

CORNERSTONE TOTAL RETURN FUND INC
Form N-CSR
March 10, 2006

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

INVESTMENT COMPANY ACT FILE NUMBER 811-02363

CORNERSTONE TOTAL RETURN FUND, INC.

(Exact name of registrant as specified in charter)

383 Madison Avenue, New York, New York 10179

(Address of principal executive offices) (Zip code)

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

(Name and address of agent for service)

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

Date of fiscal year end: December 31, 2005

Date of reporting period: December 31, 2005

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 Strategic Value Fund, Inc. (the "Registrant") to stockholders for the year ended December 31, 2005 follows.

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CORNERSTONE TOTAL
RETURN FUND, INC.

ANNUAL REPORT
DECEMBER 31, 2005

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CORNERSTONE TOTAL RETURN FUND, INC.
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2005 (UNAUDITED)

SECTOR ALLOCATION

| Sector | Percent of Net Assets |
|----------------------------|--------------------------|
| Financials | 18.5 |
| Information Technology | 14.2 |
| Healthcare | 11.7 |
| Consumer Discretionary | 10.9 |
| Industrials | 10.0 |
| Consumer Staples | 9.1 |
| Closed-End Domestic Funds | 9.0 |
| Energy | 8.5 |
| Utilities | 2.8 |
| Telecommunication Services | 2.5 |
| Materials | 2.4 |
| Other | 0.4 |

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TOP TEN HOLDINGS, BY ISSUER

| | Holding | Sector | Percent of Net Assets |
|-----|----------------------------|---------------------------|-----------------------|
| 1. | Tri-Continental Corp. | Closed-End Domestic Funds | 3.9 |
| 2. | General Electric Co. | Industrials | 3.4 |
| 3. | Exxon Mobil Corp. | Energy | 3.3 |
| 4. | Microsoft Corp. | Information Technology | 2.3 |
| 5. | Citigroup Inc. | Financials | 2.3 |
| 6. | Procter & Gamble Co. (The) | Consumer Staples | 2.1 |
| 7. | Johnson & Johnson | Healthcare | 1.7 |
| 8. | Wal-Mart Stores, Inc. | Consumer Staples | 1.6 |
| 9. | Adams Express Co. | Closed-End Domestic Funds | 1.6 |
| 10. | Zweig Fund, Inc. | Closed-End Domestic Funds | 1.6 |

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CORNERSTONE TOTAL RETURN FUND, INC.
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2005

| Description | No. of Shares | Value |
|----------------------------------------|---------------|------------|
| EQUITY SECURITIES - 99.89% | | |
| UNITED STATES - 99.15% | | |
| CLOSED-END DOMESTIC FUNDS - 8.97% | | |
| Adams Express Co. | 70,400 | \$ 883,520 |
| Boulder Total Return Fund, Inc. | 18,900 | 317,331 |
| Dreman/Claymore Dividend & Income Fund | 19,000 | 343,520 |
| Tri-Continental Corp. | 112,500 | 2,090,250 |
| Zweig Fund, Inc. | 165,900 | 875,952 |
| Other Closed-End Domestic Funds (a) | | 348,523 |
| | | 4,859,096 |
| CONSUMER DISCRETIONARY - 10.20% | | |
| eBay, Inc. + | 7,000 | 302,750 |
| Home Depot, Inc. (The) | 12,300 | 497,904 |
| Time Warner Inc. | 25,500 | 444,720 |
| Viacom Inc., non-voting Class B | 9,000 | 293,400 |
| Other Consumer Discretionary (a) | | 3,987,403 |
| | | 5,526,177 |
| CONSUMER STAPLES - 9.05% | | |
| Altria Group, Inc. | 10,700 | 799,504 |
| Coca-Cola Co. (The) | 13,500 | 544,185 |

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| | | |
|---------------------------------------|--------|------------|
| PepsiCo, Inc. | 7,500 | 443,100 |
| Procter & Gamble Co. (The) | 19,972 | 1,155,979 |
| Wal-Mart Stores, Inc. | 19,000 | 889,200 |
| Other Consumer Staples (a) | | 1,074,906 |
| | | ----- |
| | | 4,906,874 |
| | | ----- |
| ENERGY - 8.45% | | |
| ChevronTexaco Corp. | 6,568 | 372,865 |
| ConocoPhillips | 5,838 | 339,655 |
| Exxon Mobil Corp. | 32,000 | 1,797,440 |
| Other Energy (a) | | 2,068,180 |
| | | ----- |
| | | 4,578,140 |
| | | ----- |
| FINANCIALS - 18.54% | | |
| American Express Company | 6,100 | 313,906 |
| American International Group, Inc. | 12,331 | 841,344 |
| Bank of America Corp. | 15,740 | 726,401 |
| Citigroup Inc. | 25,600 | 1,242,368 |
| Goldman Sachs Group, Inc. (The) | 3,000 | 383,130 |
| JPMorgan Chase & Co. | 12,700 | 504,063 |
| Lehman Brothers Holding Inc. | 2,500 | 320,425 |
| MetLife, Inc. | 6,000 | 294,000 |
| Wachovia Corp. ^ | 8,100 | 428,166 |
| Wells Fargo & Co. | 9,000 | 565,470 |
| Other Financials (a) | | 4,429,229 |
| | | ----- |
| | | 10,048,502 |
| | | ----- |
| HEALTHCARE - 11.74% | | |
| Amgen Inc. + | 8,300 | 654,538 |
| Johnson & Johnson | 15,500 | 931,550 |
| Medtronic, Inc. | 7,100 | 408,747 |
| Pfizer Inc. ^ | 37,460 | 873,567 |
| UnitedHealth Group Inc. | 10,000 | 621,400 |
| Wyeth | 7,500 | 345,525 |
| Other Healthcare (a) | | 2,525,434 |
| | | ----- |
| | | 6,360,761 |
| | | ----- |
| INDUSTRIALS - 9.95% | | |
| Caterpillar Inc. | 5,000 | 288,850 |
| General Electric Co. | 52,000 | 1,822,600 |
| United Parcel Service, Inc., Class B | 4,000 | 300,600 |
| Other Industrials (a) | | 2,978,598 |
| | | ----- |
| | | 5,390,648 |
| | | ----- |
| INFORMATION TECHNOLOGY - 14.15% | | |
| Apple Computer, Inc. + | 5,000 | 359,450 |
| Cisco Systems, Inc. + | 35,000 | 599,200 |
| Dell Inc. + | 13,700 | 410,863 |
| Hewlett-Packard Co. | 13,342 | 381,981 |
| Intel Corp. | 32,000 | 798,720 |
| International Business Machines Corp. | 5,700 | 468,540 |
| Microsoft Corp. | 48,000 | 1,255,200 |
| Motorola, Inc. | 16,100 | 363,699 |
| Oracle Corp. + | 33,600 | 410,256 |

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2005 (CONCLUDED)

| Description | No. of Shares | Value |
|---------------------------------------------------------------------|--------------------------------|------------|
| INFORMATION TECHNOLOGY (CONTINUED) | | |
| Texas Instruments Inc. ^ | 13,500 | \$ 432,945 |
| Yahoo! Inc. + | 8,500 | 333,030 |
| Other Information Technology (a) | | 1,856,644 |
| | | 7,670,528 |
| MATERIALS - 2.44% | | |
| Total Materials (a) | | 1,320,568 |
| REAL ESTATE INVESTMENT TRUSTS - 0.35% | | |
| Total Real Estate Investment Trusts (a) | | 191,575 |
| TELECOMMUNICATION SERVICES - 2.52% | | |
| AT&T Inc. | 24,699 | 604,879 |
| Verizon Communications Inc. ^ | 14,900 | 448,788 |
| Other Telecommunication Services (a) | | 314,648 |
| | | 1,368,315 |
| UTILITIES - 2.79% | | |
| TXU Corp. ^ | 7,400 | 371,406 |
| Other Utilities (a) | | 1,143,075 |
| | | 1,514,481 |
| TOTAL UNITED STATES (cost - \$52,539,112) | | |
| | | 53,735,665 |
| CZECH REPUBLIC - 0.74% | | |
| CONSUMER DISCRETIONARY - 0.74% | | |
| Total Consumer Discretionary # (a) | | 400,011 |
| TOTAL CZECH REPUBLIC (cost - \$894,867) | | |
| | | 400,011 |
| TOTAL EQUITY SECURITIES (cost - \$53,433,979) | | |
| | | 54,135,676 |
| Description | Principal Amount (000's) | Value |
| SHORT-TERM INVESTMENTS - 1.25% | | |
| REPURCHASE AGREEMENTS - 1.25% | | |
| Bear, Stearns & Co. Inc. * | | |
| (Agreement dated 12/31/05 to be repurchased at \$676,876) (b) | \$ 677 | \$ 676,648 |
| | | ----- |

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| | |
|------------------------------|---------------|
| TOTAL SHORT-TERM INVESTMENTS | |
| (cost - \$676,648) | 676,648 |
| | ----- |
| TOTAL INVESTMENTS - 101.14% | |
| (cost - \$54,110,627) | 54,812,324 |
| | ----- |
| LIABILITIES IN EXCESS OF | |
| OTHER ASSETS - (1.14)% | (618,008) |
| | ----- |
| NET ASSETS - 100.00% | \$ 54,194,316 |
| | ===== |

-
- + Non-income producing security.
 - ^ Security or a portion thereof is out on loan.
 - # Securities are fair valued in accordance with procedures established by the Board of Directors. At December 31, 2005, the Fund held 0.74% 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 \$400,011.
 - * Includes investments purchased with cash collateral received for securities on loan.
 - (a) Represents issues not identified as a top 50 holding in terms of market value and issues or issuers not exceeding 1% of net assets individually or in the aggregate, respectively, as of December 31, 2005.
 - (b) At December 31, 2005, the maturity date for all repurchase agreements held was 01/03/06, with interest rates ranging from 2.00% to 4.00%, and collateralized by \$700,806 in U.S. Treasury Bonds.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2005

| | |
|------------------------------------------------------------|---------------|
| ASSETS | |
| Investments, at value, including collateral for securities | |
| on loan of \$471,189 (Cost \$54,110,627) (1) | \$ 54,812,324 |
| Cash | 56 |
| Receivables: | |
| Investments sold | 149,441 |
| Dividends | 64,781 |
| Interest | 2,036 |
| Prepaid expenses | 1,520 |
| | ----- |
| Total Assets | 55,030,158 |
| | ----- |
| LIABILITIES | |
| Payables: | |
| Upon return of securities loaned | 471,189 |
| Investments purchased | 222,861 |

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| | |
|------------------------------------------------------------------------------------------------------------|---------------|
| Investment management fees | 43,504 |
| Directors' fees | 14,486 |
| Other accrued expenses | 83,802 |
| | ----- |
| Total Liabilities | 835,842 |
| | ----- |
| NET ASSETS (applicable to 4,967,301 shares of common stock outstanding) | \$ 54,194,316 |
| | ===== |
| NET ASSET VALUE PER SHARE (\$54,194,316 / 4,967,301) | \$ 10.91 |
| | ===== |
| NET ASSETS CONSISTS OF | |
| Capital stock, \$0.01 par value; 4,967,301 shares issued and outstanding (15,000,000 shares authorized) | \$ 49,673 |
| Paid-in capital | 68,867,198 |
| Accumulated net realized loss on investments | (15,424,252) |
| Net unrealized appreciation in value of investments | 701,697 |
| | ----- |
| Net assets applicable to shares outstanding | \$ 54,194,316 |
| | ===== |

 (1) Includes securities out on loan to brokers with a market value of \$465,591.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC. STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2005

INVESTMENT INCOME

Income:

| | |
|-------------------------|--------------|
| Dividends | \$ 1,106,323 |
| Interest | 16,022 |
| Securities lending | 10,801 |
| | ----- |
| Total Investment Income | 1,133,146 |
| | ----- |

Expenses:

| | |
|------------------------------|----------|
| Investment management fees | 565,218 |
| Directors' fees | 58,402 |
| Administration fees | 56,438 |
| Legal and audit fees | 50,600 |
| Printing | 36,105 |
| Accounting fees | 31,969 |
| Transfer agent fees | 29,754 |
| Custodian fees | 13,392 |
| Stock exchange listing fees | 6,395 |
| Insurance | 6,229 |
| Miscellaneous | 5,497 |
| | ----- |
| Total Expenses | 859,999 |
| Less: Management fee waivers | (7,882) |
| Less: Fees paid indirectly | (18,181) |
| | ----- |
| Net Expenses | 833,936 |
| | ----- |

| | |
|-----------------------|---------|
| Net Investment Income | 299,210 |
|-----------------------|---------|

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| | |
|---------------------------------------------------------------|--------------|
| NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS | |
| Net realized loss from investments | (464,943) |
| Net change in unrealized depreciation in value of investments | 1,364,595 |
| Net realized and unrealized gain on investments | 899,652 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | \$ 1,198,862 |

See accompanying notes to financial statements.

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

| | For the Years Ended December 31, | |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------|
| | 2005 | 2004 |
| DECREASE IN NET ASSETS | | |
| Operations: | | |
| Net investment income | \$ 299,210 | \$ 462,154 |
| Net realized loss from investments | (464,943) | (428,172) |
| Net change in unrealized depreciation in value of investments | 1,364,595 | 4,649,941 |
| Net increase in net assets resulting from operations | 1,198,862 | 4,683,923 |
| Dividends and distributions to shareholders: | | |
| Net investment income | (299,210) | (462,154) |
| Return-of-capital | (9,996,313) | (9,584,964) |
| Total dividends and distributions to shareholders | (10,295,523) | (10,047,118) |
| Capital stock transactions: | | |
| Proceeds from 167,470 and 73,202 newly shares issued in reinvestment of dividends and distributions, respectively | 1,925,600 | 1,086,831 |
| Total decrease in net assets | (7,171,061) | (4,276,364) |
| NET ASSETS | | |
| Beginning of year | 61,365,377 | 65,641,741 |
| End of year | \$ 54,194,316 | \$ 61,365,377 |

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.

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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 | | |
|--------------------------------------------------------------------------------------------------------|---------------------|-----------|----------|
| | 2005 | 2004 | 2003 |
| PER SHARE OPERATING PERFORMANCE | | | |
| Net asset value, beginning of year | \$ 12.78 | \$ 13.89 | \$ 12.8 |
| Net investment income | 0.06# | 0.10# | 0.08 |
| Net realized and unrealized gain/(loss) on investments | 0.18 | 0.87 | 2.9 |
| Net increase/(decrease) in net assets resulting from operations | 0.24 | 0.97 | 2.9 |
| Dividends and distributions to shareholders: | | | |
| Net investment income | (0.06) | (0.10) | (0.0) |
| Return-of-capital | (2.05) | (2.01) | (1.9) |
| Total dividends and distributions to shareholders | (2.11) | (2.11) | (1.9) |
| 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 | \$ 10.91 | \$ 12.78 | \$ 13.8 |
| Market value, end of year | \$ 14.65 | \$ 17.95 | \$ 17.9 |
| Total investment return (a) | (2.07)% | 15.11% | 82.9 |
| RATIOS/SUPPLEMENTAL DATA | | | |
| Net assets, end of year (000 omitted) | \$ 54,194 | \$ 61,365 | \$ 65,64 |
| Ratio of expenses to average net assets, net of fee waivers, if any (b) | 1.47% | 1.41% | 1.2 |
| Ratio of expenses to average net assets, excluding fee waivers, if any (c) | 1.52% | 1.45% | 1.4 |
| Ratio of expenses to average net assets, net of fee waivers, if any (c) | 1.50% | 1.43% | 1.2 |
| Ratio of net investment income to average net assets | 0.53% | 0.75% | 0.6 |
| Portfolio turnover rate | 9.84% | 12.15% | 3.6 |

Based on average shares outstanding.

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

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- (b) Expenses are net of fees paid indirectly.
- (c) Expenses exclude the reduction for fees paid indirectly.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC. NOTES TO FINANCIAL STATEMENTS

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 total return consisting of capital appreciation with current income as a secondary objective. 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, 2005, the Fund held 0.74% 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 \$400,011. The net asset value per share of the Fund is calculated weekly and on the last business day of the month with the exception of those days on which the American Stock Exchange, LLC is closed.

REPURCHASE AGREEMENTS: The Fund has agreed to purchase securities from financial institutions subject to the seller's agreement to repurchase them at an

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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 could, however, expose the Fund to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

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

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

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

DISTRIBUTIONS OF INCOME AND GAINS: Effective January 2002, the Fund initiated a fixed, monthly distribution to shareholders. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, which will either be short-term or long-term capital gains or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund's investment portfolio. The Fund plans to maintain 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 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

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31, 2005, Cornerstone has agreed to waive its management fees from the Fund to the extent that monthly operating expenses exceed a rate of 0.125% of average net assets calculated monthly. For the year 2006, Cornerstone undertakes to waive its advisory fees to the extent that the Fund's net monthly operating expenses (including basic legal fees but excluding other legal expenses) exceed a specified rate of average net assets of 0.125%. For the year ended December 31, 2005, Cornerstone earned \$565,218 for investment management services, of which it waived \$7,882. 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 \$18,181 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$37,599 for the year ended December 31, 2005 for legal services to Blank Rome LLP ("Blank"), counsel to the Fund. Thomas R. Westle, partner of Blank, serves as secretary of the Fund.

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

NOTE C. INVESTMENT IN SECURITIES

For the year ended December 31, 2005, purchases and sales of securities, other than short-term investments, were \$5,567,358 and \$13,398,677, respectively.

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 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, 2005 was \$465,591. During the year ended December 31, 2005, the Fund earned \$10,801 in securities lending income that is included under the caption Interest 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 year ended December 31, for the Fund were as follows:

ORDINARY INCOME

RETURN-OF-CAPITAL

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| ----- | ----- | ----- | ----- |
|-----------|-----------|-------------|-------------|
| 2005 | 2004 | 2005 | 2004 |
| ---- | ---- | ---- | ---- |
| \$299,210 | \$462,154 | \$9,996,313 | \$9,584,964 |

At December 31, 2005, the components of distributable earnings on a tax basis, for the Fund were as follows:

| | |
|-------------------------------|----------------|
| Accumulated net realized loss | \$(15,372,623) |
| Unrealized appreciation | 650,068 |
| | ----- |
| Total accumulated deficit | \$(14,722,555) |
| | ===== |

Under current tax law, certain capital losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year ("Post-October losses"). For the tax period ended December 31, 2005, the Fund incurred and elected to defer \$110,397.

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

At December 31, 2005, 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 \$54,162,256, \$8,441,990, \$(7,791,922) and \$650,068, respectively.

At December 31, 2005, the Fund reclassified \$9,996,313 from distributions in excess of net investment income and \$25,673 from accumulated net realized loss to paid-in capital, to adjust for certain permanent book/tax differences. Net assets were not affected by this reclassification.

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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, 2005, and 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 four 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. The financial highlights for the year ended December 31, 2001 have been audited by other auditors, whose report dated February 8, 2002 expressed an unqualified opinion on such financial highlights.

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. We were not engaged to perform an audit of the Fund's internal control over financial

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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. Our procedures included confirmation of securities owned as of December 31, 2005 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2005, 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 four 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, 2006

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2005 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, 2005) 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 2005 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, 2005, the following dividends and distributions per share were paid by the Fund:

SOURCES OF DIVIDENDS AND DISTRIBUTIONS (PER SHARE AMOUNTS)

| PAYMENT DATES: | 1/31/05 ----- | 2/28/05 ----- | 3/31/05 ----- | 4/29/05 ----- | 5/31/05 ----- |
|----------------------|------------------|------------------|------------------|-------------------|-------------------|
| Ordinary Income(1) | \$ 0.0051 | \$ 0.0051 | \$ 0.0051 | \$ 0.0051 | \$ 0.0051 |
| Return-of-Capital(2) | \$ 0.1709 | \$ 0.1709 | \$ 0.1709 | \$ 0.1709 | \$ 0.1709 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 |
| | ===== | ===== | ===== | ===== | ===== |
| | | | | | |
| PAYMENT DATES: | 7/29/05 ----- | 8/31/05 ----- | 9/30/05 ----- | 10/31/05 ----- | 11/30/05 ----- |

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| | | | | | |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Ordinary Income(1) | \$ 0.0051 | \$ 0.0051 | \$ 0.0051 | \$ 0.0051 | \$ 0.0051 |
| Return-of-Capital(2) | \$ 0.1709 | \$ 0.1709 | \$ 0.1709 | \$ 0.1709 | \$ 0.1709 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 | \$ 0.1760 |
| | ===== | ===== | ===== | ===== | ===== |

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

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

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

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 (AGE) * | POSITION(S) HELD WITH FUND | PRINCIPAL OCCUPATION OVER LAST 5 YEARS | POSITION WITH FUND SINCE |
|--------------------------|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| ----- | | | |
| Ralph W. Bradshaw** (55) | Chairman of the Board of Directors and President | President, Cornerstone Advisors, Inc.; Financial Consultant; previous Director of The Austria Fund, Inc.; President and Director of Cornerstone Strategic Value Fund, Inc. | 2001 |
| William A. | Director and Vice | Director and Stockholder of | 2004 |

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| | | | |
|---------------------------------|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Clark** (60) | President | Cornerstone Advisors, Inc., former financial consultant of Deep Discount Advisors, Inc.; previous Director of The Austria Fund, Inc., Director of Cornerstone Strategic Value Fund, Inc. | |
| Glenn W. Wilcox, Sr. (74) | Director; Audit Committee Chairman, Nominating and Corporate Governance Committee Member | Chairman of the Board and Chief Executive Officer of Wilcox Travel Agency, Inc.; Director, Champion Industries, Inc.; Chairman of Tower Associates, Inc. (a real estate venture); Director of Wachovia Corp., WNC Regional Advisory Board; Director and Chairman of Audit Committee of Cornerstone Strategic Value Fund, Inc. | 2001 |
| Thomas H. Lenagh (83) | Director; Audit, Nominating and Corporate Governance Committee Member | Chairman of the Board of Photonics Products Group; Independent Financial Adviser; Director of The Adams Express Company and Petroleum and Resources Corporation; Director of Cornerstone Strategic Value Fund, Inc. | 2002 |
| Edwin Meese III (74) | Director; Audit, Nominating and Corporate Governance Committee Member | Distinguished Fellow, The Heritage Foundation, Washington D.C.; Distinguished Visiting Fellow at the Hoover Institution, Stanford University; Senior Adviser, Revelation L.P .; formerly U.S. Attorney General under President Ronald Reagan; Director of Carrington Laboratories Inc.; 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 (AGE) * | POSITION(S) HELD WITH FUND | PRINCIPAL OCCUPATION OVER LAST 5 YEARS | POSITION WITH FUN SINCE |
|--------------------------------|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Scott B. Rogers (50) | Director; Audit, Nominating and Corporate Governance Committee Member | Chief Executive Officer, Asheville Buncombe Community Christian Ministry; President, ABCCM Doctor's Medical Clinic; Appointee, NC Governor's Commission on Welfare to Work; Chairman and Director, Recycling Unlimited; Director of A-B Vision Board Interdenominational Ministerial Alliance, Faith Partnerships, Inc.; Director of Cornerstone Strategic Value Fund, Inc. | 2001 |
| Andrew A. | Director; | Attorney and senior member of Strauss | 2001 |

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| | | |
|-----------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strauss (52) | Chairman of Nominating and Corporate Governance Committees and Audit Committee Member | & 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 Memorial Mission Hospital Foundation, Deerfield Episcopal Retirement Community and Asheville Symphony; Director of Cornerstone Strategic Value Fund, Inc. |
|-----------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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

| NAME AND ADDRESS (AGE) * | POSITION(S) HELD WITH FUND | PRINCIPAL OCCUPATION OVER LAST 5 YEARS | P W S |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| ----- | ----- | ----- | ----- |
| Gary A. Bentz** (49) | Chief Compliance Officer | Chief Financial Officer, Chairman and Stockholder of Cornerstone Advisors, Inc.; previous Director of The Austria Fund, Inc., previous Director, Vice President and Treasurer of Cornerstone Strategic Value Fund, Inc.; Financial Consultant, Certified Public Accountant; Chief Compliance Officer of Cornerstone Strategic Value Fund, Inc. | 2 |
| Thomas R. Westle 405 Lexington Avenue New York, NY 10174 (52) | Secretary | Partner, Blank Rome LLP, a law firm; previous partner, Spitzer & Feldman P.C., a law firm. | 2 |
| Jodi B. Levine (36) | Treasurer | Associate Director, Bear Stearns & Co. Inc. | 2 |

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

** Designates a director who is an "interested person" of the Fund as defined by the Investment Company Act of 1940, as amended. Messrs. Bradshaw and Clark are interested persons of the Fund by virtue of their current positions with the Investment Manager of the Fund.

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DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED)

Shareholders who have Shares registered directly in their own names automatically participate in the Fund's Dividend Reinvestment Plan (the "Plan"), unless and until an election is made to withdraw from the Plan on behalf of such

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participating shareholders. Shareholders who do not wish to have distributions automatically reinvested should so notify American Stock Transfer & Trust Co. (the "Agent") at P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or call (877) 248-6416. 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 "Distribution" and collectively, "Distributions"), 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 American Stock Exchange, LLC or elsewhere, with cash allocated to it by the Fund ("Open Market Purchases").

Shares acquired by the Agent in Open Market Purchases will be allocated to the reinvesting shareholders based on the average cost of such Open Market Purchases. Alternatively, the Agent will allocate Newly Issued Shares to the reinvesting shareholders at the lower of (i) a price equal to the average closing price of the Fund over the five trading days preceding the payment date of such distribution or (ii) the net asset value of the Fund as last determined prior to such payment date.

Registered shareholders who acquire their shares through Open Market Purchases and who do not wish to have their Distributions automatically reinvested should so notify the Fund in writing. If a Shareholder has not elected to receive cash Distributions and the Agent does not receive notice of an election to receive cash Distributions prior to the record date of any 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 Distributions 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 Distributions other than their share of brokerage commissions as discussed below. The Agent's fees for administering the Plan and handling the reinvestment of Distributions will be paid by the Fund. Each participant's account will be charged a pro-rata share of brokerage commissions incurred with respect to the Agent's Open Market Purchases in connection with the reinvestment of Distributions.

DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED) (CONCLUDED)

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 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 Distributions will not relieve participants of any income tax that may be payable on such Distributions. 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 Distributions are subject to U.S. income tax withholding and in the case of participants subject to 28% federal backup withholding, the Agent will reinvest Distributions 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.

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:

- o by calling (212) 272-3550;
- o 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 1-800-SEC-0330.

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.

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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)

The Fund - 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 total return, consisting of capital appreciation and current income by investing primarily all of its assets in equity securities of U.S. and non-U.S. issuers whose securities trade on a U.S. securities exchange or over the counter or as American Depositary Receipts or other forms of depositary receipts which trade in the United States. 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.

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

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

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CORNERSTONE TOTAL RETURN FUND, INC.

=====

DIRECTORS AND CORPORATE OFFICERS

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

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

STOCK TRANSFER AGENT
AND REGISTRAR
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 REGISTERED
PUBLIC ACCOUNTING FIRM
Tait, Weller & Baker, LLP
1818 Market Street
Suite 2400
Philadelphia, PA 19103

CUSTODIAN
Custodial Trust Company
101 Carnegie Center
Princeton, NJ 08540

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

EXECUTIVE OFFICES
383 Madison Avenue
New York, NY 10179

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

[GRAPHIC]
AMERICAN
STOCK EXCHANGE (R)
LISTED
CRF

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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.

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, 2005 and December 31, 2004.

| | 2005 | 2004 |
|------------|----------|----------|
| | ---- | ---- |
| Audit Fees | \$12,300 | \$11,800 |
| Tax (1) | \$ 2,300 | \$ 2,200 |
| Other | -- | -- |
| | ----- | ----- |
| Total | \$14,600 | \$14,000 |
| | ===== | ===== |

(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

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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, 2004 and December 31, 2005).

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

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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

(b) Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

CORNERSTONE TOTAL RETURN FUND, INC.
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2005

| | NO. OF SHARES | VALUE |
|-----------------------------------------------|------------------|------------|
| | ----- | ----- |
| EQUITY SECURITIES - 99.89% | | |
| UNITED STATES - 99.15% | | |
| CLOSED-END DOMESTIC FUNDS - 8.97% | | |
| Adams Express Co. | 70,400 | \$ 883,520 |
| Boulder Total Return Fund, Inc. | 18,900 | 317,331 |
| Dreman/Claymore Dividend & Income Fund | 19,000 | 343,520 |
| General American Investors Company, Inc. | 2,500 | 86,350 |
| John Hancock Bank and Thrift Opportunity Fund | 28,100 | 262,173 |
| Tri-Continental Corp. | 112,500 | 2,090,250 |
| Zweig Fund, Inc. | 165,900 | 875,952 |
| | | ----- |
| | | 4,859,096 |
| | | ===== |
| CONSUMER DISCRETIONARY - 10.20% | | |
| Apollo Group, Inc., Class A + @ | 2,500 | 151,150 |
| Autonation, Inc. + | 2,500 | 54,325 |
| Bed Bath & Beyond Inc. + | 2,500 | 90,375 |
| Best Buy Co., Inc. @ | 3,750 | 163,050 |
| CCE Spinco, Inc. + ^^ | 337 | 4,415 |
| Clear Channel Communications, Inc. | 2,700 | 84,915 |

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| | | |
|------------------------------------------|--------|-----------|
| Coach Inc. + | 2,500 | 83,350 |
| Comcast Corp., Class A + | 6,008 | 155,968 |
| Comcast Corp., Special Class A + | 4,500 | 115,605 |
| D.R. Horton, Inc. | 2,500 | 89,325 |
| eBay, Inc. + | 7,000 | 302,750 |
| Ford Motor Company | 15,200 | 117,344 |
| Fortune Brands, Inc. | 2,500 | 195,050 |
| Goodyear Tire & Rubber Company (The) + @ | 2,500 | 43,450 |
| Harley-Davidson, Inc. @ | 2,500 | 128,725 |
| Hilton Hotels Corp. | 2,500 | 60,275 |
| Home Depot, Inc. (The) | 12,300 | 497,904 |
| J.C. Penney Company, Inc. | 2,500 | 139,000 |
| Kohl's Corp. + @ | 2,500 | 121,500 |
| Lowe's Companies, Inc. @ | 3,700 | 246,642 |
| Marriott International, Inc., Class A | 2,500 | 167,425 |
| Mattel, Inc. | 4,500 | 71,190 |
| McDonald's Corp. @ | 8,100 | 273,132 |
| McGraw-Hill Companies, Inc. (The) | 2,500 | 129,075 |
| Nordstrom, Inc. | 2,500 | 93,500 |
| Office Depot, Inc. + | 2,500 | 78,500 |
| Omnicom Group Inc. | 1,500 | 127,695 |
| Pulte Homes, Inc. | 2,500 | 98,400 |
| Staples, Inc. | 3,150 | 71,536 |
| Starbucks Corp. + | 5,000 | 150,050 |
| Target Corporation | 4,600 | 252,862 |
| Time Warner Inc. | 25,500 | 444,720 |
| Tribune Company | 2,500 | 75,650 |
| Univision Communications Inc., Class A + | 2,500 | 73,475 |
| Viacom Inc., non-voting Class B | 9,000 | 293,400 |
| Walt Disney Co. (The) | 11,700 | 280,449 |
| | | ----- |
| | | 5,526,177 |
| | | ===== |
| CONSUMER STAPLES - 9.05% | | |
| Albertson's, Inc. | 2,500 | 53,375 |
| Altria Group, Inc. | 10,700 | 799,504 |
| Campbell Soup Company | 5,700 | 169,689 |
| | | |
| Coca-Cola Co. (The) | 13,500 | 544,185 |
| Coca-Cola Enterprises Inc. | 2,500 | 47,925 |
| General Mills, Inc. | 2,500 | 123,300 |
| H.J. Heinz Co. | 2,700 | 91,044 |
| Kroger Co. (The) + | 3,600 | 67,968 |
| PepsiCo, Inc. | 7,500 | 443,100 |
| Procter & Gamble Co. (The) | 19,972 | 1,155,979 |
| Safeway Inc. | 4,900 | 115,934 |
| Sara Lee Corp. | 2,600 | 49,140 |
| Sysco Corp. | 3,500 | 108,675 |
| Walgreen Co. | 5,600 | 247,856 |
| Wal-Mart Stores, Inc. | 19,000 | 889,200 |
| | | ----- |
| | | 4,906,874 |
| | | ===== |
| ENERGY - 8.45% | | |
| Anadarko Petroleum Corp. | 2,500 | 236,875 |
| Baker Hughes Inc. @ | 2,500 | 151,950 |
| Burlington Resources, Inc. | 2,500 | 215,500 |
| ChevronTexaco Corp. | 6,568 | 372,865 |
| ConocoPhillips | 5,838 | 339,655 |
| Devon Energy Corporation | 2,500 | 156,350 |
| El Paso Corp. | 3,000 | 36,480 |

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|-----------------------------------------------|--------|------------|
| EOG Resources, Inc. | 2,500 | 183,425 |
| Exxon Mobil Corp. | 32,000 | 1,797,440 |
| Halliburton Co. | 2,500 | 154,900 |
| Occidental Petroleum Corp. | 2,500 | 199,700 |
| Peabody Energy Corp. @ | 2,500 | 206,050 |
| Schlumberger Ltd. | 2,500 | 242,875 |
| Transocean Inc. + | 2,500 | 174,225 |
| XTO Energy Inc. | 2,500 | 109,850 |
| | | ----- |
| | | 4,578,140 |
| | | ===== |
| FINANCIALS - 18.54% | | |
| AFLAC Inc. | 4,000 | 185,680 |
| American Express Company | 6,100 | 313,906 |
| American International Group, Inc. | 12,331 | 841,344 |
| Ameriprise Financial, Inc. | 1,220 | 50,020 |
| AmSouth Bancorporation | 2,500 | 65,525 |
| Bank of America Corp. | 15,740 | 726,401 |
| Bank of New York Co., Inc. (The) | 5,900 | 187,915 |
| BB&T Corporation | 4,500 | 188,595 |
| Charles Schwab Corporation (The) | 8,200 | 120,294 |
| Chubb Corp. | 2,500 | 244,125 |
| Cincinnati Financial Corporation | 2,500 | 111,700 |
| Citigroup Inc. | 25,600 | 1,242,368 |
| Countrywide Financial Corporation | 3,500 | 119,665 |
| Fannie Mae | 3,200 | 156,192 |
| Fifth Third Bancorp | 2,500 | 94,300 |
| Freddie Mac | 3,300 | 215,655 |
| Goldman Sachs Group, Inc. (The) | 3,000 | 383,130 |
| Hartford Financial Services Group, Inc. (The) | 1,600 | 137,424 |
| JPMorgan Chase & Co. | 12,700 | 504,063 |
| KeyCorp | 2,500 | 82,325 |
| Lehman Brothers Holding Inc. | 2,500 | 320,425 |
| M&T Bank Corporation | 2,500 | 272,625 |
| Marsh & McLennan Companies, Inc. @ | 4,600 | 146,096 |
| MBNA Corp. | 7,550 | 205,058 |
| Mellon Financial Corporation | 2,300 | 78,775 |
| Merrill Lynch & Co., Inc. | 1,100 | 74,503 |
| MetLife, Inc. | 6,000 | 294,000 |
| | | |
| Moody's Corporation | 2,000 | 122,840 |
| Morgan Stanley | 3,700 | 209,938 |
| North Fork Bancorporation, Inc. | 2,500 | 68,400 |
| Northern Trust Corp. @ | 1,100 | 57,002 |
| PNC Financial Services Group, Inc. | 1,400 | 86,562 |
| Prudential Financial, Inc. @ | 2,500 | 182,975 |
| SLM Corporation | 2,500 | 137,725 |
| St. Paul Travelers Companies, Inc. (The) | 5,092 | 227,460 |
| State Street Corp. | 1,600 | 88,704 |
| Synovus Financial Corp @ | 2,500 | 67,525 |
| U.S. Bancorp @ | 7,200 | 215,208 |
| Wachovia Corp. @ | 8,100 | 428,166 |
| Washington Mutual, Inc. | 5,251 | 228,418 |
| Wells Fargo & Co. | 9,000 | 565,470 |
| | | ----- |
| | | 10,048,502 |
| | | ===== |
| HEALTH CARE - 11.74% | | |
| Aetna Inc. | 2,000 | 188,620 |
| Amgen Inc. + | 8,300 | 654,538 |
| Becton, Dickinson & Co. | 2,500 | 150,200 |

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| | | |
|----------------------------------------------|--------|-----------|
| Biomet, Inc. | 2,500 | 91,425 |
| Bristol-Myers Squibb Co. @ | 9,600 | 220,608 |
| Caremark Rx, Inc. + | 2,500 | 129,475 |
| Eli Lilly & Co. | 4,100 | 232,019 |
| Genzyme Corporation + | 1,500 | 106,170 |
| Health Management Associates, Inc., Class A | 2,500 | 54,900 |
| Johnson & Johnson | 15,500 | 931,550 |
| Laboratory Corporation of America Holdings + | 2,500 | 134,625 |
| McKesson Corp. | 2,500 | 128,975 |
| Medco Health Solutions, Inc. + | 1,531 | 85,430 |
| Medtronic, Inc. | 7,100 | 408,747 |
| Merck & Co. Inc. | 8,700 | 276,747 |
| PerkinElmer, Inc. | 1,500 | 35,340 |
| Pfizer Inc. @ | 37,460 | 873,567 |
| Schering-Plough Corp. | 8,400 | 175,140 |
| St. Jude Medical, Inc. + | 2,500 | 125,500 |
| Stryker Corporation | 2,000 | 88,860 |
| Tenet Healthcare Corp. + | 5,000 | 38,300 |
| United Health Group Inc. | 10,000 | 621,400 |
| Waters Corporation + @ | 2,500 | 94,500 |
| Wyeth | 7,500 | 345,525 |
| Zimmer Holdings, Inc. + | 2,500 | 168,600 |
| | | ----- |
| | | 6,360,761 |
| | | ===== |
| INDUSTRIALS - 9.95% | | |
| 3M Co. | 2,500 | 193,750 |
| Boeing Company (The) | 3,900 | 273,936 |
| Burlington Northern Sante Fe Corporation | 2,000 | 141,640 |
| Caterpillar Inc. | 5,000 | 288,850 |
| CSX Corp. | 2,500 | 126,925 |
| Danaher Corp. @ | 2,500 | 139,450 |
| Dover Corporation | 1,000 | 40,490 |
| Emerson Electric Co. | 2,000 | 149,400 |
| FedEx Corp. | 2,500 | 258,475 |
| General Dynamics Corp. | 2,500 | 285,125 |
| General Electric Co. | 52,000 | 1,822,600 |
| Honeywell International Inc. | 3,300 | 122,925 |
| Illinois Tool Works Inc. | 2,500 | 219,975 |
| Lockheed Martin Corp. | 2,500 | 159,075 |
| | | |
| Norfolk Southern Corporation | 2,500 | 112,075 |
| Raytheon Company | 2,500 | 100,375 |
| Rockwell Automation, Inc. | 2,500 | 147,900 |
| Southwest Airlines Co. | 6,100 | 100,223 |
| United Parcel Service, Inc., Class B | 4,000 | 300,600 |
| United Technologies Corp. | 4,400 | 246,004 |
| Waste Management, Inc. | 5,300 | 160,855 |
| | | ----- |
| | | 5,390,648 |
| | | ===== |
| INFORMATION TECHNOLOGY - 14.15% | | |
| Adobe Systems Inc. | 2,500 | 92,400 |
| Agilent Technologies, Inc. + | 5,000 | 166,450 |
| Apple Computer, Inc. + | 5,000 | 359,450 |
| Applied Materials, Inc. | 8,000 | 143,520 |
| Autodesk, Inc. | 2,500 | 107,375 |
| Cisco Systems, Inc. + | 35,000 | 599,200 |
| Corning Inc. + | 7,500 | 147,450 |
| Dell Inc. + | 13,700 | 410,863 |
| Electronic Data Systems Corp. | 7,500 | 180,300 |

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| | | |
|-------------------------------------------|--------|------------|
| EMC Corp. + | 8,000 | 108,960 |
| First Data Corporation | 4,325 | 186,018 |
| Fiserv, Inc. + | 2,500 | 108,175 |
| Freescale Semiconductor Inc., Class B + | 1,777 | 44,727 |
| Hewlett-Packard Co. | 13,342 | 381,981 |
| Intel Corp. | 32,000 | 798,720 |
| International Business Machines Corp. | 5,700 | 468,540 |
| Jabil Circuit, Inc. + | 2,500 | 92,725 |
| Lucent Technologies Inc. + | 15,000 | 39,900 |
| Maxim Integrated Products, Inc. | 2,500 | 90,600 |
| Microsoft Corp. | 48,000 | 1,255,200 |
| Motorola, Inc. | 16,100 | 363,699 |
| Network Appliance, Inc. + | 2,500 | 67,500 |
| Oracle Corp. + | 33,600 | 410,256 |
| Paychex, Inc. | 2,500 | 95,300 |
| QUALCOMM Inc. @ | 4,300 | 185,244 |
| Texas Instruments Inc. @ | 13,500 | 432,945 |
| Yahoo! Inc. + | 8,500 | 333,030 |
| | | ----- |
| | | 7,670,528 |
| | | ===== |
| MATERIALS - 2.44% | | |
| Air Products & Chemicals, Inc. | 2,500 | 147,975 |
| Dow Chemical Co. (The) | 4,700 | 205,954 |
| E.I. du Pont de Nemours & Co. | 5,800 | 246,500 |
| International Paper Co. | 4,800 | 161,328 |
| Monsanto Co. | 1,773 | 137,461 |
| Newmont Mining Corporation | 2,500 | 133,500 |
| Nucor Corp. | 2,500 | 166,800 |
| Rohm & Haas Co. | 2,500 | 121,050 |
| | | ----- |
| | | 1,320,568 |
| | | ===== |
| REAL ESTATE INVESTMENT TRUSTS - 0.35% | | |
| Simon Property Group, Inc. | 2,500 | 191,575 |
| | | ===== |
| TELECOMMUNICATIONS SERVICES - 2.52% | | |
| AT&T Inc. | 24,699 | 604,879 |
| BellSouth Corporation @ | 5,200 | 140,920 |
| Sprint Corp. | 7,437 | 173,728 |
| Verizon Communications Inc. @ | 14,900 | 448,788 |
| | | ----- |
| | | 1,368,315 |
| | | ===== |
| UTILITIES - 2.79% | | |
| AES Corporation + | 3,000 | 47,490 |
| American Electric Power Co., Inc. | 5,500 | 203,995 |
| CenterPoint Energy, Inc. @ | 5,700 | 73,245 |
| Duke Energy Corp. | 6,600 | 181,170 |
| Edison International | 2,500 | 109,025 |
| Exelon Corp. | 2,500 | 132,850 |
| Scottish Power plc, ADR | 4,000 | 149,520 |
| Southern Co. (The) | 2,500 | 86,325 |
| TXU Corp. @ | 7,400 | 371,406 |
| Williams Companies, Inc. (The) | 2,500 | 57,925 |
| Xcel Energy, Inc. @ | 5,500 | 101,530 |
| | | ----- |
| | | 1,514,481 |
| | | ===== |
| TOTAL UNITED STATES (cost - \$52,539,112) | | 53,735,665 |

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| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------|
| | | ===== |
| CZECH REPUBLIC - 0.74% | | |
| CONSUMER DISCRETIONARY - 0.74% | | |
| Bonton a.s + # | 137,180 | 7,818 |
| Bonton Book a.s + # | 68,590 | 62,877 |
| Bonton Film Entertainment a.s. + # | 68,590 | 229,892 |
| Bonton Music a.s. + # | 68,590 | 60,126 |
| Bonton Pictures a.s. + # | 68,590 | 39,298 |
| | | ----- |
| | | 400,011 |
| | | ===== |
| TOTAL CZECH REPUBLIC (cost -\$894,867) | | 400,011 |
| | | ----- |
| TOTAL EQUITY SECURITIES (cost - \$53,433,979) | | 54,135,676 |
| | | ===== |
| SHORT-TERM INVESTMENTS - 1.25% | PRINCIPAL | |
| | AMOUNT | |
| REPURCHASE AGREEMENTS - 1.25% | (000'S) | |
| | ----- | |
| Bear, Stearns & Co. Inc. * ** (Agreement dated 12/30/05 to be repurchased at \$246,155), 2%, 01/03/06, collateralized by \$255,261 in U.S. Treasury Bonds | \$246 | 246,114 |
| Bear, Stearns & Co. Inc. * ** (Agreement dated 12/30/05 to be repurchased at \$225,150), 4%, 01/03/06, collateralized by \$232,055 in U.S. Treasury Bonds | 225 | 225,075 |
| Bear, Stearns & Co. Inc. (Agreement dated 12/30/05 to be repurchased at \$205,513), 3.2%, 01/03/06, collateralized by \$213,491 in U.S. Treasury Bonds | 205 | 205,459 |
| | | ----- |
| TOTAL SHORT-TERM INVESTMENTS (cost - \$676,648) | | 676,648 |
| | | ===== |
| TOTAL INVESTMENTS - 101.14% | | |
| (cost - \$54,110,627) | | 54,812,324 |
| LIABILITIES IN EXCESS OF OTHER ASSETS - (1.14)% | | (618,008) |
| | | ----- |
| NET ASSETS - 100% | | \$54,194,316 |
| | | ===== |

+ Non-income producing

@ Security or a portion thereof is out on loan

^^ Effective January 9, 2006, CCE Spinco, Inc. changed its name to Live Nation, Inc.

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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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, 2005, and 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 four 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. The financial highlights for the year ended December 31, 2001 have been audited by other auditors, whose report dated February 8, 2002 expressed an unqualified opinion on such financial highlights.

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. We were not 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. Our procedures included confirmation of securities owned as of December 31, 2005 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2005, 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 four 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, 2005 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, 2006

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

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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. 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.

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

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

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

(a) (2) (iv) None.

(a) (3) As of the most recent fiscal year end December 31, 2005, 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.

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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.

By: /s/ Ralph W. Bradshaw

Name: Ralph W. Bradshaw
Title: Principal Executive Officer
Date: March 10, 2006

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

Cornerstone Total Return Fund, Inc.

By: /s/ Ralph W. Bradshaw

Name: Ralph W. Bradshaw
Title: Principal Executive Officer
Date: March 10, 2006

By: /s/ Jodi B. Levine

Name: Jodi B. Levine
Title: Principal Financial Officer
Date: March 10, 2006