

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

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

INVESTMENT COMPANY ACT FILE NUMBER 811-02363

CORNERSTONE TOTAL RETURN FUND, INC.

(Exact name of registrant as specified in charter)

383 Madison Avenue, New York, New York 10179

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(Address of principal executive offices) (Zip code)

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

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(Name and address of agent for service)

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

Date of fiscal year end: December 31, 2006

Date of reporting period: December 31, 2006

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

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

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## ITEM 1. REPORTS TO STOCKHOLDERS.

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

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CORNERSTONE TOTAL  
RETURN FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2006

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

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SECTOR ALLOCATION

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

TOP TEN HOLDINGS, BY ISSUER

Percent of

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

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

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

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

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4,763,182  
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ENERGY - 9.57%		
Chevron Corporation	10,068	740,300
Exxon Mobil Corporation	32,000	2,452,163
Schlumberger Limited	5,000	315,800
Other Energy (a)		1,502,875

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5,011,138  
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FINANCIALS - 19.62%		
American International Group, Inc.	12,331	883,639
Bank of America Corporation ^	17,021	908,751
Citigroup Inc. ^	25,600	1,425,920

Description	No. of Shares	Value
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FINANCIALS (CONTINUED)		
Fannie Mae	6,200	\$ 368,218
Franklin Resources, Inc.	2,500	275,425
Goldman Sachs Group, Inc. (The)	3,000	598,050
JPMorgan Chase & Co.	12,700	613,410
M&T Bank Corporation	2,500	305,400
Morgan Stanley	3,700	301,291
St. Paul Travelers Companies, Inc. (The)	5,092	273,389
Wachovia Corporation	5,600	318,920
Wells Fargo & Company	18,000	640,080
Other Financials (a)		3,360,577

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10,273,070  
-----

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

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5,427,430  
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INDUSTRIALS - 9.83%		
FedEx Corp.	2,500	271,550
General Electric Company	52,000	1,934,920
United Parcel Service, Inc., Class B	4,000	299,920
United Technologies Corporation ^	4,400	275,088

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

INFORMATION TECHNOLOGY - 14.08%

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

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 See accompanying notes to financial statements

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 CORNERSTONE TOTAL RETURN FUND, INC.  
 SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2006 (CONCLUDED)  
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Description	No. of Shares	Value
-----		
INFORMATION TECHNOLOGY (CONTINUED)		
Texas Instruments Incorporated	13,500	\$ 388,800
Other Information Technology (a)		2,204,955
		-----
		7,368,434
		-----
MATERIALS - 2.32%		
E. I. du Pont de Nemours and Company	5,800	282,518
Other Materials (a)		934,671
		-----
		1,217,189
		-----
REAL ESTATE INVESTMENT TRUST - 0.48%		
Total Real Estate Investment Trust (a)		253,225
		-----
TELECOMMUNICATION SERVICES - 3.39%		
AT&T Inc.	24,699	882,989
Verizon Communications Inc.	10,000	372,400
Other Telecommunication Services (a)		519,957
		-----
		1,775,346
		-----
UTILITIES - 2.81%		
TXU Corp.	7,400	401,154
Other Utilities (a)		1,069,076
		-----
		1,470,230
		-----
TOTAL UNITED STATES		
(cost - \$44,010,264)		51,758,674

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

See accompanying notes to financial statements.  
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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2006

ASSETS

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

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

NET ASSETS CONSISTS OF

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

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

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See accompanying notes to financial statements.

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

Income:

Dividends	\$ 1,145,598
Interest	20,639
Securities lending	14,335
-----	
Total Investment Income	1,180,572
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Expenses:	
Investment management fees	522,164
Directors' fees	55,498
Legal and audit fees	53,635
Administration fees	52,282
Accounting fees	32,837
Transfer agent fees	28,999
Custodian fees	12,872
Printing	10,551
Insurance	6,643
Stock exchange listing fees	6,282
Miscellaneous	1,176
	-----
Total Expenses	782,939
Less: Fees paid indirectly	(30,564)
	-----
Net Expenses	752,375
	-----
Net Investment Income	428,197
	-----
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized loss from investments	(50,353)
Capital gain distributions from regulated investment companies	103,660
Net change in unrealized appreciation in value of investments	6,318,611
	-----
Net realized and unrealized gain on investments	6,371,918
	-----
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 6,800,115
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See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF CHANGES IN NET ASSETS  
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	For the Years Ended December 31,	
	2006	2005
	-----	-----
DECREASE IN NET ASSETS		
Operations:		
Net investment income	\$ 428,197	\$ 299,210
Net realized loss from investments	(50,353)	(464,943)
Capital gain distributions from regulated		

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

See accompanying notes to financial statements.

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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 year indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

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

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

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS

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### NOTE A. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. A return-of-capital distribution reduces the cost basis of an investor's shares in the Fund. Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

NOTE B. AGREEMENTS

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

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

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

NOTE C. INVESTMENT IN SECURITIES

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

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## NOTE D. SECURITIES LENDING

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

## NOTE E. FEDERAL INCOME TAXES

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

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

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

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CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
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At December 31, 2006 the components of distributable earnings on a tax basis, for the Fund were as follows:

Accumulated net realized loss	\$(15,319,316)
Unrealized appreciation	6,968,679
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Total accumulated deficit	\$ (8,350,637)
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Under current tax law, certain capital losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year ("Post-October losses"). For the tax period ended December 31, 2006, the Fund did not incur Post-October losses.

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

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

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2006, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.



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In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Cornerstone Total Return Fund, Inc. as of December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania  
February 7, 2007

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2006 TAX INFORMATION (UNAUDITED)

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

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

SOURCES OF DIVIDENDS AND DISTRIBUTIONS  
(PER SHARE AMOUNTS)

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

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

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

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

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

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

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

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

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

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

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

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

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DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED)

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

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

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

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

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

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

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

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

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

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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

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DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED) (CONCLUDED)

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

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

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

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

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

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

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

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

### PRIVACY POLICY NOTICE (UNAUDITED)

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

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

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

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

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

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SUMMARY OF GENERAL INFORMATION (UNAUDITED)

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

SHAREHOLDER INFORMATION (UNAUDITED)

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

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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.

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This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report.

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CORNERSTONE TOTAL RETURN FUND, INC.

ITEM 2. CODE OF ETHICS.

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

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

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

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

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

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

(a) (2) Not applicable

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

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

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

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

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

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

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

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

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

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

(g) There were no non-audit fees billed by Tait, Weller & Baker LLP for services rendered to the Registrant, the Registrant's investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) or any entity controlling, controlled by, or under common control with the investment advisor that provides ongoing services to the Registrant for the Registrant's last two fiscal years (December 31, 2005 and December 31, 2006).

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

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

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

(b) Not applicable.

### ITEM 6. SCHEDULE OF INVESTMENTS.

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CORNERSTONE TOTAL RETURN FUND, INC.

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SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2006

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

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

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KeyCorp 2,500 95,075

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

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

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

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

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

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

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

ADR American Depositary Receipt

\* Non-income producing security.

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

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

^ Security or a portion thereof is out on loan.



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

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

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of

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

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Cornerstone Total Return Fund, Inc. as of December 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

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

TAIT, WELLER & BAKER LLP

PHILADELPHIA, PENNSYLVANIA  
FEBRUARY 7, 2007

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

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

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

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

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

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

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

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

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

(a) (2) (iv) None.

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

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

(b) None.

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

None.

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

None.

### ITEM 11. CONTROLS AND PROCEDURES.

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

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

### ITEM 12. EXHIBITS.

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

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

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

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

### SIGNATURES

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

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

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

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

Cornerstone Total Return Fund, Inc.

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

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