

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

CORNERSTONE TOTAL RETURN FUND INC  
Form N-CSRS  
August 31, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811- 02363

Cornerstone Total Return Fund, Inc.  
(Exact name of registrant as specified in charter)

383 Madison Avenue, New York, New York 10179

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

Jodi Levine

383 Madison Avenue, New York, NY 10179

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

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

Date of fiscal year end: December 31, 2006

Date of reporting period: June 30, 2006

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

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

ITEM 1. REPORTS TO STOCKHOLDERS.

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CORNERSTONE TOTAL  
RETURN FUND, INC.

JUNE 30, 2006

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CORNERSTONE TOTAL  
RETURN FUND, INC.

SEMI-ANNUAL REPORT  
JUNE 30, 2006

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CORNERSTONE TOTAL RETURN FUND, INC.  
PORTFOLIO SUMMARY - AS OF JUNE 30, 2006 (UNAUDITED)

SECTOR ALLOCATION

Sector	Percent of Net Assets
Financials	18.8
Information Technology	13.3
Healthcare	11.1
Industrials	10.5

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Consumer Discretionary	10.2
Consumer Staples	9.5
Energy	9.1
Closed-End Domestic Funds	8.4
Telecommunication Services	3.0
Utilities	2.8
Materials	2.6
Other	0.7

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### TOP TEN HOLDINGS, BY ISSUER

Holding	Sector	Percent of Net Assets
1. Exxon Mobil Corporation	Energy	3.9
2. General Electric Company	Industrials	3.4
3. Citigroup Inc.	Financials	2.4
4. Microsoft Corporation	Information Technology	2.0
5. Dreman/Claymore Dividend & Income Fund	Closed-End Domestic Funds	1.9
6. Johnson & Johnson	Healthcare	1.8
7. Wal-Mart Stores, Inc.	Consumer Staples	1.8
8. Adams Express Company	Closed-End Domestic Funds	1.8
9. Zweig Fund, Inc.	Closed-End Domestic Funds	1.7
10. Pfizer Inc.	Healthcare	1.7

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### CORNERSTONE TOTAL RETURN FUND, INC. SUMMARY SCHEDULE OF INVESTMENTS - JUNE 30, 2006 (UNAUDITED)

Description	No. of Shares	Value
<hr style="border-top: 1px dashed black;"/>		
EQUITY SECURITIES - 99.72%		
UNITED STATES - 99.45%		
CLOSED-END DOMESTIC FUNDS - 8.37%		
Adams Express Company	70,400	\$ 906,048
Boulder Total Return Fund, Inc.	18,900	340,200
Dreman/Claymore Dividend & Income Fund	49,500	954,855
John Hanock Bank and Thrift Opportunity Fund	35,700	336,294
Liberty All-Star Growth Fund, Inc. ++	140,800	726,528
Zweig Fund, Inc. ++	165,900	884,247
Other Closed-End Domestic Funds (a)		101,970
		<hr style="border-top: 1px dashed black;"/> 4,250,142
CONSUMER DISCRETIONARY - 9.88%		
Home Depot, Inc. (The)	12,300	440,217
Time Warner Inc.	21,000	363,300
Other Consumer Discretionary (a)		4,211,796
		<hr style="border-top: 1px dashed black;"/> 5,015,313
CONSUMER STAPLES - 9.49%		
Altria Group, Inc.	7,700	565,411
Coca-Cola Company (The)	13,500	580,770
PepsiCo, Inc. ++	7,500	450,300
Procter & Gamble Company (The)	13,972	776,843

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Wal-Mart Stores, Inc.	19,000	915,230
Other Consumer Staples (a)		1,529,673
		-----
		4,818,227
		-----
ENERGY - 9.14%		
Chevron Corporation	6,568	407,610
ConocoPhillips	7,641	500,715
Exxon Mobil Corporation	32,000	1,963,198
Schlumberger Limited ++	5,000	325,550
Other Energy (a)		1,439,005
		-----
		4,636,078
		-----
FINANCIALS - 18.82%		
American Express Company	6,100	\$ 324,642
American International Group, Inc. ++	12,331	728,146
Bank of America Corporation	17,021	818,710
Citigroup Inc.	25,600	1,234,944
Goldman Sachs Group, Inc. (The) ++	3,000	451,290
JPMorgan Chase & Co.	12,700	533,400
Lehman Brothers Holdings Inc.	5,000	325,750
M&T Bank Corporation ++	2,500	294,800
Wachovia Corporation	8,100	438,048
Wells Fargo & Company	9,000	603,720
Other Financials (a)		3,795,836
		-----
		9,549,286
		-----
HEALTHCARE - 11.09%		
Amgen Inc. +	8,300	541,409
Johnson & Johnson ++	15,500	928,760
Medtronic, Inc.	7,100	333,132
Merck & Co. Inc. ++	8,700	316,941
Pfizer Inc. ++	37,460	879,186
UnitedHealth Group Incorporated	10,000	447,800
Other Healthcare (a)		2,178,176
		-----
		5,625,404
		-----
INDUSTRIALS - 10.49%		
Boeing Company (The) ++	3,900	319,449
Caterpillar Inc.	5,000	372,400
FedEx Corp. ++	2,500	292,150
General Electric Company	52,000	1,713,920
United Parcel Service, Inc., Class B	4,000	329,320
Other Industrials (a)		2,295,314
		-----
		5,322,553
		-----
INFORMATION TECHNOLOGY - 13.35%		
Cisco Systems, Inc. +	27,000	527,310
Hewlett-Packard Company ++	13,342	422,675
Intel Corporation ++	22,000	416,900
International Business Machines Corporation ++	5,700	437,874

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - JUNE 30, 2006 (UNAUDITED) (CONCLUDED)

Description	No. of Shares	Value
-----		
INFORMATION TECHNOLOGY (CONTINUED)		
Microsoft Corporation	43,000	\$ 1,001,900
Motorola, Inc.	16,100	324,415
Oracle Corporation +	33,600	486,864
Texas Instruments Incorporated	13,500	408,915
Other Information Technology (a)		2,750,180
		-----
		6,777,033
		-----
MATERIALS - 2.63%		
Total Materials (a)		1,336,955
		-----
REAL ESTATE INVESTMENT TRUSTS - 0.41%		
Total Real Estate Investment Trusts (a)		207,350
		-----
TELECOMMUNICATION SERVICES - 3.00%		
AT&T Inc. ++	24,699	688,855
Verizon Communications Inc. ++	14,900	499,001
Other Telecommunication Services (a)		336,906
		-----
		1,524,762
		-----
UTILITIES - 2.78%		
TXU Corp. ++	7,400	442,446
Other Utilities (a)		969,107
		-----
		1,411,553
		-----
TOTAL UNITED STATES		
(cost - \$48,498,631)		50,474,656
		-----
CZECH REPUBLIC - 0.27%		
CONSUMER DISCRETIONARY - 0.27%		
Total Consumer Discretionary (a)*		137,768
		-----
TOTAL CZECH REPUBLIC		
(cost - \$894,865)		137,768
		-----
TOTAL EQUITY SECURITIES		
(cost - \$49,393,496)		50,612,424
		-----
	Principal Amount	
	(000's)	Value
-----		
SHORT-TERM INVESTMENTS - 1.37%		
REPURCHASE AGREEMENTS - 1.37%		
Bear, Stearns & Co. Inc. + (b)		
(Agreement dated 6/30/2006 to be repurchased		
at \$695,264)	\$ 695	\$ 695,080
		-----
TOTAL SHORT-TERM INVESTMENTS		
(cost - \$695,080)		695,080
		-----
TOTAL INVESTMENTS - 101.09%		

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(cost - \$50,088,576)	51,307,504
	-----
LIABILITIES IN EXCESS OF OTHER ASSETS - (1.09)%	(555,693)
	-----
NET ASSETS - 100.00%	\$50,751,811
	=====

- 
- + Non-income producing security.
  - ++ Security or a portion thereof is out on loan.
  - + Includes investments purchased with cash collateral received for securities on loan.
  - \* Securities are fair valued in accordance with procedures established by the Board of Directors.
  - (a) 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 June 30, 2006.
  - (b) At June 30, 2006, the maturity date for all repurchase agreements held was July 3, 2006, with interest rates ranging from 2.66% to 5.31%, and collateralized by \$717,380 in U.S. Treasury Bond STRIPs.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - JUNE 30, 2006 (UNAUDITED)

ASSETS

Investments, at value, including collateral for securities on loan of \$543,412 (Cost \$50,088,576) (1)	\$ 51,307,504
Receivables:	
Dividends	52,150
Investments sold	40,285
Interest	5,651
Prepaid expenses	7,973
	-----
Total Assets	51,413,563
	-----

LIABILITIES

Payables:	
Upon return of securities loaned	543,412
Investment management fees	41,678
Directors' fees	15,755
Other accrued expenses	60,907
	-----
Total Liabilities	661,752
	-----

NET ASSETS (applicable to 5,060,873 shares of common stock outstanding)	\$ 50,751,811
	=====
NET ASSET VALUE PER SHARE (\$50,751,811 / 5,060,873)	\$ 10.03
	=====

NET ASSETS CONSISTS OF

Capital stock, \$0.01 par value; 5,060,873 shares issued and outstanding (100,000,000 shares authorized)	\$ 50,609
Paid-in capital	64,906,526
Accumulated net realized loss on investments	(15,424,252)
Net unrealized appreciation in value of investments	1,218,928

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Net assets applicable to shares outstanding \$ 50,751,811

(1) Includes securities out on loan to brokers with a market value of \$542,314.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF OPERATIONS - FOR THE SIX MONTHS ENDED JUNE 30, 2006 (UNAUDITED)

INVESTMENT INCOME

Income:

Dividends	\$ 566,540
Interest	10,975
Securities lending	5,479
	-----
Total Investment Income	582,994
	-----

Expenses:

Investment management fees	264,678
Legal and audit fees	35,320
Directors' fees	28,513
Administration fees	26,472
Accounting fees	17,730
Printing	15,551
Transfer agent fees	14,876
Custodian fees	6,824
Insurance	3,294
Stock exchange listing fees	3,167
Miscellaneous	1,176
	-----
Total Expenses	417,601
Less: Fees paid indirectly	(15,975)
	-----

Net Expenses	401,626
	-----

Net Investment Income	181,368
	-----

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS

Net realized gain from investments	154,719
Net change in unrealized appreciation in value of investments	517,231
	-----

Net realized and unrealized gain on investments	671,950
	-----

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 853,318
	=====

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.

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## STATEMENT OF CHANGES IN NET ASSETS

	For the Six Months Ended June 30, 2006 (unaudited)	For t E December
	-----	-----
DECREASE IN NET ASSETS		
Operations:		
Net investment income	\$ 181,368	\$
Net realized gain/(loss) from investments	154,719	(
Net change in unrealized appreciation/(depreciation) in value of investments	517,231	1,
	-----	-----
Net increase in net assets resulting from operations	853,318	1,
	-----	-----
Dividends and distributions to shareholders:		
Net investment income	(181,368)	(
Net realized capital gains	(154,719)	(9,
Return-of-capital	(4,949,128)	(9,
	-----	-----
Total dividends and distributions to shareholders	(5,285,215)	(10,
	-----	-----
Capital stock transactions:		
Proceeds from 93,572, and 167,470 shares newly issued in reinvestment of dividends and distributions, respectively	989,392	1,
	-----	-----
Total decrease in net assets	(3,442,505)	(7,
	-----	-----
NET ASSETS		
Beginning of period	54,194,316	61,
	-----	-----
End of period	\$ 50,751,811	\$ 54,
	=====	=====

See accompanying notes to financial statements.

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### CORNERSTONE TOTAL RETURN FUND, INC. FINANCIAL HIGHLIGHTS

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

	For the Six Months Ended June 30, 2006 (unaudited)	For the Year
	-----	-----
	2005	2004
	-----	-----



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### PER SHARE OPERATING PERFORMANCE

Net asset value, beginning of period	\$ 10.91	\$ 12.78	\$ 13.89
	-----	-----	-----
Net investment income	0.04#	0.06#	0.10#
Net realized and unrealized gain/(loss) on investments	0.14	0.18	0.87
	-----	-----	-----
Net increase/(decrease) in net assets resulting from operations	0.18	0.24	0.97
	-----	-----	-----
Dividends and distributions to shareholders:			
Net investment income	(0.04)	(0.06)	(0.10)
Capital gains	(0.03)	--	--
Return-of-capital	(0.99)	(2.05)	(2.01)
	-----	-----	-----
Total dividends and distributions to shareholders	(1.06)	(2.11)	(2.11)
	-----	-----	-----
Capital stock transactions:			
Anti-dilutive effect due to capital stock repurchased	--	--	--
Anti-dilutive/(dilutive) effect due to shares issued in reinvestment of dividends and distributions	--	--	0.03
	-----	-----	-----
Total capital stock transactions	--	--	0.03
	-----	-----	-----
Net asset value, end of period	\$ 10.03	\$ 10.91	\$ 12.78
	=====	=====	=====
Market value, end of period	\$ 16.99	\$ 14.65	\$ 17.95
	=====	=====	=====
Total investment return (a)	28.04%	(2.07)%	15.11%
	=====	=====	=====
RATIOS/SUPPLEMENTAL DATA			
Net assets, end of period (000 omitted)	\$ 50,752	\$ 54,194	\$ 61,365
Ratio of expenses to average net assets, net of fee waivers, if any (b)	1.52% (d)	1.47%	1.41%
Ratio of expenses to average net assets, excluding fee waivers, if any (c)	1.58% (d)	1.52%	1.45%
Ratio of expenses to average net assets, net of fee waivers, if any (c)	1.58% (d)	1.50%	1.43%
Ratio of net investment income to average net assets	0.69% (d)	0.53%	0.75%
Portfolio turnover rate	5.57%	9.84%	12.15%

-----  
# 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 period 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.
- (d) Annualized.

See accompanying notes to financial statements.

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### NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

#### 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 Fund; 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 June 30, 2006, the Fund held 0.27% of its net assets in securities valued in good faith by the Board of Directors with an aggregate cost of \$894,865 and a fair value of \$137,768. 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.

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

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possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

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

**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.

**DISTRIBUTIONS OF INCOME AND GAINS:** Effective January 2002, the Fund initiated a fixed, monthly distribution to shareholders. 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 a 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 the distribution policy at any time and such termination may have an adverse effect on the market price for the Fund's common shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to the 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. For the year 2006, Cornerstone voluntarily agreed to waive its management fees from the Fund to the extent that the Fund's net monthly operating expenses (including basic legal fees but excluding other legal expenses) exceed a rate of 0.125% of average net assets. For the six months ended June 30, 2006, Cornerstone earned \$264,678 for investment management services, of which no amounts were required to waive. 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 \$15,975 arising from credits earned on portfolio

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transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$28,080 for the six months ended June 30, 2006 for legal services to Blank Rome LLP ("Blank"), counsel to the Fund. Thomas R. Westle, partner of Blank, serves as Secretary of the Fund.

### NOTE C. INVESTMENT IN SECURITIES

For the six months ended June 30, 2006, purchases and sales of securities, other than short-term investments, were \$2,955,790 and \$7,150,992 respectively.

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

### NOTE D. SECURITIES LENDING

To generate additional income, the Fund may lend up to 33 1/3% of its total assets. The Fund receives payments from borrowers equivalent to the dividends and interest that would have been earned on securities lent while simultaneously seeking to earn interest on the investment of cash collateral. Loans are subject to termination by the Fund or the borrower at any time, and are, therefore, not considered to be illiquid investments. Loans of securities are required at all times to be secured by collateral equal to at least 100% of the market value of securities on loan. However, in the event of default or bankruptcy of the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. In the event that the borrower fails to return securities, and collateral maintained by the lender is insufficient to cover the value of loaned securities, the borrower is obligated to pay the amount of the shortfall (and interest thereon) to the Fund. However, there can be no assurance the Fund can recover this amount. The value of securities on loan to brokers at June 30, 2006, was \$542,314.

### NOTE E. FEDERAL INCOME TAXES

Income and capital gains distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments of losses deferred due to wash sales and Post-October losses (as later defined), and excise tax regulations. The tax character of dividends and distributions paid during the years ended December 31, for the Fund was as follows:

ORDINARY INCOME		RETURN-OF-CAPITAL	
2005	2004	2005	2004
\$299,210	\$462,154	\$9,996,313	\$9,584,964

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, 2005, the Fund did not incur Post-October losses.

At December 31, 2005, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$15,262,226, of which \$12,887,270 expires in 2008, \$1,170,157 expires in 2009, \$425,706 expires in 2011, \$358,321 expires in 2012 and \$420,772 expires in 2013.

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At June 30, 2006, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were \$50,088,576, \$8,223,691, \$(7,004,763) and \$1,218,928, respectively.

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### RESULTS OF ANNUAL MEETING OF STOCKHOLDERS (UNAUDITED)

On April 10, 2006, the Annual Meeting of Stockholders of Cornerstone Total Return Fund, Inc. was held and the following matter was voted upon:

(1) To approve the election of seven Directors until the year 2007 Annual Meeting.

NAME OF DIRECTORS -----	FOR ---	WITHHOLD -----
Ralph W. Bradshaw	4,133,682	26,519
William A. Clark	4,133,789	26,412
Andrew A. Strauss	4,133,639	26,562
Glenn W. Wilcox, Sr.	4,132,978	27,223
Scott B. Rogers	4,133,481	26,720
Edwin Meese III	4,130,721	29,480
Thomas H. Lenagh	4,132,756	27,445

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### 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 dividends and distributions, net of any applicable U.S. withholding tax, are reinvested in shares of the Fund. American Stock Transfer & Trust Company serves as the Agent that administers the Plan for the shareholders in the Plan.

Shareholders who have shares registered directly in their own names automatically participate in the Fund's Plan, unless and until an election is made to withdraw from the Plan on behalf of such participating shareholder. Shareholders who do not wish to have distributions automatically reinvested should so notify the Agent at P.O. Box 922, Wall Street Station, New York, New York 10269-0560 or call (877) 248-6416. Under the Plan, the Fund's respective dividends and other distributions to shareholders are reinvested in full and fractional shares as described below.

When the Fund declares an income dividend or a capital gain or other distribution (each, a "Distribution" and collectively, "Distributions"), 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").

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. Alternatively, the Agent will allocate Newly Issued Shares to the

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reinvesting shareholders at the lower of (i) a price equal to the average closing price of shares of the respective Fund over the five trading days preceding the payment date of such Distribution or (ii) the net asset value of the Fund as last determined prior to such payment date.

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

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

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

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

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.

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### INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE (UNAUDITED)

The Board of Directors including, the Independent Directors, (the "Board") of Cornerstone Total Return Fund, Inc. (the "Fund") considers the approval of the Investment Management Agreement (the "Agreement") between Cornerstone Advisors, Inc. (the "Investment Manager") and the Fund on an annual basis. The most recent approval of the Agreement occurred at a meeting of the Board held on February 17, 2006.

In determining whether to approve the Agreement, the Board requested and received extensive materials and information from the Investment Manager to assist them in considering the approval of the continuance of the Agreement. Based on their review of the information requested and provided, and the discussions with management of the Investment Manager, the Board determined that the approval of the Agreement was consistent with the best interests of the Fund and its shareholders, and would enable the Fund to continue to receive high quality services at a cost that is appropriate, reasonable, and in the best interests of the Fund and its shareholders. The Board made these determinations on the basis of the following factors, among others: (1) the nature and quality

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of the services provided by the Investment Manager; (2) the cost to the Investment Manager for providing such services, with special attention to the Investment Manager's profitability (and whether the Investment Manager realizes any economies of scale); (3) the direct and indirect benefits received by the Investment Manager from its relationship with the Fund and the other investment company advised by the Investment Manager; and (4) comparative information as to the management fees, expense ratios and performance of other similarly situated closed-end investment companies.

The materials provided by the Investment Manager to the Board described the services provided by the Investment Manager to the Fund and included an overview of the Investment Manager and its investment process and policies, including the Investment Manager's extensive knowledge and experience in the closed-end fund industry. The Board also discussed the knowledge of the Investment Manager with respect to managing the Fund's monthly distribution policy and the extent to which such policy contributes to the current premium of the Fund's market price to its net asset value. The Board also favorably received the Investment Manager's continued commitment to voluntarily waive its management fees from the Fund to the extent that monthly operating expenses exceed 0.125% of average net assets calculated monthly (including basic legal fees but excluding other extraordinary legal expenses). The Board also reviewed and discussed a comparison of the Fund's performance with comparable closed-end funds and a comparison of the Fund's expense ratios and management fees with those comparable funds. Additionally, the Investment Manager presented an analysis of its profitability based on its contractual relationship with the Fund and the other investment company advised by the Investment Manager.

The Board carefully evaluated this information, taking into consideration many factors including, the overall high quality of the personnel, operations, financial condition, investment management capabilities, methodologies, and performance of the Investment Manager, and was advised by independent legal counsel with respect to its deliberations. Based on its review of the information requested and provided, the Board determined that the management fees payable to the Investment Manager under the Agreement are fair and reasonable in light of the services to be provided, the anticipated costs of these services, the profitability of the Investment Manager's relationship with the Fund, and the comparability of the proposed fee to fees paid by comparable closed-end funds. The Board determined that the Agreement is consistent with the best interests of the Fund and its shareholders, and enables the Fund to receive high quality services at a cost that is appropriate, reasonable, and in the best interests of the Fund and its shareholders.

Accordingly, in light of the above considerations and such other factors and information it considered relevant, the Board by a unanimous vote of those present in person at the meeting (including a separate vote of the Independent Directors present in person at the meeting) approved the continuance of the Agreement with respect to the Fund.

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

Information regarding how 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; on the website of the Securities and Exchange Commission, <http://www.sec.gov>.

This report incorporates a Summary Schedule of Investments for the Fund. A

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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.

### SHAREHOLDER INFORMATION (UNAUDITED)



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

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

This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. The financial information included herein is taken from the records of the Fund without examination by independent registered public accountants who do not express an opinion thereon. 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 and President
William A. Clark	Director and Vice 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
Thomas R. Westle	Secretary
Jodi B. Levine	Treasurer

### INVESTMENT MANAGER

Cornerstone Advisors, Inc.  
One West Pack Square  
Suite 1650  
Asheville, NC 28801

### ADMINISTRATOR

Bear Stearns Funds Management Inc.  
383 Madison Avenue  
New York, NY 10179

### CUSTODIAN

Custodial Trust Company  
101 Carnegie Center  
Princeton, NJ 08540

### EXECUTIVE OFFICES

383 Madison Avenue  
New York, NY 10179

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STOCK TRANSFER AGENT AND REGISTRAR  
 American Stock Transfer & Trust Co.  
 59 Maiden Lane  
 New York, NY 10038

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
 Tait, Weller & Baker LLP  
 1818 Market Street  
 Suite 2400  
 Philadelphia, PA 19103

LEGAL COUNSEL  
 Blank Rome LLP  
 405 Lexington Avenue  
 New York, NY 10174

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

[LOGO]

ITEM 2. CODE OF ETHICS.

Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

CORNERSTONE TOTAL RETURN FUND, INC.

SCHEDULE OF INVESTMENTS -- JUNE 30, 2006 (UNAUDITED)

DESCRIPTION	NO. OF SHARES	VALUE
-----		
EQUITY SECURITIES - 99.72%		
UNITED STATES - 99.45%		
CLOSED-END DOMESTIC FUNDS - 8.37%		
Adams Express Company	70,400	\$ 906,048
Boulder Total Return Fund, Inc.	18,900	340,200
Dreman/Claymore Dividend & Income Fund	49,500	954,855
John Hancock Bank and Thrift Opportunity Fund	35,700	336,294
Liberty All-Star Growth Fund, Inc. ***	140,800	726,528
Petroleum & Resources Corporation	3,000	101,970
Zweig Fund, Inc. ***	165,900	884,247
		-----
		4,250,142

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CONSUMER DISCRETIONARY - 9.88%		
Apollo Group, Inc. +	2,500	129,175
Bed Bath & Beyond Inc. +	2,500	82,925
Best Buy Co., Inc. ***	3,750	205,650
CBS Corporation ***	4,500	121,725
Clear Channel Communications, Inc. ***	2,700	83,565
Coach, Inc. +	2,500	74,750
Comcast Corporation, Class A +	4,500	147,510
Comcast Corporation, Special Class A +	6,008	196,702
D.R. Horton, Inc.	2,500	59,550
eBay Inc. +	4,000	117,160
Fortune Brands, Inc.	2,500	177,525
Goodyear Tire & Rubber Company (The) + ***	2,500	27,750
Harley-Davidson, Inc.	2,500	137,225
Hilton Hotels Corporation	2,500	70,700
Home Depot, Inc. (The)	12,300	440,217
J.C. Penney Company, Inc.	2,500	168,775
Kohl's Corporation +	2,500	147,800
Lowe's Companies, Inc.	3,700	224,479
Marriott International, Inc., Class A	5,000	190,600
Mattel, Inc.	4,500	74,295
McDonald's Corporation	8,100	272,160
McGraw-Hill Companies, Inc. (The)	2,500	125,575
Nordstrom, Inc.	2,500	91,250
Office Depot, Inc. +	2,500	95,000
Omnicom Group Inc.	1,500	133,635
Staples, Inc.	3,150	76,608
Starbucks Corporation +	5,000	188,800
Target Corporation	4,600	224,802
Time Warner Inc.	21,000	363,300
Tribune Company	2,500	81,075
Univision Communications Inc., Class A +	2,500	83,750
Viacom Inc. +	4,500	161,280
Walt Disney Company (The)	8,000	240,000
		-----
		5,015,313
		-----

CONSUMER STAPLES - 9.49%		
Altria Group, Inc.	7,700	565,411
Archer-Daniels-Midland Company ***	3,000	123,840
Campbell Soup Company	5,700	211,527
Coca-Cola Company (The)	13,500	580,770
Coca-Cola Enterprises Inc.	2,500	50,925

DESCRIPTION	NO. OF SHARES	VALUE
-----		
Colgate-Palmolive Company	2,500	149,750
ConAgra Foods, Inc.	2,500	55,275
CVS Corporation	3,000	92,100
General Mills, Inc. ***	2,500	129,150
H.J. Heinz Company ***	2,700	111,294
Kroger Co. (The) ***	3,600	78,696
PepsiCo, Inc. ***	7,500	450,300
Procter & Gamble Company (The)	13,972	776,843
Safeway Inc.	4,900	127,400
Sara Lee Corporation	2,600	41,652
Sysco Corporation	3,500	106,960
Walgreen Co.	5,600	251,104
Wal-Mart Stores, Inc.	19,000	915,230

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DESCRIPTION	NO. OF SHARES	VALUE
		----- 4,818,227 -----
ENERGY - 9.14%		
Anadarko Petroleum Corp.	5,000	238,450
BJ Services Company	3,000	111,780
Chevron Corporation	6,568	407,610
ConocoPhillips	7,641	500,715
Devon Energy Corporation ***	2,500	151,025
El Paso Corporation	3,000	45,000
Exxon Mobil Corporation	32,000	1,963,198
Halliburton Company	2,500	185,525
Occidental Petroleum Corporation	2,500	256,375
Peabody Energy Corporation	2,500	139,375
Schlumberger Limited ***	5,000	325,550
Transocean Inc. +	2,500	200,800
XTO Energy, Inc.	2,500	110,675
		----- 4,636,078 -----
FINANCIALS - 18.82%		
AFLAC Incorporated	4,000	185,400
American Express Company	6,100	324,642
American International Group, Inc. ***	12,331	728,146
Ameriprise Financial, Inc.	1,220	54,497
AmSouth Bancorporation	2,500	66,125
Bank of America Corporation	17,021	818,710
BB&T Corporation	4,500	187,155
Charles Schwab Corporation (The)	8,200	131,036
Chubb Corporation (The)	5,000	249,500
Cincinnati Financial Corporation ***	2,500	117,525
Citigroup Inc.	25,600	1,234,944
Countrywide Financial Corporation	3,500	133,280
Fannie Mae	3,200	153,920
Franklin Resources, Inc. ***	2,500	217,025
Freddie Mac	3,300	188,133
Goldman Sachs Group, Inc. (The) ***	3,000	451,290
Hartford Financial Services Group, Inc. (The)	1,600	135,360
JPMorgan Chase & Co.	12,700	533,400
KeyCorp	2,500	89,200
Lehman Brothers Holdings Inc.	5,000	325,750
M&T Bank Corporation ***	2,500	294,800
Marsh & McLennan Companies, Inc.	4,600	123,694
Mellon Financial Corporation	2,300	79,189
Merrill Lynch & Co., Inc.	1,100	76,516
Metlife, Inc. ***	3,000	153,630
Moody's Corporation	2,000	108,920
Morgan Stanley	3,700	233,877
Northern Trust Corporation	1,100	60,830
PNC Financial Services Group, Inc.	1,400	98,238
Prudential Financial, Inc.	2,500	194,250
SLM Corporation ***	2,500	132,300
St. Paul Travelers Companies, Inc. (The)	5,092	227,001
State Street Corporation ***	1,600	92,944
Synovus Corporation	2,500	66,950
Wachovia Corporation	8,100	438,048
Washington Mutual, Inc.	5,251	239,341

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Wells Fargo & Company	9,000	603,720
		-----
		9,549,286
		-----
HEALTH CARE - 11.09%		
Aetna Inc.	4,000	159,720
Amgen Inc. +	8,300	541,409
Biomet, Inc.	2,500	78,225
Bristol-Myers Squibb Company	9,600	248,256
Caremark Rx, Inc. +	2,500	124,675
Eli Lilly and Company	4,100	226,607
Gilead Sciences, Inc. +	2,500	147,900
Johnson & Johnson ***	15,500	928,760
Laboratory Corporation of America Holdings + ***	2,500	155,575
McKesson Corporation	2,500	118,200
Medco Health Solutions, Inc. +	1,531	87,696
Medtronic, Inc.	7,100	333,132
Merck & Co. Inc. ***	8,700	316,941
PerkinElmer, Inc.	1,500	31,350
Pfizer Inc. ***	37,460	879,186
Schering-Plough Corporation	8,400	159,852
St. Jude Medical, Inc. +	2,500	81,050
Stryker Corporation	2,000	84,220
UnitedHealth Group Incorporated	10,000	447,800
Waters Corporation +	2,500	111,000
Wyeth	5,000	222,050
Zimmer Holdings, Inc. +	2,500	141,800
		-----
		5,625,404
		-----
INDUSTRIALS - 10.49%		
3M Co. ***	2,500	201,925
Boeing Company (The) ***	3,900	319,449
Caterpillar Inc.	5,000	372,400
CSX Corporation	2,500	176,100
Danaher Corporation ***	2,500	160,800
Dover Corporation ***	1,000	49,430
FedEx Corp. ***	2,500	292,150
General Dynamics Corporation	2,500	163,650
General Electric Company	52,000	1,713,920
Honeywell International Inc.	3,300	132,990
Illinois Tool Works Inc.	5,000	237,500
Lockheed Martin Corporation	2,500	179,350
Norfolk Southern Corporation	2,500	133,050
Raytheon Company ***	2,500	111,425
Rockwell Automation, Inc.	2,500	180,025
Southwest Airlines Co.	6,100	99,857
United Parcel Service, Inc., Class B	4,000	329,320
United Technologies Corporation	4,400	279,048
Waste Management, Inc. ***	5,300	190,164
		-----
		5,322,553
		-----
INFORMATION TECHNOLOGY - 13.35%		
Advanced Micro Devices +	2,500	61,050
		-----
DESCRIPTION	NO. OF SHARES	VALUE
-----		-----
Agilent Technologies Inc. +	5,000	157,800
Apple Computer, Inc. +	5,000	285,600

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Applied Materials, Inc.	8,000	130,240
Autodesk, Inc.	2,500	86,150
Broadcom Corporation - Class A +	2,500	75,125
Cisco Systems, Inc. +	27,000	527,310
Corning Incorporated +	7,500	181,425
Dell Inc. +	10,700	261,187
Electronic Data Systems Corporation	7,500	180,450
EMC Corporation +	8,000	87,760
First Data Corporation ***	4,325	194,798
Fiserv, Inc. +	2,500	113,400
Freescale Semiconductor Inc., Class B +	1,777	52,244
Hewlett-Packard Company ***	13,342	422,675
Intel Corporation ***	22,000	416,900
International Business Machines Corporation ***	5,700	437,874
Jabil Circuit, Inc. +	2,500	64,000
Maxim Integrated Products, Inc. ***	2,500	80,275
Microsoft Corporation	43,000	1,001,900
Motorola, Inc.	16,100	324,415
Network Appliance, Inc. +	2,500	88,250
Oracle Corporation +	33,600	486,864
Paychex, Inc.	2,500	97,450
QUALCOMM Inc.	6,800	272,476
Texas Instruments Incorporated	13,500	408,915
Yahoo! Inc. +	8,500	280,500
		-----
		6,777,033
		-----
MATERIALS - 2.63%		
Air Products & Chemicals, Inc.	2,500	159,800
Dow Chemical Company (The)	4,700	183,441
E. I. du Pont de Nemours and Company	5,800	241,280
International Paper Company ***	2,300	74,290
Monsanto Company	1,773	149,269
Newmont Mining Corporation	2,500	132,325
Nucor Corporation ***	5,000	271,250
Rohm and Hass Company	2,500	125,300
		-----
		1,336,955
		-----
REAL ESTATE INVESTMENT TRUST - 0.41%		
Simon Property Group, Inc. ***	2,500	207,350
		-----
TELECOMMUNICATIONS SERVICES - 3.00%		
AT&T Inc. ***	24,699	688,855
BellSouth Corporation	5,200	188,240
Sprint Nextel Corporation ***	7,437	148,666
Verizon Communications Inc. ***	14,900	499,001
		-----
		1,524,762
		-----
UTILITIES - 2.78%		
AES Corporation (The) +	3,000	55,350
American Electric Power Company, Inc.	5,500	188,375
CenterPoint Energy, Inc.	5,700	71,250
Duke Energy Corporation ***	6,600	193,842
FirstEnergy Corp.	2,500	135,525
PPL Corporation ***	2,500	80,750
Southern Company (The)	2,500	80,125
TXU Corp. ***	7,400	442,446
Williams Companies, Inc. (The)	2,500	58,400
Xcel Energy, Inc.	5,500	105,490

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		----- 1,411,553 -----
TOTAL UNITED STATES (cost - \$48,498,631)		50,474,656 -----
DESCRIPTION	NO. OF SHARES	VALUE
-----		
CZECH REPUBLIC - 0.27%		
CONSUMER DISCRETIONARY - 0.27%		
Bonton a.s. + #	137,180	23
Bonton Book a.s. + #	68,590	27,449
Bonton Film Entertainment a.s. + #	68,590	78,250
Bonton Music a.s. + #	68,590	32,023
Bonton Pictures a.s. + #	68,590	23
		----- 137,768 -----
TOTAL CZECH REPUBLIC (cost - \$894,865)		137,768 -----
TOTAL EQUITY SECURITIES (cost - \$49,393,496)		50,612,424 -----
	PRINCIPAL AMOUNT (000'S)	
-----		
SHORT-TERM INVESTMENTS - 1.37%		
REPURCHASE AGREEMENTS - 1.37%		
Bear, Stearns & Co. Inc. * ** (Agreement dated 6/30/2006 to be repurchased at \$509,105), 2.6562%, 7/3/2006, collateralized by \$525,130 in U.S. Treasury Bond STRIP)	\$509	508,992
Bear, Stearns & Co. Inc. (Agreement dated 6/30/2006 to be repurchased at \$151,724), 4.5000%, 7/3/2006, collateralized by \$156,649 in U.S. Treasury Bond STRIP)	152	151,668
Bear, Stearns & Co. Inc. * ** (Agreement dated 6/30/2006 to be repurchased at \$34,435), 5.3125%, 7/3/2006, collateralized by \$35,602 in U.S. Treasury Bond STRIP)	34	34,420
TOTAL SHORT-TERM INVESTMENTS (cost - \$695,080)		695,080 -----
TOTAL INVESTMENTS - 101.09% (cost - \$50,088,576)		51,307,504 -----
LIABILITIES IN EXCESS OF OTHER ASSETS - (1.09)%		(555,693) -----
NET ASSETS - 100.00%		\$50,751,811 =====
-----		

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- + Non-income producing security.
- # Securities are fair valued in accordance with procedures established by the Board of Directors.
- \* Stated interest rate, before rebate earned by borrower of securities on loan.
- \*\* Represents investment purchased with collateral received for securities on loan.
- \*\*\* Security or a portion thereof is out on loan.

At June 30, 2006, the Fund held 0.27% of its net assets in securities valued in good faith by the Board of Directors with an aggregate cost of \$894,865 and a fair value of \$137,768.

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

Not applicable.

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

Not applicable.

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

None.

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

None.

### ITEM 11. CONTROLS AND PROCEDURES.

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

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

### ITEM 12. EXHIBITS.

(a) (1) Not applicable.

(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.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and



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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.

Cornerstone Total Return Fund, Inc.

By: /s/ Ralph W. Bradshaw  
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Name: Ralph W. Bradshaw  
Title: Principal Executive Officer  
Date: August 31, 2006

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.

By: /s/ Ralph W. Bradshaw  
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Name: Ralph W. Bradshaw  
Title: Principal Executive Officer  
Date: August 31, 2006

By: /s/ Jodi B. Levine  
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Name: Jodi B. Levine  
Title: Principal Financial Officer  
Date: August 31, 2006