

CORNERSTONE STRATEGIC VALUE FUND INC/ NEW  
Form N-30D  
March 06, 2002

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CORNERSTONE STRATEGIC  
VALUE FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2001

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### LETTER TO SHAREHOLDERS

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January 31, 2002

Dear Fellow Shareholder:

Our annual report for Cornerstone Strategic Value Fund, Inc. (the "Fund"), formerly Clemente Strategic Value Fund, Inc., covering the year ended December 31, 2001 follows. At the end of the year, the Fund's net assets were \$35.3 million and the Net Asset Value ("NAV") per share was \$9.20. The share price closed at \$8.05 on the New York Stock Exchange. Clemente Capital, Inc. was replaced and shareholders confirmed a change of management by choosing Cornerstone Advisors, Inc. as investment manager at the Fund's annual meeting. The investment approach continued to focus on a broad diversification in U.S. and non-U.S. equities.

#### ECONOMIC AND MARKET SUMMARY

The year 2001 proved to be very difficult for investors as the market continued the decline started in 2000. The Federal Reserve reduced its benchmark rate even more aggressively than in recent downturns to a 40-year low of 1.75% at year-end. However, the flood of earnings disappointments and steady erosion in confidence pushed the markets down.

Reactions to the tragic events of September 11th accelerated negative momentum in the third quarter. The S&P 500 Index posted a decline of 14.9%, its biggest quarterly drop since the crash of 1987, and left the index down 21.2% for the first nine months of the year. The sorry state of the economy was confirmed by a 1.3% quarterly decline in the U.S. Gross Domestic Product (GDP), the broadest gauge of economic health.

Markets began to strengthen through the fourth quarter. Even this encouraging rebound still left the S&P 500 Index down 13.0% for all of 2001. Even with a rebound in the fourth quarter, most sectors returned double-digit losses with telecommunications, information technology and utilities hit particularly hard. With recession dampening exports and currencies weakening against the U.S. dollar, most international markets fared even worse. The Morgan Stanley Capital International Europe Australasia Far East Index, representing developed global markets, tumbled 22.6% for the year.

Data for the fourth quarter also shows signs of future recovery. The GDP

increased 0.2% in this final quarter of 2001, defying economists' previous expectations for a decline of 1.0%. Nevertheless, this still left GDP up only 1.1% for the year, a weak performance not seen since the 0.5% decline in 1991, in the midst of the last recession. Fourth quarter economic activity was aided by rising government spending, as the war on terrorism continued, as well as by continuing strong consumer spending on items such as automobiles. Government spending grew 9.2%, the biggest rise in 15 years. Total consumer spending jumped 5.4%, with durable goods purchases rising a sizzling 38.4%, the largest increase since 1986. As a result, companies saw their inventories drop by an amazing \$120.6 billion in the quarter, the largest decline ever recorded. Unlike households, businesses continued to keep a tight rein on spending. Plant and equipment expenditures dove 12.8% in the fourth quarter, which followed a drop of 8.5% in the third quarter.

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LETTER TO SHAREHOLDERS (CONTINUED)  
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#### PORTFOLIO PERFORMANCE

In this challenging environment, the Fund posted a -18.66% total return on NAV for the year. By comparison, the S&P 500 Index fell 13.0% during the same period. Toward the end of the year, the Fund began to recover some of its first quarter losses, where the negatives of the market were magnified by a rapidly widening discount that fell past 20% but finished the year at 12.5%. The portfolio restructuring that took place after the change of managers broadened the exposure to U.S. equities and reduced the exposure to international equities. This reduction in international exposure allowed the Fund to avoid much of the adverse currency impact from the strong U.S. dollar.

In the midst of this challenging climate, there were a number of positive performers. Healthcare held generally steady through the final half of the year while industrials and consumer discretionary sectors followed substantial losses in the third quarter with substantial gains in the fourth. Utilities and information technology were the hardest hit sectors for the year. The damage, however, was not spread evenly as some of the largest positions in these areas turned in strong performances and positive gains.

#### OUTLOOK

At its just completed meeting, the Federal Reserve was impressed enough by positive signs in the economy that it brought an end to the year-long campaign of interest rate cuts, leaving their benchmark rate unchanged. Policymakers did, however, reiterate their long-standing warning that economic weakness, not possible future inflation, remains the main concern for the U.S. economy.

We believe there is increasing evidence that the economy may have bottomed out and will begin to recover in the first half of 2002. Last quarter's unprecedented depletion of business inventories bodes well for a rebound. Companies will need to ramp up production significantly to replace these

depleted goods, helping to fuel GDP growth for future quarters. Unemployment is likely to edge up slightly in the first quarter of 2002, possibly to 5.9%, the highest level in almost seven years, even as the rate of job losses slows and the economic outlook continues to brighten. This expected bottoming out of job losses should be a firm signal that the recession has ended and economic recovery is firmly at hand.

The stock market record of the past few years supports time-tested principles of equity investing and we are confident that our consistent and conservative strategies will continue to prove their worth. We maintain that our approach involving a long-term perspective, with an emphasis on broad diversification, balanced asset allocation and liquidity, and our current U.S. equity focus, are appropriate for the shareholders of our Fund.

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LETTER TO SHAREHOLDERS (CONCLUDED)

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The Board continues to emphasize using the Fund's unique advantages to enhance long-term capital appreciation. Under the Board's leadership:

- The manager was able to use the investment flexibility given by the stockholders to broadly diversify the Fund's holdings. We believe that this diversification will help to minimize the volatility resulting from more narrowly focused investments and to improve the long-term performance.
- The program of repurchasing the Fund's shares has continued. Through December 31, 2001, a total of 2,059,840 shares had been bought by the Fund, representing 34.27% of the shares outstanding at the start of the program. In effect, this repurchasing of shares at a discount allows the Fund to purchase its portfolio at below market prices. It has provided a direct benefit to those remaining as shareholders by increasing the Fund's net asset value per share. It has also provided additional liquidity for those shareholders desiring to sell their shares in the Fund.
- The level of expenses has been substantially reduced. An emphasis on cost control, changes in service providers, and fee waivers by the investment manager all helped to keep costs lower than in the past. We expect to see additional savings as we continue this effort.

We believe that our highly diversified approach to portfolio management will enable Cornerstone Strategic Value Fund to produce excellent returns for the long-term investor. We know you have a choice, we thank you for your support, and we look forward to continuing to serve you in the future.

Sincerely,

/s/ RALPH W. BRADSHAW

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Ralph W. Bradshaw  
Chairman

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
 PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2001 (UNAUDITED)

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## TOP TEN, BY SECTOR

|     | Sector                          | Percent of<br>Net Assets |
|-----|---------------------------------|--------------------------|
| 1.  | Drugs (Major Pharmaceuticals)   | 12.1                     |
| 2.  | Manufacturing (Diversified)     | 8.3                      |
| 3.  | Insurance (Property-Casualty)   | 6.5                      |
| 4.  | Retail (Home Shopping)          | 5.9                      |
| 5.  | Foods                           | 5.6                      |
| 6.  | Electronics (Semiconductors)    | 5.5                      |
| 7.  | Computers (Software & Services) | 4.5                      |
| 8.  | Banks (Money Center)            | 3.5                      |
| 9.  | Telephone                       | 3.4                      |
| 10. | Oil (International Integrated)  | 3.2                      |

## TOP TEN HOLDINGS, BY ISSUER

|    | Holding                               | Sector                        | Percent of<br>Net Assets |
|----|---------------------------------------|-------------------------------|--------------------------|
| 1. | Pfizer Inc.                           | Drugs (Major Pharmaceuticals) | 6.4                      |
| 2. | Home Depot, Inc. (The)                | Retail (Home Shopping)        | 5.9                      |
| 3. | SYSCO Corp.                           | Foods                         | 4.9                      |
| 4. | General Electric Co.                  | Manufacturing (Diversified)   | 3.9                      |
| 5. | American International<br>Group, Inc. | Insurance (Property-Casualty) | 3.8                      |

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|     |                           |                               |     |
|-----|---------------------------|-------------------------------|-----|
| 6.  | Microsoft Corp. Computers | (Software & Services)         | 3.3 |
| 7.  | Analog Devices, Inc.      | Electronics (Semiconductors)  | 2.8 |
| 8.  | Tyco International Ltd.   | Manufacturing (Diversified)   | 2.7 |
| 9.  | Wal-Mart Stores, Inc.     | Retail (Discounters)          | 2.6 |
| 10. | Citigroup Inc.            | Insurance (Property-Casualty) | 2.4 |

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001

| Description                                  | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| EQUITY SECURITIES - 99.51%                   |                  |                   |
| BERMUDA - 2.67%                              |                  |                   |
| CAPITAL GOODS - 2.67%                        |                  |                   |
| MANUFACTURING (DIVERSIFIED) - 2.67%          |                  |                   |
| Tyco International Ltd. ....                 | 16,000           | \$ 942,400        |
| (cost - \$602,800) .....                     |                  | -----             |
| NETHERLANDS - 1.68%                          |                  |                   |
| CONSUMER STAPLES - 0.33%                     |                  |                   |
| FOODS - 0.33%                                |                  |                   |
| Unilever NV, NY Shares .....                 | 2,000            | 115,220           |
|  |                  | -----             |
| ENERGY - 1.35%                               |                  |                   |
| OIL (INTERNATIONAL INTEGRATED) - 1.04%       |                  |                   |
| Royal Dutch Petroleum Co., NY Shares .....   | 7,500            | 367,650           |
|  |                  | -----             |
| OIL & GAS (EXPLORATION & PRODUCTION) - 0.31% |                  |                   |
| Schlumberger Ltd. ....                       | 2,000            | 109,900           |
|  |                  | -----             |
| Total Energy .....                           |                  | 477,550           |
|  |                  | -----             |
| Total Netherlands                            |                  | 592,770           |
| (cost - \$658,515) .....                     |                  | -----             |
| PANAMA - 0.17%                               |                  |                   |

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|                                    |       |         |
|------------------------------------|-------|---------|
| CONSUMER STAPLES - 0.17%           |       |         |
| ENTERTAINMENT - 0.17%              |       |         |
| Carnival Corp. ....                | 2,100 | 58,968  |
| (cost - \$58,107) .....            |       | -----   |
| UNITED STATES - 94.99%             |       |         |
| BASIC MATERIALS - 2.13%            |       |         |
| Aluminum - 0.31%                   |       |         |
| Alcoa Inc. ....                    | 3,100 | 110,205 |
|                                    |       | -----   |
| CHEMICALS (DIVERSIFIED) - 0.99%    |       |         |
| Dow Chemical Co. (The) .....       | 5,700 | 192,546 |
| E.I. du Pont de Nemours & Co. .... | 3,700 | 157,287 |
|                                    |       | -----   |
|                                    |       | 349,833 |
|                                    |       | -----   |
| METALS MINING - 0.12%              |       |         |
| Inco Ltd.+ .....                   | 2,500 | 42,350  |
|                                    |       | -----   |
| PAPER & Forest Products - 0.71%    |       |         |
| International Paper Co. ....       | 2,000 | 80,700  |
| Kimberly-Clark Corp. ....          | 1,900 | 113,620 |
| Weyerhaeuser Co. ....              | 1,000 | 54,080  |
|                                    |       | -----   |
|                                    |       | 248,400 |
|                                    |       | -----   |
| Total Basic Materials .....        |       | 750,788 |
|                                    |       | -----   |

| Description                                     | No. of<br>Shares | Value<br>(Note A) |
|---|------------------|-------------------|
| -----   |                  |                   |
| CAPITAL GOODS - 7.21%                           |                  |                   |
| AEROSPACE/DEFENSE - 0.66%                       |                  |                   |
| Boeing Co. (The) .....                          | 6,000            | \$ 232,680        |
|   |                  | -----             |
| ELECTRICAL EQUIPMENT - 0.28%                    |                  |                   |
| Motorola, Inc. ....                             | 6,600            | 99,132            |
|   |                  | -----             |
| MACHINERY (DIVERSIFIED) - 0.19%                 |                  |                   |
| Caterpillar Inc. ....                           | 1,300            | 67,925            |
|   |                  | -----             |
| MANUFACTURING (DIVERSIFIED) - 5.66%             |                  |                   |
| Dover Corp. ....                                | 700              | 25,949            |
| General Electric Co. ....                       | 34,500           | 1,382,760         |
| Honeywell International Inc. ....               | 2,800            | 94,696            |
| Masco Corp. ....                                | 1,700            | 41,650            |
| Minnesota Mining & Manufacturing Co. (3M) ..... | 1,500            | 177,315           |
| United Technologies Corp. ....                  | 4,200            | 271,446           |
|   |                  | -----             |
|   |                  | 1,993,816         |

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|   |        |           |
|---|--------|-----------|
| -----   |        |           |
| WASTE MANAGEMENT - 0.42%                          |        |           |
| Waste Management, Inc. ....                       | 4,700  | 149,977   |
|   |        | -----     |
| Total Capital Goods .....                         |        | 2,543,530 |
|   |        | -----     |
|   |        |           |
| CLOSED-END FUNDS - 0.65%                          |        |           |
| CLOSED-END DOMESTIC FUNDS - 0.65%                 |        |           |
| Gabelli Global Multimedia Trust, Inc. ....        | 6,000  | 54,060    |
| John Hancock Bank & Thrift Opportunity Fund ..... | 21,000 | 173,460   |
|   |        | -----     |
| Total Closed-End Funds .....                      |        | 227,520   |
|   |        | -----     |
|   |        |           |
| COMMUNICATION SERVICES - 6.28%                    |        |           |
| TELECOMMUNICATIONS (CELLULAR) - 1.07%             |        |           |
| ALLTEL Corp. ....                                 | 2,500  | 154,325   |
| AT&T Wireless Services Inc.+ .....                | 9,022  | 129,646   |
| Sprint Corp. (PCS Group)+ .....                   | 3,400  | 82,994    |
| WorldCom, Inc., (MCI Group) .....                 | 900    | 11,430    |
|   |        | -----     |
|   |        | 378,395   |
|   |        | -----     |
|   |        |           |
| TELECOMMUNICATIONS (LONG DISTANCE) - 1.85%        |        |           |
| AT&T Corp. ....                                   | 15,000 | 272,100   |
| Sprint Corp. ....                                 | 3,100  | 62,248    |
| WorldCom, Inc., (WorldCom Group)+ .....           | 22,500 | 316,800   |
|   |        | -----     |
|   |        | 651,148   |
|   |        | -----     |

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 See accompanying notes to financial statements.

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 CORNERSTONE STRATEGIC VALUE FUND, INC.  
 SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
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| Description                      | No. of<br>Shares | Value<br>(Note A) |
|----------------------------------|------------------|-------------------|
| -----                            |                  |                   |
| TELEPHONE - 3.36%                |                  |                   |
| BellSouth Corp. ....             | 6,600            | \$ 251,790        |
| SBC Communications Inc. ....     | 12,400           | 485,708           |
| Verizon Communications Inc. .... | 9,400            | 446,124           |
|                                  |                  | -----             |



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|  |        |            |
|--|--------|------------|
|  |        | 1,183,622  |
|  |        | -----      |
| Total Communication Services .....       |        | 2,213,165  |
|  |        | -----      |
| CONSUMER CYCLICALS - 10.14%              |        |            |
| AUTO PARTS & EQUIPMENT - 0.08%           |        |            |
| Delphi Automotive Systems Corp. ....     | 2,000  | 27,320     |
|  |        | -----      |
| AUTOMOBILES - 0.55%                      |        |            |
| Ford Motor Co. ....                      | 6,500  | 102,180    |
| General Motors Corp. ....                | 1,900  | 92,340     |
|  |        | -----      |
|  |        | 194,520    |
|  |        | -----      |
| BUILDING MATERIALS - 0.08%               |        |            |
| Georgia-Pacific Corp. ....               | 1,000  | 27,610     |
|  |        | -----      |
| PUBLISHING (NEWSPAPERS) - 0.38%          |        |            |
| Gannett Co., Inc. ....                   | 2,000  | 134,460    |
|  |        | -----      |
| RETAIL (DISCOUNTERS) - 2.95%             |        |            |
| Target Corp. ....                        | 3,200  | 131,360    |
| Wal-Mart Stores, Inc. ....               | 15,800 | 909,290    |
|  |        | -----      |
|  |        | 1,040,650  |
|  |        | -----      |
| RETAIL (HOME SHOPPING) - 5.95%           |        |            |
| Home Depot, Inc. (The) ....              | 41,100 | 2,096,511  |
|  |        | -----      |
| SERVICES (COMMERCIAL & CONSUMER) - 0.15% |        |            |
| Cendant Corp.+ ....                      | 2,700  | 52,947     |
|  |        | -----      |
| Total Consumer Cyclicals .....           |        | 3,574,018  |
|  |        | -----      |
| CONSUMER STAPLES - 13.91%                |        |            |
| BEVERAGES (ALCOHOLIC) - 0.41%            |        |            |
| Anheuser-Busch Companies, Inc. ....      | 3,200  | 144,672    |
|  |        | -----      |
| BEVERAGES (NON-ALCOHOLIC) - 1.91%        |        |            |
| Coca-Cola Co. (The) ....                 | 9,000  | 424,350    |
| PepsiCo, Inc. ....                       | 5,100  | 248,319    |
|  |        | -----      |
|  |        | 672,669    |
|  |        | -----      |
|  |        |            |
|  | No. of | Value      |
| Description                              | Shares | (Note A)   |
| -----                                    |        |            |
| BROADCASTING (TV, CABLE, RADIO) - 1.98%  |        |            |
| AOL Time Warner Inc.+ ....               | 14,700 | \$ 471,870 |

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|  |        |           |
|--|--------|-----------|
| Clear Channel Communications, Inc.+ .....    | 2,100  | 106,911   |
| Comcast Corp., Special Class A+ .....        | 3,300  | 118,800   |
|  |        | -----     |
|  |        | 697,581   |
|  |        | -----     |
| ENTERTAINMENT - 1.17%                        |        |           |
| Viacom Inc., non-voting Class B+ .....       | 6,000  | 264,900   |
| Walt Disney Co. (The) .....                  | 7,200  | 149,184   |
|  |        | -----     |
|  |        | 414,084   |
|  |        | -----     |
| FOODS - 5.30%                                |        |           |
| Archer-Daniels-Midland Co. ....              | 2,415  | 34,655    |
| ConAgra Foods, Inc. ....                     | 1,900  | 45,163    |
| Sara Lee Corp. ....                          | 2,800  | 62,244    |
| SYSCO Corp. ....                             | 65,800 | 1,725,276 |
|  |        | -----     |
|  |        | 1,867,338 |
|  |        | -----     |
| PERSONAL CARE - 1.76%                        |        |           |
| Colgate-Palmolive Co. ....                   | 2,000  | 115,500   |
| Gillette Co. (The) .....                     | 3,800  | 126,920   |
| Procter & Gamble Co. (The) .....             | 4,800  | 379,824   |
|  |        | -----     |
|  |        | 622,244   |
|  |        | -----     |
| RESTAURANTS - 0.35%                          |        |           |
| McDonald's Corp. ....                        | 4,600  | 121,762   |
|  |        | -----     |
| TOBACCO - 1.03%                              |        |           |
| Philip Morris Companies Inc. ....            | 7,900  | 362,215   |
|  |        | -----     |
| Total Consumer Staples .....                 |        | 4,902,565 |
|  |        | -----     |
| ENERGY - 4.72%                               |        |           |
| OIL (DOMESTIC INTEGRATED) - 1.72%            |        |           |
| Exxon Mobil Corp. ....                       | 15,400 | 605,220   |
|  |        | -----     |
| OIL (INTERNATIONAL INTEGRATED) - 2.17%       |        |           |
| ChevronTexaco Corp. ....                     | 7,840  | 702,542   |
| Conoco Inc. ....                             | 2,200  | 62,260    |
|  |        | -----     |
|  |        | 764,802   |
|  |        | -----     |
| OIL & GAS (DRILLING & EXPLORATION) - 0.26%   |        |           |
| Baker Hughes Inc. ....                       | 2,500  | 91,175    |
|  |        | -----     |
| OIL & GAS (EXPLORATION & PRODUCTION) - 0.14% |        |           |
| Anadarko Petroleum Corp. ....                | 900    | 51,165    |
|  |        | -----     |

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See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
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| Description                            | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| -----                                  |                  |                   |
| OIL & GAS (REFINING & MINING) - 0.43%  |                  |                   |
| Phillips Petroleum Co. ....            | 2,500            | \$ 150,650        |
|  |                  | -----             |
| Total Energy .....                     |                  | 1,663,012         |
|  |                  | -----             |
| FINANCIAL - 16.56%                     |                  |                   |
| BANKS (MAJOR REGIONAL) - 1.92%         |                  |                   |
| Bank One Corp. ....                    | 4,100            | 160,105           |
| BB&T Corp. ....                        | 1,600            | 57,776            |
| Fifth Third Bancorp .....              | 2,000            | 123,160           |
| Mellon Financial Corp. ....            | 1,800            | 67,716            |
| National City Corp. ....               | 2,200            | 64,328            |
| PNC Financial Services Group .....     | 1,100            | 61,820            |
| U.S. Bancorp .....                     | 6,700            | 140,231           |
|  |                  | -----             |
|  |                  | 675,136           |
|  |                  | -----             |
| BANKS (MONEY CENTER) - 3.52%           |                  |                   |
| Bank of America Corp. ....             | 5,400            | 339,930           |
| Bank of New York Co., Inc. (The) ..... | 2,600            | 106,080           |
| FleetBoston Financial Corp. ....       | 3,900            | 142,350           |
| J.P. Morgan Chase & Co. ....           | 6,000            | 218,100           |
| SunTrust Banks, Inc. ....              | 1,100            | 68,970            |
| Wachovia Corp. ....                    | 3,600            | 112,896           |
| Wells Fargo & Co. ....                 | 5,800            | 252,010           |
|  |                  | -----             |
|  |                  | 1,240,336         |
|  |                  | -----             |
| CONSUMER FINANCE - 1.06%               |                  |                   |
| American Express Co. ....              | 4,600            | 164,174           |
| Household International, Inc. ....     | 1,800            | 104,292           |
| MBNA Corp. ....                        | 3,000            | 105,600           |
|  |                  | -----             |
|  |                  | 374,066           |
|  |                  | -----             |
| DIVERSIFIED - 1.93%                    |                  |                   |
| Fannie Mae .....                       | 3,700            | 294,150           |



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|                                 |        |           |
|---------------------------------|--------|-----------|
| HOSPITAL MANAGEMENT - 0.22%     |        |           |
| HCA Inc. ....                   | 2,000  | 77,080    |
|                                 |        | -----     |
| MEDICAL PRODUCTS - 0.69%        |        |           |
| Medtronic, Inc. ....            | 4,300  | 220,203   |
| Zimmer Holdings, Inc.+ ....     | 710    | 21,683    |
|                                 |        | -----     |
|                                 |        | 241,886   |
|                                 |        | -----     |
| Total Healthcare .....          |        | 4,784,151 |
|                                 |        | -----     |
| TECHNOLOGY - 17.63%             |        |           |
| COMMUNICATION EQUIPMENT - 0.57% |        |           |
| Lucent Technologies Inc. ....   | 10,700 | 67,303    |
| QUALCOMM Inc.+ ....             | 2,600  | 131,300   |
|                                 |        | -----     |
|                                 |        | 198,603   |
|                                 |        | -----     |

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See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
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| Description                                  | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
|  |                  | -----             |
| COMPUTERS (HARDWARE) - 3.17%                 |                  |                   |
| Dell Computer Corp.+ ....                    | 8,300            | \$ 225,594        |
| Hewlett-Packard Co. ....                     | 6,300            | 129,402           |
| International Business Machines Corp. ....   | 5,900            | 713,664           |
| Sun Microsystems, Inc.+ ....                 | 4,000            | 49,360            |
|  |                  | -----             |
|  |                  | 1,118,020         |
|  |                  | -----             |
| COMPUTERS (NETWORKING) - 1.26%               |                  |                   |
| Cisco Systems, Inc.+ ....                    | 24,400           | 441,884           |
|  |                  | -----             |
| COMPUTERS (SOFTWARE & SERVICES) - 4.48%      |                  |                   |
| Computer Associates International, Inc. .... | 2,100            | 72,429            |
| McDATA Corp., Class A+ ....                  | 1,111            | 27,220            |

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|                        |        |           |
|------------------------|--------|-----------|
| Microsoft Corp.+ ..... | 17,600 | 1,166,352 |
| Oracle Corp.+ .....    | 20,300 | 280,343   |
| Yahoo! Inc.+ .....     | 1,900  | 33,706    |
|                        |        | -----     |
|                        |        | 1,580,050 |
|                        |        | -----     |

ELECTRONICS (COMPONENT DISTRIBUTION) - 0.24%

|                           |       |        |
|---------------------------|-------|--------|
| Emerson Electric Co. .... | 1,500 | 85,650 |
|                           |       | -----  |

ELECTRONICS (SEMICONDUCTORS) - 5.48%

|                             |        |           |
|-----------------------------|--------|-----------|
| Analog Devices, Inc.+ ..... | 22,000 | 976,580   |
| Intel Corp. ....            | 26,000 | 817,700   |
| Texas Instruments Inc. .... | 4,900  | 137,200   |
|                             |        | -----     |
|                             |        | 1,931,480 |
|                             |        | -----     |

EQUIPMENT (SEMICONDUCTORS) - 0.45%

|                                   |       |         |
|-----------------------------------|-------|---------|
| Agilent Technologies, Inc.+ ..... | 1,800 | 51,318  |
| Applied Materials, Inc.+ .....    | 2,700 | 108,270 |
|                                   |       | -----   |
|                                   |       | 159,588 |
|                                   |       | -----   |

SERVICES (DATA PROCESSING) - 1.98%

|                                      |        |         |
|--------------------------------------|--------|---------|
| Automatic Data Processing, Inc. .... | 10,000 | 589,000 |
| Electronic Data Systems Corp. ....   | 1,600  | 109,680 |
|                                      |        | -----   |
|                                      |        | 698,680 |
|                                      |        | -----   |

|                        |  |           |
|------------------------|--|-----------|
| Total Technology ..... |  | 6,213,955 |
|                        |  | -----     |

TRANSPORTATION - 0.21%

AIRLINES - 0.14%

|                             |       |        |
|-----------------------------|-------|--------|
| Southwest Airlines Co. .... | 2,700 | 49,896 |
|                             |       | -----  |

RAILROADS - 0.07%

|                             |       |        |
|-----------------------------|-------|--------|
| Norfolk Southern Corp. .... | 1,400 | 25,662 |
|                             |       | -----  |

|                            |  |        |
|----------------------------|--|--------|
| Total Transportation ..... |  | 75,558 |
|                            |  | -----  |

| Description | No. of<br>Shares | Value<br>(Note A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

UTILITIES - 1.98%

ELECTRIC COMPANIES - 1.74%

|  |       |           |
|--|-------|-----------|
| American Electric Power Co., Inc. .... | 1,200 | \$ 52,236 |
| Dominion Resources, Inc. ....          | 1,000 | 60,100    |
| Duke Energy Corp. ....                 | 5,600 | 219,856   |
| FirstEnergy Corp. ....                 | 2,500 | 87,450    |
| Scottish Power plc ADR .....           | 4,000 | 86,800    |
| Southern Co. (The) .....               | 2,400 | 60,840    |

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|   |       |              |         |
|---|-------|--------------|---------|
| TXU Corp. ....                                | 1,000 | 47,150       | -----   |
|   |       |              | 614,432 |
|   |       |              | -----   |
| NATURAL GAS - 0.18%                           |       |              |         |
| Williams Companies, Inc. (The) .....          | 2,500 | 63,800       | -----   |
|   |       |              |         |
| POWER PRODUCTS (INDEPENDENT) - 0.06%          |       |              |         |
| Mirant Corp.+ .....                           | 1,300 | 20,826       | -----   |
|   |       |              |         |
| Total Utilities .....                         |       | 699,058      | -----   |
|   |       |              |         |
| Total United States                           |       |              |         |
| (cost - \$28,772,357) .....                   |       | 33,486,901   | -----   |
|   |       |              |         |
| Total Equity Securities                       |       |              |         |
| (cost - \$30,091,779) .....                   |       | 35,081,039   | -----   |
|   |       |              |         |
| Principal                                     |       |              |         |
| Amount  |       |              |         |
| (000's)                                       |       |              |         |
| SHORT-TERM INVESTMENT - 0.78%                 |       |              |         |
| REPURCHASE AGREEMENT - 0.78%                  |       |              |         |
| Bear, Stearns & Co. Inc.                      |       |              |         |
| (Agreement dated 12/31/01 to                  |       |              |         |
| be repurchased at \$276,152), 1.65%, 01/02/02 |       |              |         |
| (cost - \$276,127) (Note F) .....             | \$276 | 276,127      | -----   |
|   |       |              |         |
| TOTAL INVESTMENTS - 100.29%                   |       |              |         |
| (cost - \$30,367,906) (Notes A, C) .....      |       | 35,357,166   | -----   |
|   |       |              |         |
| LIABILITIES IN EXCESS OF CASH AND             |       |              |         |
| OTHER ASSETS - (0.29)%                        |       | (101,114)    | -----   |
|   |       |              |         |
| NET ASSETS - 100.00%                          |       | \$35,256,052 | =====   |

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

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2001

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ASSETS

|   |               |
|---|---------------|
| Investments, at value (Cost \$30,367,906) (Note A) .....      | \$ 35,357,166 |
| Cash collateral received for securities loaned (Note E) ..... | 138,721       |
| Receivables:  |               |
| Dividends .....   | 27,773        |
| Interest .....  | 307           |
| Prepaid expenses .....  | 2,955         |
|   | -----         |
| Total Assets .....  | 35,526,922    |
|   | -----         |

LIABILITIES

|   |         |
|---|---------|
| Payables:                                       |         |
| Upon return of securities loaned (Note E) ..... | 138,721 |
| Investment management fees (Note B) .....       | 24,718  |
| Capital shares repurchased (Note D) .....       | 12,824  |
| Other accrued expenses .....                    | 94,607  |
|   | -----   |
| Total Liabilities .....                         | 270,870 |
|   | -----   |

NET ASSETS (applicable to 3,832,560 shares  
of common stock outstanding) ..... \$ 35,256,052  
=====

NET ASSET VALUE PER SHARE (\$35,256,052 / 3,832,560) ..... \$ 9.20  
=====

NET ASSETS CONSISTS OF

|  |               |
|--|---------------|
| Capital stock, \$0.01 par value;<br>3,832,560 shares outstanding<br>(25,000,000 shares authorized) ..... | \$ 38,326     |
| Paid-in capital .....  | 57,277,113    |
| Cost of 2,177,440 shares repurchased .....   | (26,579,917)  |
| Accumulated net realized loss on investments .....   | (468,730)     |
| Net unrealized appreciation in value of investments .....  | 4,989,260     |
|  | -----         |
| Net assets applicable to shares outstanding .....  | \$ 35,256,052 |
|  | =====         |

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

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2001  
-----

INVESTMENT LOSS

Income (Note A):

|                 |            |
|-----------------|------------|
| Dividends ..... | \$ 402,428 |
| Interest .....  | 30,952     |



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|  |                |       |
|--|----------------|-------|
| Less: Foreign taxes withheld .....                               | (2,087)        | ----- |
| Total Investment Income .....                                    | 431,293        | ----- |
| Expenses:  |                |       |
| Investment management fees (Note B) .....                        | 381,800        |       |
| Audit and legal fees (Note B) .....                              | 133,170        |       |
| Directors' fees .....  | 70,047         |       |
| Administration fees .....  | 61,354         |       |
| Printing .....   | 58,270         |       |
| NYSE listing fees .....  | 25,000         |       |
| Custodian fees .....   | 21,647         |       |
| Accounting fees .....  | 20,154         |       |
| Insurance .....  | 9,187          |       |
| Transfer agent fees .....  | 7,880          |       |
| Other .....  | 15,397         | ----- |
| Total Expenses .....   | 803,906        |       |
| Less: Fees paid indirectly (Note B) .....                        | (69,714)       |       |
| Less: Management fee waivers (Note B) .....                      | (58,679)       | ----- |
| Net Expenses .....   | 675,513        | ----- |
| Net Investment Loss .....  | (244,220)      | ----- |
| NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS                  |                |       |
| Net realized gain from investments .....                         | 1,031,962      |       |
| Net change in unrealized appreciation in value of investments .. | (9,548,619)    | ----- |
| Net realized and unrealized loss on investments .....            | (8,516,657)    | ----- |
| NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS .....       | \$ (8,760,877) | ===== |

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

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
STATEMENT OF CHANGES IN NET ASSETS  
-----

|                           | For the Years Ended<br>December 31, |              |
|---------------------------|-------------------------------------|--------------|
|                           | 2001                                | 2000         |
|                           | -----                               | -----        |
| DECREASE IN NET ASSETS    |                                     |              |
| Operations:               |                                     |              |
| Net investment loss ..... | \$ (244,220)                        | \$ (645,795) |

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|  |               |               |
|--|---------------|---------------|
| Net realized gain on investments and<br>foreign currency related transactions .....  | 1,031,962     | 7,637,069     |
| Net change in unrealized appreciation in<br>value of investments and translation of<br>other assets and liabilities denominated<br>in foreign currency ..... | (9,548,619)   | (15,452,439)  |
| Federal income tax on undistributed realized gains   | ---           | (3,177,964)   |
|  | -----         | -----         |
| Net decrease in net assets resulting<br>from operations .....  | (8,760,877)   | (11,639,129)  |
|  | -----         | -----         |
| Distributions to shareholders (Note A):  |               |               |
| Net realized gain on investments and<br>foreign currency related transactions .....  | ---           | (4,351,786)   |
|  | -----         | -----         |
| Capital share transactions (Note D):   |               |               |
| Cost of 234,700 and 361,800 shares<br>repurchased, respectively .....  | (1,963,446)   | (4,232,705)   |
|  | -----         | -----         |
| Total decrease in net assets .....   | (10,724,323)  | (20,223,620)  |
|  | -----         | -----         |
| NET ASSETS   |               |               |
| Beginning of year .....  | 45,980,375    | 66,203,995    |
|  | -----         | -----         |
| End of year .....  | \$ 35,256,052 | \$ 45,980,375 |
|  | =====         | =====         |

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

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CORNERSTONE STRATEGIC VALUE 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

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data for the Fund's shares.

|   | 2001      | For the Years Ended December |           |
|---|-----------|------------------------------|-----------|
|   |           | 2000                         | 1999      |
| <b>PER SHARE OPERATING PERFORMANCE</b>  |           |                              |           |
| Net asset value, beginning of year .....  | \$ 11.31  | \$ 14.95                     | \$ 14.52  |
| Net investment income/(loss) .....  | (0.06) #  | (0.94) #                     | (0.19)    |
| Net realized and unrealized gain/(loss) on investments and foreign currency related transactions .....        | (2.13)    | (1.81)                       | 4.39      |
| Net increase/(decrease) in net assets from operations .....   | (2.19)    | (2.75)                       | 4.20      |
| Dividends and distributions to shareholders:  |           |                              |           |
| Net investment income .....   | --        | --                           | --        |
| Net realized gain on investments and foreign currency related transactions .....                              | --        | (1.01)                       | (3.87)    |
| Total dividends and distributions to shareholders .....   | --        | (1.01)                       | (3.87)    |
| Anti-dilutive effect due to capital stock repurchased .....   | 0.08      | 0.12                         | 0.10      |
| Net asset value, end of year .....  | \$ 9.20   | \$ 11.31                     | \$ 14.95  |
| Market value, end of year .....   | \$ 8.05   | \$ 10.59                     | \$ 14.25  |
| Total investment return (a) .....   | (23.98) % | (28.10) %                    | 40.74 %   |
| <b>RATIOS/SUPPLEMENTAL DATA</b>   |           |                              |           |
| Net assets, end of year (000 omitted) .....   | \$ 35,256 | \$ 45,980                    | \$ 66,204 |
| Ratio of expenses to average net assets, net of fee waivers, if any .....                                     | 1.77% (b) | 1.72% (b)                    | 1.55%     |
| Ratio of expenses to average net assets, excluding fee waivers .....  | 2.11% (c) | 1.83% (c)                    | 1.64%     |
| Ratio of expenses to average net assets, net of fee waivers, but excluding fees paid indirectly, if any ..... | 1.95%     | --                           | --        |
| Ratio of net investment income/(loss) to average net assets .....   | (0.64) %  | (1.12) %                     | (0.59) %  |
| Portfolio turnover rate .....   | 59.83%    | 28.26%                       | 101.54%   |

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|   | 1996      | 1995      | 1994      |
|---|-----------|-----------|-----------|
| -----   |           |           |           |
| PER SHARE OPERATING PERFORMANCE   |           |           |           |
| Net asset value, beginning of year .....  | \$ 10.65  | \$ 10.73  | \$ 12.36  |
| Net investment income/(loss) .....  | (0.03)    | --        | (0.03)    |
| Net realized and unrealized gain/(loss) on investments and foreign currency related transactions .....        | 0.41      | 0.42      | (0.64)    |
| Net increase/(decrease) in net assets from operations .....   | 0.38      | 0.42      | (0.67)    |
| Dividends and distributions to shareholders:  |           |           |           |
| Net investment income .....   | --        | --        | --        |
| Net realized gain on investments and foreign currency related transactions .....                              | (0.93)    | (0.50)    | (0.96)    |
| Total dividends and distributions to shareholders .....   | (0.93)    | (0.50)    | (0.96)    |
| Anti-dilutive effect due to capital stock repurchased .....   | --        | --        | --        |
| Net asset value, end of year .....  | \$ 10.10  | \$ 10.65  | \$ 10.73  |
| Market value, end of year .....   | \$ 7.50   | \$ 8.38   | \$ 8.50   |
| Total investment return (a) .....   | 0.64%     | 4.59%     | (15.91)   |
| RATIOS/SUPPLEMENTAL DATA  |           |           |           |
| Net assets, end of year (000 omitted) .....   | \$ 59,520 | \$ 62,781 | \$ 63,216 |
| Ratio of expenses to average net assets, net of fee waivers, if any .....                                     | 1.53%     | 1.58%     | 1.75%     |
| Ratio of expenses to average net assets, excluding fee waivers .....  | --        | --        | --        |
| Ratio of expenses to average net assets, net of fee waivers, but excluding fees paid indirectly, if any ..... | --        | --        | --        |
| Ratio of net investment income/(loss) to average net assets .....   | (0.25)%   | (0.02)%   | (0.25)%   |
| Portfolio turnover rate .....   | 120.66%   | 84.98%    | 81.73%    |

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See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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### NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Cornerstone Strategic Value Fund, Inc. (the "Fund") was incorporated in Maryland on May 1, 1987 and commenced investment operations on June 30, 1987. As a result of an Annual Meeting of Stockholders held on April 19, 2001, the Fund, formerly known as the Clemente Strategic Value Fund, Inc., changed its name. 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 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. The Board of Directors has established general guidelines for calculating fair value of not readily marketable securities. At December 31, 2001, 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 New York Stock Exchange is closed.

**REPURCHASE AGREEMENTS:** The Fund has agreed to purchase securities from financial institutions subject to the sellers 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 "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 daily 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. For U.S. federal income tax purposes, realized capital losses incurred after October 31, 2001 within the current fiscal year are deemed to arise on the first day of the following fiscal year. The Fund elected to defer such capital losses of \$326,670.

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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At December 31, 2001, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$142,060 which expires in 2009. Differences between capital loss carryforwards on a book and tax basis primarily relate to timing of the recognition of gains for U.S. federal income tax purposes. There is no undistributable ordinary income on a tax basis.

DISTRIBUTIONS OF INCOME AND GAINS: The Fund distributes at least annually to shareholders, substantially all of its net investment income and net realized short-term capital gains, if any. 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 carryforward, if any. An additional distribution may be made to the extent necessary to avoid the payment of a 4% U.S. federal excise tax. Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

The character of distributions made during the year from net investment income or net realized gains may differ from their ultimate characterization for U.S. federal income tax purposes due to U.S. generally accepted accounting principles/tax differences in the character of income and expense recognition.

At December 31, 2001, the Fund reclassified within the composition of net assets permanent book/tax differences from accumulated net investment loss of \$420,482 to paid-in capital.

NOTE B. AGREEMENTS

At the Annual Meeting of Stockholders of the Fund held on April 19, 2001, stockholders approved a new investment management agreement by and between Cornerstone and the Fund. As a result, Cornerstone commenced its performance of the investment management services with respect to the Fund's portfolio securities.

Effective April 19, 2001, 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, retroactive to April 1, 2001, calculated weekly and paid monthly, equal to 1.00% of the Fund's average weekly net assets. Cornerstone has voluntarily agreed to limit the Fund's annual operating expenses (excluding interest, taxes, brokerage commissions, expenditures which are capitalized in accordance with generally accepted accounting principles, and other extraordinary expenses not incurred in the ordinary course of such Fund's business) to 1.65% (on an annualized basis) of the Fund's average net assets for the fiscal period from April 19, 2001 through December 31, 2001. For the period April 19, 2001 through December 31,

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2001, Cornerstone earned \$276,913 for investment management services, of which Cornerstone waived \$58,679.

For the period January 1, 2001 through March 31, 2001, portfolio securities were managed by Clemente Capital, Inc. ("Clemente"). Clemente engaged Wilmington Trust Co. ("Wilmington") as the Fund's sub-investment adviser. As compensation for its advisory services, Clemente received from the Fund an annual fee, calculated weekly and paid monthly, equal to 1.00% of the Fund's average weekly net assets. For this period, Clemente earned \$104,887. As compensation for its sub-advisory services, Wilmington was paid an annual fee calculated weekly and paid monthly equal to 25% of the net fees payable to the former investment adviser, Clemente. For this period, Wilmington earned \$26,222.

Included in the Statement of Operations, under the caption Fees paid indirectly, are expense offsets of \$69,714 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$93,900 for the year ended December 31, 2001 for legal services to Spitzer & Feldman P.C., counsel to the Fund. Mr. Westle, a partner of the firm, serves as secretary of the Fund.

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At December 31, 2001, pursuant to regulatory filings, two shareholders and their respective affiliates owned approximately 14% and 19% of the outstanding shares of the Fund based on Schedule 13G/A filings made with the Securities and Exchange Commission on February 7 and 15, 2001, respectively.

### NOTE C. INVESTMENT IN SECURITIES

For U.S. federal income tax purposes, the cost of securities owned at December 31, 2001 was \$30,367,906. Accordingly, the net unrealized appreciation of investments (including investments denominated in foreign currency) of \$4,989,260 was composed of gross appreciation of \$6,267,952 for those investments having an excess of value over cost and gross depreciation of \$1,278,692 for those investments having an excess of cost over value.

For the year ended December 31, 2001, purchases and sales of securities, other than short-term investments, were \$22,751,475 and \$27,904,789, respectively.

### NOTE D. SHARE REPURCHASE PROGRAM

On October 5, 1998, the Fund commenced a share repurchase program for purposes of enhancing shareholder value and reducing the discount at which the Fund's shares traded from their net asset value. For the year ended December 31, 2001, the Fund repurchased 234,700 of its shares for a total cost of \$1,963,446 at a weighted average discount 14.11% from net asset value. The discount of individual repurchases ranged from 6.22% - 26.54%. For the year ended December 31, 2000, the Fund repurchased 361,800 of its shares for a total cost of \$4,232,705 at a weighted average discount of 10.67% from net asset value. The discount of individual repurchases ranged from 2.78% - 21.29%. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of its foregoing objectives, subject to review by the Board of Directors. No limit has been

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placed on the number of shares to be purchased by the Fund other than those imposed by federal securities laws. All purchases will be made in accordance with federal securities laws, with shares repurchased held in treasury.

NOTE E. SECURITIES LENDING

To generate additional income, the Fund may lend up to 10% of its portfolio's 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 and the related collateral received at December 31, 2001, were \$132,481 and \$138,721, respectively. Any cash collateral received is reinvested into repurchase agreements, which in turn are collateralized by various U.S. Government and Agency securities.

During the year ended December 31, 2001, the Fund earned \$747 in securities lending income which is included under the caption Interest in the Statement of Operations.

NOTE F. COLLATERAL FOR REPURCHASE AGREEMENT

Listed below is the collateral associated with the repurchase agreement with Bear, Stearns & Co. Inc. outstanding at December 31, 2001.

| Issuer                      | Principal Amount (000's) | Interest Rate | Maturity | Accrued Interest | Market Value |
|-----------------------------|--------------------------|---------------|----------|------------------|--------------|
| United States Treasury Bond | \$275                    | 3.625%        | 04/15/28 | \$2,104          | \$280,671    |

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders  
of Cornerstone Strategic Value Fund, Inc.:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Cornerstone Strategic Value Fund, Inc. (the "Fund") at December 31, 2001, 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 ten years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2001 by correspondence with the custodian, provided a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania  
February 18, 2002

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DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PURCHASE PLAN (UNAUDITED)  
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Shareholders who have Shares registered directly in their own names automatically participate in the Fund's Dividend Reinvestment & Cash Purchase Plan (the "Plan"), unless and until an election is made to withdraw from the Plan on behalf of such participating shareholders. Shareholders who do not wish to have distributions automatically reinvested should so notify American Stock Transfer & Trust Co. (the "Agent") at 59 Maiden Lane, New York, NY 10038. Under the Plan, all of the Fund's 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 "Dividend" and collectively, "Dividends"), the Agent, on the shareholders' 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) at the sole discretion of the Board of Directors, be authorized to purchase outstanding shares on the open market, on the NYSE 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 reinvesting shareholders at a price equal to the average closing price of the Fund over the five trading days preceding the payment date of such dividend.

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

There will be no charge to participants for reinvesting Dividends other than their share of brokerage commissions as discussed below. The Agent's fees for administering the Plan and handling the reinvestment of Dividends will be paid by the Fund. Each participant's account will be charged a pro-rata share

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DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PURCHASE PLAN (UNAUDITED)  
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(CONCLUDED)

of brokerage commissions incurred with respect to the Agent's Open Market Purchases in connection with the reinvestment of Dividends. Brokerage charges for purchasing small amounts of shares for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions

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because the Agent will be purchasing shares for all the participants in blocks and pro-rating the lower commission that may be attainable.

The automatic reinvestment of Dividends will not relieve participants of any income tax that may be payable on such Dividends. Participants who receive shares pursuant to the Plan as described above will recognize taxable income in the amount of the fair market value of those shares. In the case of non-U.S. participants whose Dividends are subject to U.S. income tax withholding and in the case of participants subject to 30% federal backup withholding, the Agent will reinvest Dividends after deduction of the amount required to be withheld.

The Fund reserves the right to amend or terminate the Plan by written notice to participants. All correspondence concerning the Plan should be directed to the Agent at the address referred to in the first paragraph of this section.

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 ADDITIONAL INFORMATION REGARDING THE FUND'S DIRECTORS AND OFFICERS (unaudited)  
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| Name and Address (Age)   | Position(s) Held with Fund                       | Principal Occupation Over Last 5 Years   |
|--|--|--|
| Ralph W. Bradshaw* (51)<br>One West Pack Square<br>Suite 1650<br>Asheville, NC 28801 | Chairman of the Board of Directors and President | President, Director and Shareholder of Cornerstone Advisors, Inc.; Financial Consultant; Vice President, Deep Discount Advisors, Inc. (1993-1999); Director of The Austria Fund, Inc., EIS Fund, Inc., The Cornerstone Strategic Return Fund, Inc., Progressive Return Fund, Inc. and The SmallCap Fund. |
| Thomas H. Lenagh (79)<br>13 Allen's Corner Rd.<br>Flemington, NJ 08822               | Director   | Chairman of the Board of Inrad Corp.; Independent Financial Adviser; Director of The Cornerstone Strategic Return Fund, Inc., Progressive Return Fund, Inc., Gintel Fund, The Adams Express Company and Petroleum and Resources Corporation and ICN Pharmaceuticals International.                       |

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 ADDITIONAL INFORMATION REGARDING THE FUND'S DIRECTORS AND OFFICERS (unaudited) (continued)  
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| Name and Address (Age)   | Position(s) Held with Fund | Principal Occupation Over Last 5 Years  |
|--|----------------------------|---|
| Edwin Meese III (70)<br>The Heritage Foundation<br>214 Massachusetts Ave NE<br>Washington D.C. 20002 | Director                   | Distinguished Fellow, The Heritage Foundation, Washington D.C.; Distinguished Visiting Fellow at the Hoover Institution, Stanford University; Distinguished Senior Fellow at the Institute of United States Studies, University of London; Formerly U.S. Attorney General under President Ronald Reagan; Director of The Cornerstone Strategic Return Fund, Inc., Progressive Return Fund, Inc. and Perregrine Corporation (2001).                                |
| Scott B. Rogers (46)<br>30 Cumberland Ave.<br>Asheville, NC 28801                                    | Director                   | Chief Executive Officer, Asheville Buncombe Community Christian Ministry; President, ABCCM Doctor's Medical Clinic; Director, Southeastern Jurisdiction Urban Networkers; Director, A-B Vision Board, Appointee, NC Governor's Commission on Welfare to Work; Chairman and Director, Recycling Unlimited; Director, Interdenominational Ministerial Alliance; Director of The Cornerstone Strategic Return Fund, Inc., Progressive Return Fund and EIS Fund, Inc. |
| Andrew A. Strauss (48)<br>77 Central Avenue<br>Suite F<br>Asheville, NC 28801                        | Director                   | 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 The Cornerstone Strategic Return Fund, Inc., Progressive Return Fund, Inc., EIS Fund, Inc., Memorial Mission Hospital Foundation and Deerfield Episcopal Retirement Community.                               |
| Glenn W. Wilcox, Sr. (70)<br>One West Pack Square<br>Suite 1700<br>Asheville, NC 28801               | Director                   | Chairman of the Board and Chief Executive Officer of Wilcox Travel Agency; Director, Champion Industries, Inc.; Chairman of the Board of Tower Associates, Inc. (a real estate venture); Member of the Board of Wachovia Bank; Board Trustee and Chairman, Appalachian State University; Board Trustee and Director, Mars Hill College; Director of The Cornerstone Strategic Return Fund, Inc., Progressive Return Fund, Inc. and EIS Fund, Inc.                 |

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| Name and Address (Age)  | Position(s) Held with Fund      | Principal Occupation Over Last 5 Years  |
|---|---------------------------------|---|
| Gary A. Bentz (45)<br>One West Pack Square<br>Suite 1650<br>Asheville, NC 28801 | Vice President<br>and Treasurer | Director and Shareholder of Cornerstone Advisors, Inc.; Independent Financial, Accounting, Investment Consultant and Certified Public Accountant; Vice President Deep Discount Advisors, Inc. (1993-2000); Director of The Austria Fund, Inc.; Director Vice President and Treasurer of EIS Fund, Inc.; Vice President and Treasurer of The Cornerstone Strategic Return Fund, Inc. and Progressive Return Fund, Inc. |
| Thomas R. Westle (48)<br>405 Park Avenue<br>New York, NY 10022                  | Secretary                       | Partner, Spitzer & Feldman P.C. (May 1998 present) prior thereto; a Partner at Battl Fowler LLP.  |

## SUMMARY OF GENERAL INFORMATION

The Fund - Cornerstone Strategic Value Fund, Inc. is a closed-end, diversified investment company whose shares trade on the New York Stock Exchange. Its investment objective is to seek long-term capital appreciation primarily through investment in equity securities of companies listed in the United States. The Fund is managed by Cornerstone Advisors, Inc.

On February 13, 2002, the Board of Directors of the Fund adopted certain amendments to the Fund's Bylaws. The amendments require a shareholder to provide written notice to the Secretary of the Fund of any proposal which the shareholder wishes to raise at an annual meeting of shareholders which was not included in the Fund's proxy materials at least 90 calendar days in advance of the date of the mailing of the notice for the preceding year's annual meeting. The amendments also impose a 90 calendar day advance written notice requirement on shareholders who wish to introduce at any meeting of shareholders a nominee for election as a director. The notice provisions were adopted to afford shareholders a fair opportunity to present matters for consideration at annual meetings while ensuring that the Fund and its directors will have a reasonable opportunity to thoughtfully consider the matters proposed. Please contact the Secretary of the Fund for additional information about the advance notice requirements if you are considering presenting a proposal at an annual meeting.

## SHAREHOLDER INFORMATION

The Fund is listed on the New York Stock Exchange (symbol "CLM"). The share price is published in: The New York Times (daily) under the designation "CornerStrt" and The Wall Street Journal (daily) and Barron's (each Monday) under the designation "CornstnStrat." The net asset value per share is published under "Closed-End Funds" each Sunday in The New York Times and each Monday in The Wall Street Journal and Barron's under the designation "CrnstnStrV."

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that Cornerstone Strategic Value Fund, Inc. may

from time to time purchase shares of its capital stock in the open market.

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PRIVACY POLICY NOTICE  
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The following is a description of Cornerstone Strategic Value 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.

May 2001

CORNERSTONE STRATEGIC VALUE FUND, INC.

DIRECTORS AND CORPORATE OFFICERS

|                      |   |
|----------------------|---|
| Ralph W. Bradshaw    | Chairman of the Board of<br>Directors 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 Vice   | President and Treasurer                             |
| Thomas R. Westle     | Secretary   |

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

SHAREHOLDER SERVICING AGENT  
American Stock Transfer &  
Trust Co.  
59 Maiden Lane  
New York, NY 10038

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

INDEPENDENT ACCOUNTANTS  
PricewaterhouseCoopers LLP  
Two Commerce Square  
Philadelphia, PA 19103

CUSTODIAN  
Custodial Trust Company  
101 Carnegie Center

LEGAL COUNSEL  
Spitzer & Feldman P.C.  
405 Park Avenue  
New York, NY 10022

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Princeton, NJ 08540

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) 272-2093.

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LISTED  
NYSE (R)

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 this report.