Co. Inc.                             | 13,700 | 796,107   |
| Schering-Plough Corporation                  | 8,400  | 223,776   |
| St. Jude Medical, Inc. *                     | 2,500  | 101,600   |
| Stryker Corporation ^                        | 2,000  | 149,440   |
| UnitedHealth Group Incorporated ^            | 7,500  | 436,500   |
| Wyeth  | 5,000  | 220,950   |
|  |        | -----     |
|  |        | 4,858,980 |
|  |        | -----     |
| <br>INDUSTRIALS - 10.67%                     |        |           |
| Allied Waste Industries, Inc. *              | 2,500  | 27,550    |
| AMR Corporation *                            | 2,500  | 35,075    |
| Boeing Company (The)                         | 1,400  | 122,444   |
| Caterpillar Inc.                             | 2,500  | 181,400   |
| CSX Corporation                              | 5,000  | 219,900   |
| Danaher Corporation ^                        | 2,500  | 219,350   |
| General Dynamics Corporation                 | 2,500  | 222,475   |
| General Electric Company                     | 49,000 | 1,816,431 |
| Honeywell International Inc.                 | 3,300  | 203,181   |
| Illinois Tool Works Inc.                     | 2,500  | 133,850   |
| Lockheed Martin Corporation                  | 2,500  | 263,150   |
| Raytheon Company ^                           | 2,500  | 151,750   |
| Rockwell Automation, Inc.                    | 2,500  | 172,400   |
| Textron Inc.                                 | 2,500  | 178,250   |
| United Parcel Service, Inc., Class B         | 4,000  | 282,880   |
| United Technologies Corporation              | 4,400  | 336,776   |
| Waste Management, Inc.                       | 2,500  | 81,675    |
| Waters Corporation *                         | 2,500  | 197,675   |
|  |        | -----     |
|  |        | 4,846,212 |
|  |        | -----     |
| <br>INFORMATION TECHNOLOGY - 16.08%          |        |           |
| Agilent Technologies Inc. *                  | 2,500  | 91,850    |
| Apple Computer, Inc. *                       | 5,000  | 990,400   |
| Automatic Data Processing, Inc.              | 2,500  | 111,325   |
| Cisco Systems, Inc. *                        | 22,000 | 595,540   |
| Corning Incorporated                         | 6,000  | 143,940   |
| Dell Inc. ^ *                                | 4,000  | 98,040    |
| eBay Inc. *                                  | 6,500  | 215,735   |
| EMC Corporation *                            | 8,000  | 148,240   |
| Google Inc. *                                | 1,000  | 691,480   |
| Hewlett-Packard Company                      | 10,000 | 504,800   |
| Intel Corporation                            | 13,000 | 346,580   |
| International Business Machines Corporation  | 3,200  | 345,920   |
| Intuit Inc. *                                | 2,500  | 79,025    |
| Microsoft Corporation                        | 37,500 | 1,335,000 |
| NVIDIA Corporation *                         | 3,750  | 127,575   |
| Oracle Corporation *                         | 28,600 | 645,788   |
| Paychex, Inc.                                | 2,500  | 90,550    |
| QUALCOMM Inc.                                | 6,800  | 267,580   |

NO. OF

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| DESCRIPTION                               | SHARES | VALUE      |
|---|--------|------------|
| Texas Instruments Incorporated            | 11,000 | 367,400    |
| Xerox Corporation                         | 3,000  | 48,570     |
| Xilinx, Inc.                              | 2,500  | 54,675     |
|   |        | 7,300,013  |
| MATERIALS - 3.25%                         |        |            |
| Air Products & Chemicals, Inc.            | 2,500  | 246,575    |
| Alcoa Inc.                                | 3,000  | 109,650    |
| Dow Chemical Company (The) ^              | 3,500  | 137,970    |
| E. I. du Pont de Nemours and Company      | 5,800  | 255,722    |
| Freeport-McMoRan Copper & Gold, Inc.      | 2,500  | 256,100    |
| International Paper Company               | 2,300  | 74,474     |
| Monsanto Company                          | 3,546  | 396,053    |
|   |        | 1,476,544  |
| REAL ESTATE INVESTMENT TRUST - 0.48%      |        |            |
| Simon Property Group, Inc.                | 2,500  | 217,150    |
| TELECOMMUNICATION SERVICES - 3.66%        |        |            |
| AT&T Inc.                                 | 28,589 | 1,188,159  |
| Nokia ADR                                 | 2,500  | 95,975     |
| Qwest Communications International Inc. * | 7,000  | 49,070     |
| Verizon Communications Inc. ^             | 7,500  | 327,675    |
|   |        | 1,660,879  |
| UTILITIES - 2.89%                         |        |            |
| Alleghany Energy Inc. ^                   | 2,500  | 159,025    |
| American Electric Power Company, Inc.     | 5,500  | 256,080    |
| Dominion Resources, Inc. ^                | 5,000  | 237,250    |
| Duke Energy Corporation                   | 6,600  | 133,122    |
| Dynegy Inc. *                             | 5,000  | 35,700     |
| FirstEnergy Corp. ^                       | 2,500  | 180,850    |
| Southern Company (The)                    | 2,500  | 96,875     |
| Williams Companies, Inc. (The)            | 2,500  | 89,450     |
| Xcel Energy, Inc.                         | 5,500  | 124,135    |
|   |        | 1,312,487  |
| TOTAL EQUITY SECURITIES                   |        |            |
| (cost - \$36,665,722)                     |        | 45,197,826 |

PRINCIPAL  
AMOUNT  
(000'S)

SHORT-TERM INVESTMENTS - 4.00%  
 REPURCHASE AGREEMENTS - 4.00%  
 Bear, Stearns & Co. Inc. + ++  
 (Agreements dated 12/31/2007 to

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|   |    |                  |               |
|---|----|------------------|---------------|
| be repurchased at \$1,249,342,<br>4.50%, 1/2/2008, collateralized<br>by \$1,287,262 in U.S. Treasury Bond<br>Strips)  | \$ | 1,249            | 1,249,030     |
| Bear, Stearns & Co. Inc. + ++<br>(Agreements dated 12/31/2007 to be<br>repurchased at \$322,218, 2.25%,<br>1/2/2008, collateralized by \$331,634<br>in U.S. Treasury Bond Strips) |    | 322              | 322,177       |
| Bear, Stearns & Co. Inc.<br>(Agreements dated 12/31/2007 to be<br>repurchased at \$244,270, 1.50%,<br>1/2/2008, collateralized by \$253,089<br>in U.S. Treasury Bond Strips)      |    | 244              | 244,250       |
|   |    |                  | -----         |
| TOTAL SHORT-TERM INVESTMENTS  |    |                  |               |
| (cost - \$1,815,457)  |    |                  | 1,815,457     |
|   |    |                  | -----         |
| DESCRIPTION   |    | NO. OF<br>SHARES | VALUE         |
| TOTAL INVESTMENTS - 103.53%   |    |                  |               |
| (cost - \$38,481,179)   |    |                  | 47,013,283    |
|   |    |                  | -----         |
| LIABILITIES IN EXCESS OF OTHER ASSETS - (3.53)%   |    |                  | (1,602,202)   |
|   |    |                  | -----         |
| NET ASSETS - 100.00%  |    |                  | \$ 45,411,081 |
|   |    |                  | =====         |

### 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, 2007, the related statement of operations for the year then ended, the statements 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

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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, 2007, 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, 2007, 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, 2007 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 26, 2008

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

The Registrant and Cornerstone Advisors, Inc. share the same Proxy Voting Policies and Procedures. The respective Proxy Voting Policies and Procedures of the Registrant and Adviser are attached as EXHIBIT99.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's occupation for the last five years is President of Cornerstone Advisors, Inc. and a Financial Consultant. William A. Clark's occupation for the last five years is Director and Stockholder of Cornerstone Advisors, Inc. and Vice President and former Director/Trustee of Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund.

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

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(a) (2) (ii) (A) Registered Investment Companies - Ralph W. Bradshaw and William A. Clark each manage two other registered closed-end funds (Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund). As of December 31, 2007, the total assets of Cornerstone Strategic Value Fund, Inc. was \$123.7 million. As of December 31, 2007, the total assets of Cornerstone Progressive Return Fund, Inc. was \$137.6 million.

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

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

(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, 2007, 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 in the range of \$10,001-\$50,000.

(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 second fiscal quarter 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.

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(99) Proxy Voting Policies of the Registrant and Adviser 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.

By: /S/ RALPH W. BRADSHAW  
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Name: Ralph W. Bradshaw  
Title: Principal Executive Officer

Date: March 10, 2008

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  
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Name: Ralph W. Bradshaw  
Title: Principal Executive Officer

Date: March 10, 2008

By: /S/ KAYADTI A. MADISON  
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Name: Kayadti A. Madison  
Title: Principal Financial Officer

Date: March 10, 2008