

CORNERSTONE TOTAL RETURN FUND INC
Form N-Q
November 26, 2012

OMB
APPROVAL

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-02363

Cornerstone Total Return Fund, Inc.

(Exact name of registrant as specified in charter)

225 Pictoria Drive, Suite 450 Cincinnati, Ohio

45246

(Address of principal executive offices)

(Zip code)

Theresa M. Bridge

Ultimus Fund Solutions, LLC 225 Pictoria Drive, Suite 450 Cincinnati, OH 45246

(Name and address of agent for service)

Registrant's telephone number, including area code: (513) 587-3400

Date of fiscal year end: December 31, 2012

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Date of reporting period: September 30, 2012

Form N-Q is to be used by management investment companies other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to Rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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. § 3507.

Item 1. Schedule of Investments.

CORNERSTONE TOTAL RETURN FUND, INC.
SCHEDULE OF INVESTMENTS - SEPTEMBER 30, 2012 (Unaudited)

| Description | No. of Shares | Value |
|---|---------------|-----------|
| EQUITY SECURITIES - 99.63% | | |
| CLOSED-END FUNDS - 22.84% | | |
| CORE - 0.15% | | |
| General American Investors Company, Inc. | 1,834 | \$53,333 |
| CORPORATE DEBT FUNDS INVESTMENT GRADE-RATED - 1.86% | | |
| Federated Enhanced Treasury Income Fund | 9,183 | 131,317 |
| Western Asset/Claymore Inflation-Linked Opportunities & Income Fund | 11,100 | 149,295 |
| Western Asset/Claymore Inflation-Linked Securities & Income Fund | 29,732 | 394,544 |
| | | 675,156 |
| DEVELOPED MARKET - 0.53% | | |
| Japan Smaller Capitalization Fund, Inc. | 23,533 | 169,202 |
| Singapore Fund, Inc. (The) | 1,600 | 22,112 |
| | | 191,314 |
| GLOBAL - 3.40% | | |
| AGIC Global Equity & Convertible Income Fund | 10,400 | 139,568 |
| Clough Global Equity Fund | 4,923 | 63,605 |
| Clough Global Opportunities Fund | 60,413 | 706,832 |
| First Trust Active Dividend Income Fund | 19,814 | 167,825 |
| Lazard World Dividend & Income Fund, Inc. | 12,700 | 154,432 |
| | | 1,232,262 |
| GLOBAL INCOME - 1.07% | | |
| Nuveen Multi-Currency Short-Term Government Income Fund | 29,414 | 388,265 |
| INCOME & PREFERRED STOCK - 0.72% | | |
| Zweig Total Return Fund, Inc. (The) | 20,804 | 263,379 |
| OPTION ARBITRAGE/OPTIONS STRATEGIES - 14.07% | | |
| BlackRock Enhanced Equity Dividend Trust | 15,600 | 117,936 |
| BlackRock International Growth and Income Trust | 61,500 | 448,335 |
| Eaton Vance Enhanced Equity Income Fund | 45,872 | 508,262 |
| Eaton Vance Enhanced Equity Income Fund II | 48,428 | 536,582 |
| Eaton Vance Risk-Managed Diversified Equity Income Fund | 80,913 | 852,014 |
| Eaton Vance Tax-Managed Buy-Write Opportunities Fund | 40,300 | 524,303 |

See accompanying notes to schedule of investments.

CORNERSTONE TOTAL RETURN FUND, INC.

SCHEDULE OF INVESTMENTS - SEPTEMBER 30, 2012 (Unaudited) (Continued)

| Description | No. of Shares | Value |
|---|---------------|-----------|
| OPTION ARBITRAGE/OPTIONS STRATEGIES (Continued) | | |
| Eaton Vance Tax-Managed Diversified Equity Income Fund | 66,439 | \$631,835 |
| Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund | 29,700 | 329,670 |
| Eaton Vance Tax-Managed Global Diversified Equity Income Fund | 119,344 | 1,051,420 |
| ING Global Advantage and Premium Opportunity Fund | 8,500 | 100,640 |
| | | 5,100,997 |
| REAL ESTATE - 0.96% | | |
| Neuberger Berman Real Estate Securities Income Fund Inc. | 73,524 | 347,033 |
| SECTOR EQUITY - 0.08% | | |
| Gabelli Healthcare & WellnessRx Trust (The) | 3,079 | 28,050 |
| TOTAL CLOSED-END FUNDS | | 8,279,789 |
| CONSUMER DISCRETIONARY - 8.64% | | |
| Bed Bath & Beyond, Inc. * | 2,500 | 157,500 |
| CBS Corporation - Class B | 3,000 | 108,990 |
| Comcast Corporation - Class A | 4,012 | 143,509 |
| Comcast Corporation - Special Class A | 4,250 | 147,900 |
| DIRECTV * | 4,000 | 209,840 |
| Gap, Inc. | 1,500 | 53,670 |
| Home Depot, Inc. (The) | 4,000 | 241,480 |
| Lowe's Companies, Inc. | 5,000 | 151,200 |
| Macy's, Inc. | 3,000 | 112,860 |
| McDonald's Corporation | 2,500 | 229,375 |
| News Corporation - Class B | 2,500 | 62,000 |
| Target Corporation | 3,500 | 222,145 |
| Time Warner Cable, Inc. | 2,000 | 190,120 |
| Time Warner, Inc. | 4,666 | 211,510 |
| TJX Companies, Inc. (The) | 5,000 | 223,950 |
| Viacom Inc. - Class B | 3,000 | 160,770 |
| Walt Disney Company (The) | 6,500 | 339,820 |
| Yum! Brands, Inc. | 2,500 | 165,850 |
| | | 3,132,489 |

See accompanying notes to schedule of investments.

CORNERSTONE TOTAL RETURN FUND, INC.

SCHEDULE OF INVESTMENTS - SEPTEMBER 30, 2012 (Unaudited) (Continued)

| Description | No. of Shares | Value |
|-----------------------------------|---------------|-----------|
| CONSUMER STAPLES - 8.47% | | |
| Altria Group, Inc. | 7,000 | \$233,730 |
| Coca-Cola Company (The) | 20,000 | 758,600 |
| CVS Caremark Corporation | 7,000 | 338,940 |
| Kimberly-Clark Corporation | 1,000 | 85,780 |
| Kraft Foods Inc. - Class A | 3,000 | 124,050 |
| Kroger Company (The) | 3,000 | 70,620 |
| Philip Morris International, Inc. | 2,500 | 224,850 |
| Reynolds American Inc. | 1,200 | 52,008 |
| Wal-Mart Stores, Inc. | 16,000 | 1,180,800 |
| | | 3,069,378 |
| ENERGY - 8.95% | | |
| Anadarko Petroleum Corporation | 1,000 | 69,920 |
| Chevron Corporation | 7,500 | 874,200 |
| ConocoPhillips | 6,000 | 343,080 |
| EOG Resources, Inc. | 1,000 | 112,050 |
| Exxon Mobil Corporation | 12,000 | 1,097,400 |
| Halliburton Company | 2,000 | 67,380 |
| Marathon Oil Corporation | 4,900 | 144,893 |
| Phillips 66 | 3,000 | 139,110 |
| Schlumberger Limited | 4,500 | 325,485 |
| Williams Companies, Inc. | 2,000 | 69,940 |
| | | 3,243,458 |
| FINANCIALS - 10.51% | | |
| AFLAC, Inc. | 3,000 | 143,640 |
| Allstate Corporation (The) | 2,500 | 99,025 |
| American Express Company | 6,000 | 341,160 |
| BB&T Corporation | 3,000 | 99,480 |
| Capital One Financial Corporation | 2,500 | 142,525 |
| Discover Financial Services | 4,000 | 158,920 |
| Fifth Third Bancorp | 7,000 | 108,570 |
| Franklin Resources, Inc. | 1,000 | 125,070 |
| JPMorgan Chase & Co. | 15,200 | 615,296 |
| Marsh & McLennan Companies, Inc. | 4,000 | 135,720 |
| MetLife, Inc. | 5,500 | 189,530 |
| SunTrust Banks, Inc. | 3,000 | 84,810 |
| U.S. Bancorp | 12,500 | 428,750 |
| Wells Fargo & Company | 33,000 | 1,139,490 |
| | | 3,811,986 |
| HEALTH CARE - 10.02% | | |
| Abbott Laboratories | 6,000 | 411,360 |
| Amgen Inc. | 4,000 | 337,280 |
| Baxter International, Inc. | 1,200 | 72,312 |

See accompanying notes to schedule of investments.

CORNERSTONE TOTAL RETURN FUND, INC.

SCHEDULE OF INVESTMENTS - SEPTEMBER 30, 2012 (Unaudited) (Continued)

| Description | No. of Shares | Value |
|---|---------------|-----------|
| HEALTH CARE (Continued) | | |
| Bristol-Myers Squibb Company | 6,000 | \$202,500 |
| Covidien plc | 2,000 | 118,840 |
| Eli Lilly & Company | 2,500 | 118,525 |
| Express Scripts Holding Company * | 1,620 | 101,525 |
| Johnson & Johnson | 6,500 | 447,915 |
| McKesson Corporation | 2,500 | 215,075 |
| Merck & Company, Inc. | 16,000 | 721,600 |
| Pfizer, Inc. | 16,462 | 409,081 |
| Stryker Corporation | 1,000 | 55,660 |
| Thermo Fisher Scientific Inc. | 2,000 | 117,660 |
| UnitedHealth Group, Inc. | 5,500 | 304,755 |
| | | 3,634,088 |
| INDUSTRIALS - 7.40% | | |
| Boeing Company (The) | 2,000 | 139,240 |
| Caterpillar Inc. | 3,000 | 258,120 |
| CSX Corporation | 6,000 | 124,500 |
| Cummins Inc. | 1,000 | 92,210 |
| Deere & Company | 2,500 | 206,225 |
| General Electric Company | 22,000 | 499,620 |
| Honeywell International Inc. | 4,000 | 239,000 |
| ITT Corporation | 2,900 | 58,435 |
| Lockheed Martin Corporation | 2,500 | 233,450 |
| Norfolk Southern Corporation | 2,000 | 127,260 |
| Northrop Grumman Corporation | 1,500 | 99,645 |
| Raytheon Company | 2,000 | 114,320 |
| Union Pacific Corporation | 2,500 | 296,750 |
| United Technologies Corporation | 2,500 | 195,725 |
| | | 2,684,500 |
| INFORMATION TECHNOLOGY - 14.47% | | |
| Apple Inc. | 3,000 | 2,001,780 |
| Automatic Data Processing, Inc. | 1,000 | 58,660 |
| Cisco Systems, Inc. | 8,000 | 152,720 |
| eBay Inc. * | 7,000 | 338,870 |
| International Business Machines Corporation | 5,000 | 1,037,250 |
| Microsoft Corporation | 36,000 | 1,072,080 |
| Oracle Corporation | 18,600 | 585,714 |
| | | 5,247,074 |
| MATERIALS - 2.63% | | |
| Air Products & Chemicals, Inc. | 1,500 | 124,050 |
| CF Industries Holdings, Inc. | 600 | 133,344 |
| Dow Chemical Company (The) | 6,000 | 173,760 |
| E.I. du Pont de Nemours and Company | 4,800 | 241,296 |

See accompanying notes to schedule of investments.

CORNERSTONE TOTAL RETURN FUND, INC.
 SCHEDULE OF INVESTMENTS - SEPTEMBER 30, 2012 (Unaudited) (Concluded)

| Description | No. of Shares | Value |
|---|---------------|--------------|
| MATERIALS (Continued) | | |
| Freeport-McMoRan Copper & Gold, Inc. | 5,000 | \$197,900 |
| International Paper Company | 2,300 | 83,536 |
| | | 953,886 |
| TELECOMMUNICATION SERVICES - 2.83% | | |
| AT&T, Inc. | 17,589 | 663,105 |
| Verizon Communications, Inc. | 8,000 | 364,560 |
| | | 1,027,665 |
| UTILITIES - 2.87% | | |
| AES Corporation (The) * | 4,600 | 50,462 |
| Consolidated Edison, Inc. | 1,000 | 59,890 |
| Duke Energy Corporation | 2,200 | 142,560 |
| Exelon Corporation | 3,500 | 124,530 |
| FirstEnergy Corporation | 2,000 | 88,200 |
| NextEra Energy, Inc. | 2,000 | 140,660 |
| Sempra Energy | 1,500 | 96,735 |
| Southern Company (The) | 4,000 | 184,360 |
| Xcel Energy, Inc. | 5,500 | 152,405 |
| | | 1,039,802 |
| TOTAL EQUITY SECURITIES (cost - \$30,615,288) | | 36,124,115 |
| SHORT-TERM INVESTMENTS - 0.43% | | |
| MONEY MARKET FUNDS - 0.43% | | |
| Fidelity Institutional Money Market Government Portfolio - Class I, 0.01%^ (cost - \$155,741) | 155,741 | 155,741 |
| TOTAL INVESTMENTS - 100.06% (cost - \$30,771,029) | | 36,279,856 |
| LIABILITIES IN EXCESS OF OTHER ASSETS - (0.06)% | | (23,044) |
| NET ASSETS - 100.00% | | \$36,256,812 |

* Non-income producing security.

^ Variable rate security. The rate shown is the 7-day effective yield as of September 30, 2012.

CORNERSTONE TOTAL RETURN FUND, INC.
 NOTES TO SCHEDULE OF INVESTMENTS
 September 30, 2012 (UNAUDITED)

Federal Income Tax Cost: The following information is computed on a tax basis for each item as of September 30, 2012:

| | |
|-------------------------------|--------------|
| Cost of portfolio investments | \$30,778,153 |
| Gross unrealized appreciation | \$6,135,346 |
| Gross unrealized depreciation | (633,643) |
| Net unrealized appreciation | \$5,501,703 |

The difference between the federal income tax cost of portfolio investments and the Schedule of Investments cost for the Fund is due to certain timing differences in the recognition of capital gains or losses under income tax regulations and generally accepted accounting principles. These “book/tax” differences are temporary in nature and are due to the tax deferral of losses on wash sales.

As required by the Fair Value Measurement and Disclosures Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification, the Fund has performed an analysis of all assets and liabilities measured at fair value to determine the significance and character of all inputs to their fair value determination.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

- Level 1 – quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement.
 - Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.
 - Level 3 – model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund’s own assumptions that market participants would use to price the asset or liability based on the best available information.
-

The following is a summary of the inputs used as of September 30, 2012 in valuing the Fund's investments carried at value:

| VALUATION INPUTS | INVESTMENTS IN SECURITIES | OTHER FINANCIAL INSTRUMENTS* |
|---|---------------------------------|------------------------------------|
| Level 1 - Quoted Prices | | |
| Equity Investments | \$ 36,124,115 | \$ - |
| Short-Term Investments | 155,741 | - |
| Level 2 - Other Significant Observable Inputs | - | - |
| Level 3 – Significant Unobservable Inputs | - | - |
| Total | \$ 36,279,856 | \$ - |

* Other financial instruments include futures, forwards and swap contracts, if any.

The breakdown of the Fund's investments into major categories is disclosed in its Schedule of Investments.

As of September 30, 2012, the Fund did not have any transfers in and out of any Level.

The Fund did not have any assets or liabilities that were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at September 30, 2012.

The disclosures for the Fund's fiscal year beginning January 1, 2012 relate to presenting separately any Level 3 purchases, sales, issuances and settlements on a gross basis instead of one net amount. Management will continue to evaluate the impact of ASU No. 2010-6 for the required disclosures.

The Fund is exposed to financial market risks, including the valuations of its investment portfolio. During the nine months ended September 30, 2012, the Fund did not engage in derivative instruments and other hedging activities.

The Fund has evaluated the need for additional disclosures and/or adjustments resulting through the date its financial statements were issued. Based on this evaluation, no additional disclosures or adjustments were required to such Schedule of Investments.

Securities valuation policies and other investment related disclosures are hereby incorporated by reference to the Fund's semi-annual report previously filed with the Securities and Exchange Commission on the Form N-CSR on September 4, 2012 with a file number 811-02363.

Other information regarding the Fund is available in the Fund's most recent semi-annual report filed with the Securities and Exchange Commission on the Form N-CSR on September 4, 2012, file number 811-02363. This information is also available to registered shareholders by calling (800) 937-5449. For general inquiries, please call (513) 326-3597. This information is also available on the website of the Securities and Exchange Commission – <http://www.sec.gov>.

Item 2. Controls and Procedures.

(a) Based on their evaluation of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) as of a date within 90 days of the filing date of this report, the registrant's principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are reasonably designed and are operating effectively to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this report is being prepared, and that such information is recorded, processed, summarized, and reported on a timely basis.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)): Attached hereto

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.

(Registrant) Cornerstone Total Return Fund, Inc.

By (Signature and Title)* /s/ Ralph W. Bradshaw
Ralph W. Bradshaw, President and
Chairman
(Principal Executive Officer)

Date November 26, 2012

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

By (Signature and Title)* /s/ Ralph W. Bradshaw
Ralph W. Bradshaw, President and
Chairman
(Principal Executive Officer)

Date November 26, 2012

By (Signature and Title)* /s/ Theresa M. Bridge
Theresa M. Bridge, Treasurer
(Principal Financial Officer)

Date November 26, 2012

* Print the name and title of each signing officer under his or her signature.