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CORNERSTONE TOTAL RETURN FUND INC  
Form N-CSR  
March 06, 2009

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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)

305 Madison Avenue, New York, New York

10165

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

(Zip code)

Gary A. Bentz  
305 Madison Avenue, New York, New York 10165

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(Name and address of agent for service)

Registrant's telephone number, including area code: (513) 326-3597

Date of fiscal year end: December 31, 2008

Date of reporting period: December 31, 2008

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

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

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ITEM 1. REPORTS TO STOCKHOLDERS.

The report of Cornerstone Total Return Fund, Inc. (the "Registrant") to stockholders for the year ended December 31, 2008 follows.

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## CORNERSTONE TOTAL RETURN FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2008

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CORNERSTONE TOTAL RETURN FUND, INC.  
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2008 (UNAUDITED)  
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#### SECTOR ALLOCATION

Sector	Percent of Net Assets
Information Technology	13.9
Healthcare	13.0
Consumer Staples	12.3

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Energy	12.1
Financials	10.9
Industrials	10.0
Closed-End Funds	9.6
Consumer Discretionary	7.6
Telecommunication Services	3.5
Utilities	3.5
Materials	2.1
Other	1.5

TOP TEN HOLDINGS, BY ISSUER

Holding	Sector	Percent of Net Assets
1. Exxon Mobil Corporation	Energy	5.6
2. Johnson & Johnson	Healthcare	3.8
3. Wal-Mart Stores, Inc.	Consumer Staples	3.3
4. Adams Express Company	Closed-End Funds	2.7
5. JPMorgan Chase & Co.	Financials	2.7
6. General Electric Company	Industrials	2.6
7. Procter & Gamble Company (The)	Consumer Staples	2.4
8. AT&T Inc.	Telecommunication Services	2.3
9. Microsoft Corporation	Information Technology	2.0
10. Oracle Corporation	Information Technology	2.0

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CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2008

Description	No. of Shares	Value
-------------	---------------	-------

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-----		
EQUITY SECURITIES - 99.12%		
CLOSED-END FUNDS - 9.59%		
Adams Express Company (a)	73,000	\$ 586,190
H&Q Healthcare Investors	14,400	159,408
Liberty All-Star Growth Fund, Inc.	76,075	197,795
Zweig Total Return Fund, Inc. (The)	85,000	244,800
Other Closed-End Funds (a) (b)		874,160
		-----
		2,062,353
		-----
CONSUMER DISCRETIONARY - 7.62%		
Comcast Corporation, Class A	9,012	152,123
McDonald's Corporation	3,100	192,789
Walt Disney Company (The)	8,000	181,520
Other Consumer Discretionary ^ (b)		1,113,135
		-----
		1,639,567
		-----
CONSUMER STAPLES - 12.29%		
Coca-Cola Company (The)	5,000	226,350
Kraft Foods Inc, Class A	5,328	143,057
PepsiCo, Inc.	3,000	164,310
Philip Morris International Inc.	5,700	248,007
Procter & Gamble Company (The)	8,472	523,739
Wal-Mart Stores, Inc.	12,500	700,750
Other Consumer Staples (b)		637,697
		-----
		2,643,910
		-----
ENERGY - 12.10%		
Chevron Corporation	5,068	374,880
Devon Energy Corporation	2,500	164,275
Exxon Mobil Corporation	15,000	1,197,450
Occidental Petroleum Corp.	2,500	149,975
Schlumberger Limited	5,000	211,650
Other Energy ^ (b)		503,139
		-----
		2,601,369
		-----
FINANCIALS - 10.95%		
Bank of America Corporation	10,521	148,136
JPMorgan Chase & Co.	18,200	573,846
Travelers Companies, Inc (The)	3,092	139,758
	No. of	
Description	Shares	Value
-----		
FINANCIALS (CONTINUED)		
Wells Fargo & Company	14,000	\$ 412,720
Other Financials ^ (b)		1,079,306
		-----

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		2,353,766
		-----
HEALTHCARE - 12.98%		
Abbott Laboratories	3,000	160,110
Amgen Inc. *	3,000	173,250
Celgene Corporation *	2,500	138,200
Gilead Sciences, Inc. *	3,000	153,420
Johnson & Johnson	13,500	807,705
Medtronic, Inc.	4,500	141,390
Merck & Co. Inc.	5,000	152,000
Pfizer Inc.	12,000	212,520
Other Healthcare (b)		852,951
		-----
		2,791,546
		-----
INDUSTRIALS - 9.97%		
CSX Corporation	5,000	162,350
Danaher Corporation	2,500	141,525
General Dynamics Corporation	2,500	143,975
General Electric Company	34,000	550,800
Lockheed Martin Corporation	2,500	210,200
United Parcel Service, Inc., Class B	4,000	220,640
United Technologies Corporation	4,400	235,840
Other Industrials ^(b)		478,204
		-----
		2,143,534
		-----
INFORMATION TECHNOLOGY - 13.91%		
Apple, Inc. *	2,000	170,700
Cisco Systems, Inc. *	13,000	211,900
Google Inc. *	1,000	307,650
Hewlett-Packard Company	5,000	181,450
Intel Corporation	16,000	234,560
International Business Machines Corporation	4,200	353,472
Microsoft Corporation	22,500	437,400
Oracle Corporation *	23,600	418,428
QUALCOMM Inc.	3,800	136,154
Other Information Technology (b)		540,390
		-----
		2,992,104
		-----

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See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2008 (CONTINUED)  
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Description	No. of Shares	Value
		-----
MATERIALS - 2.10%		
Monsanto Company	2,000	\$ 140,700
Other Materials (b)		310,430

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		-----
		451,130
		-----
REAL ESTATE INVESTMENT TRUST - 0.62%		
Total Real Estate		
Investment Trust (b)	2,500	132,825
		-----
TELECOMMUNICATION SERVICES - 3.51%		
AT&T Inc.	17,589	501,286
Verizon Communications Inc.	7,500	254,250
		-----
		755,536
		-----
UTILITIES - 3.48%		
American Electric Power Company, Inc.	5,500	183,040
Other Utilities (b)		564,476
		-----
		747,516
		-----
TOTAL EQUITY SECURITIES		
(cost - \$25,749,449)		21,315,156
		-----
SHORT-TERM INVESTMENTS - 2.62%		
MONEY MARKET SECURITY - 1.07%		
JPMorgan U.S. Government Money Market Fund	230,040	230,040
		-----
	Principal	
	Amount	
	(000's)	Value
-----	-----	-----
REPURCHASE AGREEMENTS - 1.55%		
J.P. Morgan Securities Inc.+ (Agreements dated 12/31/2008 to be repurchased at \$334,257) (c)	\$ 334	\$ 334,257
		-----
TOTAL SHORT-TERM INVESTMENTS		
(cost - \$564,297)		564,297
		-----
TOTAL INVESTMENTS - 101.74%		
(cost - \$26,313,746)		21,879,453
		-----
LIABILITIES IN EXCESS OF OTHER ASSETS - (1.74)%		(374,833)
		-----
NET ASSETS - 100.00%		\$ 21,504,620
		=====

\* Non-income producing security.

^ Security or a portion thereof is out on loan.

+ Includes 330,839 of investments purchased with collateral received for securities on loan.

(a) Affiliated investment. The Fund holds 2.73% and 0.27% (based on net

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assets) of Adams Express Company and Petroleum & Resources Corporation, respectively. A director of the Fund also serves as a director to such companies. During the year ended December 31, 2008, 13,600 and 11,000 shares of Adams Express Company were purchased and sold, respectively. There were no purchases or sales of Petroleum & Resources Corp.

- (b) Represents issuers 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, 2008.
- (c) At December 31, 2008, the maturity date for all repurchase agreements held was January 2, 2009, with interest rates ranging from 0.01% to 0.04% and collateralized by \$350,786 in United States Treasury Notes maturing December 31, 2010.

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See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2008

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ASSETS

Investments, at value, including collateral for securities on loan of \$330,839:	
Unaffiliated issuers (cost - 25,346,336) (1)	\$ 21,235,093
Affiliated issuers (cost - 967,410)	644,360
	-----
Total investments (cost - 26,313,746)	21,879,453
Receivables:	
Investments sold	568,567
Dividends	56,507
Foreign reclaims	18,024
Interest	367
Prepaid expenses	996
	-----
Total Assets	22,523,914
	-----

LIABILITIES

Payables:	
Due to custodian	605
Investments purchased	603,992
Upon return of securities loaned	330,839
Directors' fees	17,738
Investment management fees (net of fee waivers)	7,792
Other accrued expenses	58,328
	-----
Total Liabilities	1,019,294
	-----

NET ASSETS (applicable to 2,773,704 shares of common stock outstanding)	\$ 21,504,620
	=====

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NET ASSET VALUE PER SHARE (\$21,504,620 / 2,773,704)	\$ 7.75 =====
NET ASSETS CONSISTS OF	
Capital stock, \$0.01 par value; 2,773,704 shares issued and outstanding (15,000,000 shares authorized)	\$ 27,737
Paid-in capital	30,989,471
Accumulated net realized loss on investments and foreign currency related transactions	(5,079,743)
Net unrealized appreciation in value of investments and translation of foreign currency	(4,432,845) -----
Net assets applicable to shares outstanding	\$ 21,504,620 =====

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(1) Includes securities out on loan to brokers with a market value of \$329,055.

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See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2008  
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INVESTMENT INCOME

Income:

Dividends (including \$33,536 earned from affiliated issuers)	\$ 885,768
Interest	7,407
Securities lending	9,922 -----
Total Investment Income	903,097 -----

Expenses:

Investment management fees	339,439
Legal and audit fees	69,399
Directors' fees	59,580
Administration fees	50,216
Printing	38,736
Accounting fees	29,590
Transfer agent fees	27,437
Reverse split fees	21,250
Custodian fees	12,001
Insurance	4,801
Stock exchange listing fees	3,436
Miscellaneous	3,000 -----
Total Expenses	658,885
Less: Management fee waivers	(57,412)
Less: Fees paid indirectly	(33,039)



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Net Expenses	568,434
Net Investment Income	334,663
NET REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND	
FOREIGN CURRENCY RELATED TRANSACTIONS	
Net realized loss from investments (including \$5,421 of net realized losses from affiliated issuers)	(2,348,430)
Capital gain distributions from regulated investment companies and real estate investment trust	40,178
Net change in unrealized appreciation in value of investments and translation of foreign currency	(12,967,513)
Net realized and unrealized loss on investments and foreign currency related transactions	(15,275,765)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (14,941,102)

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,	
	2008	2007
DECREASE IN NET ASSETS		
Operations:		
Net investment income	\$ 334,663	\$ 365,280
Net realized gain/(loss) from investments and foreign currency related transactions	(2,348,430)	31,410
Capital gain distributions from regulated investment companies and real estate investment trust	40,178	116,980
Net change in unrealized appreciation in value of investments and translation of foreign currency	(12,967,513)	1,514,360
Net increase/(decrease) in net assets resulting from operations	(14,941,102)	2,028,040
Dividends and distributions to shareholders:		
Net investment income	(334,663)	(363,460)
Net realized capital gains	--	(150,210)
Return-of-capital	(10,218,473)	(10,698,030)
Total dividends and distributions to shareholders	(10,553,136)	(11,211,710)

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Capital stock transactions:\*

Cash in lieu of 77 fractional shares from the reverse stock split	(542)	--
Proceeds from 102,212, and 87,632 shares newly issued in reinvestment of dividends and distributions, respectively	1,588,319	2,215,52
	-----	-----
Total capital stock transactions	1,587,777	2,215,52
	-----	-----
Total decrease in net assets	(23,906,461)	(6,968,14
	-----	-----

NET ASSETS

Beginning of year	45,411,081	52,379,23
	-----	-----
End of year	\$ 21,504,620	\$ 45,411,08
	=====	=====

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 \* Shares are adjusted for the one-for-two reverse stock split that was effective December 23, 2008.

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 See accompanying notes to financial statements.

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 CORNERSTONE TOTAL RETURN FUND, INC.  
 FINANCIAL HIGHLIGHTS\*

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 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.  
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	For the Years Ended Dec		
	2008	2007	2006
	----	----	----
PER SHARE OPERATING PERFORMANCE			
Net asset value, beginning of year	\$ 17.00	\$ 20.28	\$ 21.82
	-----	-----	-----
Net investment income #	0.12	0.14	0.18
Net realized and unrealized gain/(loss) on investments and foreign currency related transactions	(5.64)	0.64	2.50
	-----	-----	-----
Net increase/(decrease) in net assets resulting from operations	(5.52)	0.78	2.68
	-----	-----	-----
Dividends and distributions to shareholders:			
Net investment income	(0.12)	(0.14)	(0.18)

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Net realized capital gains	--	(0.06)	--
Return-of-capital	(3.77)	(4.08)	(4.04)
	-----	-----	-----
Total dividends and distributions to shareholders	(3.89)	(4.28)	(4.22)
	-----	-----	-----
Capital stock transactions:			
Anti-dilutive effect due to shares issued in reinvestment of dividends and distributions	0.16	0.22	--
	-----	-----	-----
Net asset value, end of year	\$ 7.75	\$ 17.00	\$ 20.28
	=====	=====	=====
Market value, end of year	\$ 7.60	\$ 19.60	\$ 39.24
	=====	=====	=====
Total investment return (a)	(49.30)%	(40.97)%	64.15%
	=====	=====	=====
RATIOS/SUPPLEMENTAL DATA			
Net assets, end of year (000 omitted)	\$ 21,505	\$ 45,411	\$ 52,379
Ratio of expenses to average net assets, net of fee waivers, if any (b)	1.67%	1.49%	1.44%
Ratio of expenses to average net assets, excluding fee waivers, if any (c)	1.94%	1.53%	1.50%
Ratio of expenses to average net assets, net of fee waivers, if any (c)	1.77%	1.52%	1.50%
Ratio of net investment income to average net assets	0.98%	0.74%	0.82%
Portfolio turnover rate	15.61%	11.00%	11.29%

\* Per share amounts prior to December 23, 2008 have been restated to reflect a one-for-two reverse stock split.

# 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.

(b) Expenses are net of fees paid indirectly.

(c) Expenses exclude the reduction for fees paid indirectly.

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See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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NOTE A. ORGANIZATION

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

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## NOTE B. SIGNIFICANT ACCOUNTING POLICIES

**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. Readily marketable portfolio securities listed on the NYSE are valued, except as indicated below, at the last sale price reflected on the consolidated tape at the close of the NYSE on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day. If no bid or asked prices are quoted on such day or if market prices may be unreliable because of events occurring after the close of trading, then the security is valued by such method as the Board of Directors shall determine in good faith to reflect its fair market value. Readily marketable securities not listed on the NYSE but listed on other domestic or foreign securities exchanges are valued in a like manner. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the consolidated tape at the close of the exchange representing the principal market for such securities. Securities trading on the Nasdaq Stock Market, Inc. ("NASDAQ") are valued at the closing price.

Readily marketable securities traded in the over-the counter market, including listed securities whose primary market is believed by Cornerstone Advisors, Inc. (the "Investment Adviser" or "Cornerstone") to be over-the-counter, are valued at the mean of the current bid and asked prices as reported by the NASDAQ or, in the case of securities not reported by the NASDAQ or a comparable source, as the Board of Directors deem appropriate to reflect their fair market value. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the Board of Directors believes reflect most closely the value of such securities.

At December 31, 2008, the Fund held no securities valued in good faith by the Board of Directors. The net asset value per share of the Fund is calculated weekly and on the last business day of the month with the exception of those days on which the NYSE Alternext US LLC is closed.

On March 19, 2008, Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative instruments and Hedging Activities" ("FAS 161"). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. At this time, management is evaluating the implications of FAS 161 and its impact on the financial statements is not expected to be material.

**REPURCHASE AGREEMENTS:** The Fund has agreed to purchase securities from financial institutions subject to the seller's agreement to repurchase them at an agreed-upon time and price ("repurchase agreements"). The financial institutions with whom the Fund enters into repurchase agreements are

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

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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 the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Fund to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

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

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

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), an interpretation of FASB Statement No. 109. FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more likely than not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is effective during the first required financial reporting period for fiscal years beginning after December 15, 2006. Management adopted FIN 48 on June 29, 2007 and reviewed any uncertain tax positions for open tax years 2005 through 2008. The Fund has initiated discussions with the Internal Revenue Service's New York Regional Office regarding a technical tax issue relating to whether the Fund's historic dividend reinvestment plan may have resulted in a violation of certain Subchapter M requirements of the Internal Revenue Code for certain prior tax years. The outcome of this matter is currently uncertain including, whether ultimately it might negatively affect the tax status of the Fund. The Fund will continue to monitor this matter closely and is pursuing a potential resolution with the Internal Revenue Service by seeking to obtain a closing letter that, if successful, will avoid a material negative tax impact to the Fund. There was no material impact to the financial statements or, other than as described herein, the disclosures thereto as a result of the adoption of this pronouncement.

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

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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-

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

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 C. FAIR VALUE

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

- o Level 1 - quoted prices in active markets for identical investments
- o Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- o Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

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The inputs or methodology used in valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Fund's investments carried at value:

VALUATION INPUTS	INVESTMENTS IN SECURITIES	OTHER FINANCIAL INSTRUMENTS*
Level 1 - Quoted Prices	\$21,315,156	--
Level 2 - Other Significant Observable Inputs	564,297	--
Level 3 - Significant Unobservable Inputs	--	--
Total	<u>\$21,879,453</u>	<u>--</u>

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

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 December 31, 2008.

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CORNERSTONE TOTAL RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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### NOTE D. AGREEMENTS

Cornerstone serves as the Fund's Investment Manager with respect to all investments. As compensation for its investment management services, Cornerstone receives from the Fund, an annual fee, calculated weekly and paid monthly, equal to 1.00% of the Fund's average weekly net assets. During the year ended December 31, 2008, Cornerstone voluntarily agreed to waive its management fees from the Fund to the extent that the Fund's net monthly operating expenses (including basic legal fees but excluding other legal and extraordinary expenses) exceed a rate of 0.125% of average net assets. For the year ended December 31, 2008, Cornerstone earned \$339,439 for investment management services, of which it waived \$57,412. 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 \$33,039 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$52,492 for the year ended December 31, 2008 for legal services to Blank Rome LLP ("Blank"), counsel to the Fund. Thomas R. Westle, partner of Blank, served as Secretary of the Fund until February 15, 2008.

### NOTE E. AFFILIATED INVESTMENTS

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Transactions in affiliates for the yearended December 31, 2008 were as follows:

	ADAMS EXPRESS COMPANY -----	PETROLEUM & RESOURCES CORPORATION -----
Market value at beginning of year	\$ 994,048 =====	\$ 115,980 =====
Shares at beginning of year	70,400	3,000
Shares purchased during the year	13,600	--
Shares sold during the year	(11,000) -----	-- -----
Shares at end of year	73,000 =====	3,000 =====
Dividend income earned during the year	32,396 =====	1,140 =====
Cost of purchases during the year	106,632	--
Proceeds from sales during the year	132,089	--
Net realized loss during the year	(5,421)	--
Market value at end of year	\$ 586,190 =====	\$ 58,170 =====

### NOTE F. INVESTMENT IN SECURITIES

For the year ended December 31, 2008, purchases and sales of securities, other than short-term investments, were \$5,346,260 and \$13,912,833 respectively.

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

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### NOTE G. SHARES OF COMMON STOCK

The Fund has 15,000,000 shares of common stock authorized and 2,773,704 shares outstanding at December 31, 2008. As of that date, three individuals that control Cornerstone owned 10,955 shares in the Fund.

Transactions in common stock for the year ended December 31, 2008 were as follows+:

Shares at beginning of year	2,671,569
Shares newly issued in reinvestment of dividends and distributions	102,212
Shares paid in cash in	



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lieu of fractional shares from the reverse stock split	(77)
	-----
Shares at end of year	2,773,704
	=====

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+ Share amounts reflect the one-for-two reverse stock split that was effective December 23, 2008.

NOTE H. SHARE REPURCHASE PROGRAM

As has been done in the past to enhance shareholder value, pursuant to Section 23 of the Investment Company Act of 1940, as amended, the Fund may again in the future purchase shares of its common stock on the open market from time to time, at such times, and in such amounts as may be deemed advantageous to the Fund. Nothing herein shall be considered a commitment to purchase such shares. The Fund had no repurchases during the year ended December 31, 2008. No limit has been placed on the number of shares to be repurchased by the Fund other than those imposed by federal securities laws.

To the extent such purchases are made they will be in accordance with federal securities laws, with shares repurchased held in treasury for future use by the Fund.

NOTE I. SECURITIES LENDING

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

The value of securities on loan to brokers at December 31, 2008, was \$329,055. During the year ended December 31, 2008, the Fund earned \$9,922 in securities lending income which is included under the caption SECURITIES LENDING in the Statement of Operations.

NOTE J. 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.

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## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

ORDINARY INCOME		RETURN-OF-CAPITAL	
2008	2007	2008	2007
----	----	----	----
\$ 334,663	\$513,683	\$10,218,473	\$10,698,032

At December 31, 2008 the components of the accumulated deficit on a tax basis, for the Fund were as follows:

Accumulated net realized loss	\$(4,814,930)
Other accumulated losses	(246,727)
Net unrealized depreciation	(4,450,931)
	-----
Total accumulated deficit	\$(9,512,588)
	=====

Accounting principles generally accepted in the United States of America require that certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. For the year ended December 31, 2008, the Fund decreased net realized loss by \$12,449,240 and decreased paid-in-capital by \$12,449,240. 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, 2008, the Fund incurred Post-October losses in the amount of \$246,727.

At December 31, 2008, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$4,814,930, of which \$1,170,157 expires in 2009, \$425,706 expires in 2011, \$358,321 expires in 2012, \$420,772 expires in 2013, \$57,090 expires in 2014, and \$2,382,884 expires in 2016.

At December 31, 2008, 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 \$26,331,832, \$2,156,460, \$(6,608,839), and \$(4,452,379), respectively.

### NOTE K. SUBSEQUENT EVENTS

Effective February 13, 2009, Kayadti A. Madison resigned as Treasurer. Effective that same day Gary A. Bentz was appointed as Assistant Treasurer.

Effective February 28, 2009, Ultimus Fund Solutions, LLC replaced Bear Stearns Funds Management Inc. as Fund Administrator.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors



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3,698,538

992,559

52,716

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2008 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, 2008) 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. The \$10,553,156 in dividend and distributions paid to shareholders in respect of such year, is represented by \$334,663 of ordinary income, and \$10,218,473 of return-of-capital.

As indicated in this notice, significant portions of the Fund's distributions for 2008 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, 2008 the following dividends and distributions per share were paid by the Fund:

SOURCES OF DIVIDENDS AND DISTRIBUTIONS (PER SHARE AMOUNTS)+						
PAYMENT DATES:	1/31/08	2/29/08	3/31/08	4/30/08	5/30/08	6/30/08
Ordinary Income(1)	\$ 0.0051	\$ 0.0051	\$ 0.0051	\$ 0.0051	\$ 0.0051	\$ 0.0051
Return-of-Capital(2)	0.1571	0.1571	0.1571	0.1571	0.1571	0.1571
Total:	\$ 0.1622	\$ 0.1622	\$ 0.1622	\$ 0.1622	\$ 0.1622	\$ 0.1622
-----						
PAYMENT DATES:	7/31/08	8/29/08	9/30/08	10/31/08	11/28/08	12/31/08
Ordinary Income(1)	\$ 0.0051	\$ 0.0051	\$ 0.0051	\$ 0.0051	\$ 0.0051	\$ 0.0051
Return-of-Capital(2)	0.1571	0.1571	0.1571	0.1571	0.1571	0.1571
Total:	\$ 0.1622	\$ 0.1622	\$ 0.1622	\$ 0.1622	\$ 0.1622	\$ 0.1622
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+ Per share amounts do not reflect the one-for-two reverse stock split

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that was effective December 23, 2008.

- (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. This 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 (100%) of its 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. They will generally not be entitled to foreign tax credit or deduction for the withholding taxes paid by the Fund.

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

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

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

NAME AND ADDRESS* (BIRTH DATE)	POSITION(S) HELD WITH FUND	PRINCIPAL OCCUPATION OVER LAST 5 YEARS	POSITION WITH FUND SINCE	NUM POR FUN OVE DIR
Ralph W. Bradshaw** (Dec.1950)	Chairman of the Board of Directors and President	President, Cornerstone Advisors, Inc.; Financial Consultant; President and Director of Cornerstone Strategic Value Fund, Inc.; President and Trustee of Cornerstone Progressive Return Fund.	2001	
Thomas H. Lenagh (Nov. 1924)	Director; Audit, Nominating and Corporate Governance	Independent Financial Adviser; Director of Photonics Products Group; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive	2002	

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	Committee Member	Return Fund; Director of Adams Express Company and Petroleum and Resources Corporation.	
Edwin Meese III (Dec. 1931)	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.; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund.	2001
Scott B. Rogers (July 1955)	Director; Audit, Nominating and Corporate Governance Committee Member	Chairman, Board of Health Partners, Inc.; Chief Executive Officer, Asheville Buncombe Community Christian Ministry; and President, ABCCM Doctor's Medical Clinic; Appointee, NC Governor's Commission on Welfare to Work; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund.	2001

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

NAME AND ADDRESS* (BIRTH DATE)	POSITION(S) HELD WITH FUND	PRINCIPAL OCCUPATION OVER LAST 5 YEARS	POSITION WITH FUND SINCE	NUM POR FUN OVE DIR
Andrew A. Strauss (Nov.1953)	Director; Chairman of Nominating and Corporate Governance Committee and Audit Committee Member	Attorney and senior member of Strauss & Associates, P.A., Attorneys, Asheville and Hendersonville, NC; previous President of White Knight Healthcare, Inc. and LMV Leasing, Inc., a wholly owned subsidiary of Xerox Credit Corporation; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund.	2001	
Glenn W. Wilcox, Sr. (Dec.1931)	Director; Chairman of Audit Committee, Nominating and Corporate Governance Committee Member	Chairman of the Board, Tower Associates, Inc.; Chairman of the Board and Chief Executive Officer of Wilcox Travel Agency, Inc.; Director of Cornerstone Strategic Value Fund, Inc.; Trustee of Cornerstone Progressive Return Fund.	2001	

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

NAME AND ADDRESS* (BIRTH DATE)	POSITION(S) HELD WITH FUND	PRINCIPAL OCCUPATION OVER LAST 5 YEARS	POSITION WITH FUND SINCE	NUM POR FUN OVE DIR
Gary A. Bentz (June 1956)	Chief Compliance Officer, Secretary, and Assistant Treasurer	Chairman and Chief Financial Officer of Cornerstone Advisors, Inc.; previous Director, Vice President and Treasurer of the Fund and Cornerstone Strategic Value Fund, Inc., Financial Consultant, C.P.A., Chief Compliance Officer, Secretary, and Assistant Treasurer of Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund.	2004, 2008, 2009	
William A. Clark (Oct. 1945)	Vice President	Director and Stockholder of Cornerstone Advisors, Inc.; Vice President and former Director of Cornerstone Strategic Value Fund, Inc.; Vice President and former Trustee of Cornerstone Progressive Return Fund; Financial Consultant; former Director of Investors First Fund, Inc.	2004	

\* The mailing address of each Director and/or Officer with respect to the Fund's operation is 305 Madison Ave., New York, NY 10165.

\*\* Designates a director who is an "interested person" of the Fund as defined by the Investment Company Act of 1940, as amended. Mr. Bradshaw is an interested person of the Fund by virtue of his current position with the Investment Advisor of the Fund.

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DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED)

Cornerstone Total Return Fund, Inc. (the "Fund") operates a Dividend Reinvestment Plan (the "Plan"), sponsored and administered by American Stock Transfer & Trust Company (the "Agent"), pursuant to which the Fund's income dividends or capital gains or other distributions (each, a "Distribution" and collectively, "Distributions"), net of any applicable U.S. withholding tax, are reinvested in shares of the Fund.

Shareholders automatically participate in the Fund's Plan, unless and until an election is made to withdraw from the Plan on behalf of such participating shareholder. Shareholders who do not wish to have Distributions automatically reinvested should so notify their broker, or if a registered shareholder, the Agent in writing at P.O. Box 922, Wall Street Station, New York, New York 10269-0560. Such written notice must be received by the Agent prior to the

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record date of the Distribution or the shareholder will receive such Distribution in shares through the Plan. Under the Plan, the Fund's Distributions to shareholders are reinvested in full and fractional shares as described below.

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

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

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

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

The Agent will maintain all shareholder accounts in the Plan and furnish written confirmations of all transactions in the accounts, including information needed by shareholders for personal and tax records. The Agent will hold shares in the account of the Plan participant in non-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.

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DESCRIPTION OF DIVIDEND REINVESTMENT PLAN (UNAUDITED) (CONCLUDED)

The Agent will distribute all proxy solicitation materials to participating



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shareholders.

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

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

The automatic reinvestment of Distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Distributions.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan.

All correspondence concerning the Plan should be directed to the Agent at P.O. Box 922, Wall Street Station, New York, New York 10269-0560. Certain transactions can be performed online at [www.amstock.com](http://www.amstock.com) or by calling the toll free number 877-864-4833.

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

Information regarding how Cornerstone Total Return Fund, Inc. (the "Fund") voted proxies related to its portfolio securities during the 12-month period ended June 30 of each year as well as the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities are available by calling (513) 326-3597 or on the website of the Securities and Exchange Commission, <http://www.sec.gov>.

This report incorporates a Summary Schedule of Investments for the Fund. A complete Schedule of Investments for the Fund may be obtained free of charge by contacting the Fund at (513) 326-3597. The Fund files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling (202) 551-8090.

### PRIVACY POLICY NOTICE (UNAUDITED)

The following is a description of Cornerstone Total Return Fund, Inc.'s (the "Fund") policies regarding disclosure of nonpublic personal information that you provide to the Fund or that the Fund collects from other sources. In the event that you hold shares of the Fund through a broker-dealer or other financial

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intermediary, the privacy policy of the financial intermediary would govern how your nonpublic personal information would be shared with unaffiliated third parties.

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

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

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

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

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### SUMMARY OF GENERAL INFORMATION (UNAUDITED)

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

### SHAREHOLDER INFORMATION (UNAUDITED)

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

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NOTICE IS HEREBY GIVEN IN ACCORDANCE WITH SECTION 23(C) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, THAT CORNERSTONE TOTAL RETURN FUND, INC. MAY FROM TIME TO TIME PURCHASE SHARES OF ITS CAPITAL STOCK IN THE OPEN MARKET.  
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This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report.  
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DIRECTORS AND CORPORATE OFFICERS

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

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
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ADMINISTRATOR Ultimus Fund Solutions, LLC 305 Madison Avenue New York, NY 10165	INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Tait, Weller & Baker LLP 1818 Market Street Suite 2400 Philadelphia, PA 19103
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CUSTODIAN Custodial Trust Company 101 Carnegie Center Princeton, NJ 08540	LEGAL COUNSEL Blank Rome LLP 405 Lexington Avenue New York, NY 10174
--	---

EXECUTIVE OFFICES  
305 Madison Avenue  
New York, NY 10165

For shareholder inquiries, registered shareholders should call (800) 937-5449.  
For general inquiries, please call (513) 326-3597.

CRF  
LISTED  
ALTERNEXT.

CORNERSTONE TOTAL RETURN FUND, INC.

ITEM 2. CODE OF ETHICS.

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

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

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

(f) (3) The Registrant undertakes to provide to any person without charge, upon request, a copy of its code of ethics. This can be accomplished by calling the Registrant at (513) 326-3597.

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, 2008 and December 31, 2007.

	2008	2007
	-----	-----
Audit Fees	\$14,100	\$13,600
Audit-related Fees	--	--
Tax Fees (1)	3,000	2,700
All Other Fees	--	--
	-----	-----
Total	\$17,100	\$16,300
	=====	=====

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

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

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

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

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

(g) There were no non-audit fees billed by Tait, Weller & Baker LLP for services rendered to the Registrant, the Registrant's investment adviser (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) or any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Registrant for the Registrant's last two fiscal years (December 31, 2007 and December 31, 2008).

(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, 2008

Description	No. of Shares	Value
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### EQUITY SECURITIES - 99.12%

#### CLOSED-END FUNDS - 9.59%

Adams Express Company (a)	73,000	\$ 586,190
Alpine Global Premier Properties Fund	8,000	31,600
Blue Chip Value Fund, Inc.	27,000	63,450
Boulder Total Return Fund, Inc.	7,500	73,950
Central Europe and Russia Fund, Inc. (The)	2,500	41,075
Denali Fund (The)	8,500	89,165
Dreman/Claymore Dividend & Income Fund	56,500	106,785
Gabelli Global Multimedia Trust, Inc.	5,500	24,475
General American Investors Company, Inc.	4,000	69,600
H&Q Healthcare Investors	14,400	159,408
H&Q Life Sciences Investors	9,000	77,760
Japan Equity Fund Inc.	13,000	64,480
Liberty All-Star Equity Fund	37,000	129,500
Liberty All-Star Growth Fund, Inc.	76,075	197,795
Petroleum & Resources Corporation (a)	3,000	58,170
Templeton Emerging Markets Fund	3,000	27,300
Zweig Fund, Inc.	85,000	244,800
Zweig Total Return Fund, Inc. (The)	5,000	16,850

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2,062,353  
-----

#### CONSUMER DISCRETIONARY - 7.62%

Amazon.com, Inc. *	2,500	128,200
Bed Bath & Beyond Inc. ^ *	2,500	63,550
Comcast Corporation, Class A	9,012	152,123
Comcast Corporation, Special Class A	4,250	68,637
DIRECTV Group, Inc. (The) ^ *	4,000	91,640
Ford Motor Company ^ *	5,000	11,450
Gap, Inc. (The)	3,000	40,170
Goodyear Tire & Rubber Company (The) *	2,500	14,925
Home Depot, Inc. (The)	5,000	115,100
Lowe's Companies, Inc.	5,000	107,600
Mattel, Inc.	1,500	24,000
McDonald's Corporation	3,100	192,789
News Corporation, Class B ^	2,500	23,925
NIKE, Inc., Class B ^	2,500	127,500
Omnicom Group Inc.	3,000	80,760
Pulte Homes, Inc.	2,500	27,325
Staples, Inc.	3,150	56,448
Time Warner Inc.	8,000	80,480
TJX Companies, Inc. (The)	2,500	51,425
Walt Disney Company (The)	8,000	181,520

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1,639,567  
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#### CONSUMER STAPLES - 12.29%

Altria Group, Inc.	5,000	75,300
Archer-Daniels-Midland Company	2,500	72,075
Coca-Cola Company (The)	5,000	226,350
Colgate-Palmolive Company	1,000	68,540
ConAgra Foods, Inc.	2,500	41,250
CVS Caremark Corporation	4,175	119,989
H.J. Heinz Company	2,700	101,520
Kraft Foods Inc, Class A	5,328	143,057
Kroger Co. (The)	3,600	95,076
PepsiCo, Inc.	3,000	164,310
Philip Morris International Inc.	5,700	248,007

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Procter & Gamble Company (The)	8,472	523,739
Sara Lee Corporation	2,500	24,475
Walgreen Co.	1,600	39,472
Wal-Mart Stores, Inc.	12,500	700,750
		-----
		2,643,910
		-----
ENERGY - 12.10%		
Chesapeake Energy Corporation	2,500	40,425
Chevron Corporation	5,068	374,880
Devon Energy Corporation	2,500	164,275
El Paso Corporation	5,000	39,150
EOG Resources, Inc.	1,000	66,580
Exxon Mobil Corporation	15,000	1,197,450
Halliburton Company	2,500	45,450
Occidental Petroleum Corp.	2,500	149,975
Peabody Energy Corporation	2,500	56,875
Schlumberger Limited	5,000	211,650
Spectra Energy Corporation ^	2,500	39,350
Transocean Ltd. *	1,000	47,250
Weatherford International Ltd. *	2,000	21,640
Williams Companies, Inc. (The)	2,500	36,200
XTO Energy, Inc.	3,125	110,219
		-----
		2,601,369
		-----
FINANCIALS - 10.95%		
Aflac Inc.	1,500	68,760
Aon Corporation	2,500	114,200
Bank of America Corporation	10,521	148,136
Bank of New York Mellon Corporation	2,800	79,324
BB&T Corporation ^	2,000	54,920
Charles Schwab Corporation (The)	8,200	132,594
Chubb Corporation (The)	2,000	102,000
Goldman Sachs Group, Inc. (The)	1,000	84,390
Hudson City Bancorp, Inc.	2,500	39,900
JPMorgan Chase & Co.	18,200	573,846
MetLife, Inc.	3,000	104,580
Morgan Stanley	4,000	64,160
State Street Corporation	1,600	62,928
Travelers Companies, Inc. (The)	3,092	139,758
Unum Group	2,500	46,500
U.S. Bancorp	5,000	125,050
Wells Fargo & Company	14,000	412,720
		-----
		2,353,766
		-----
HEALTHCARE - 12.98%		
Abbott Laboratories	3,000	160,110
Aetna Inc.	4,000	114,000
Amgen Inc. *	3,000	173,250
Baxter International Inc.	2,500	133,975
Bristol-Myers Squibb Company	4,000	93,000
Celgene Corporation *	2,500	138,200
Express Scripts, Inc. *	1,200	65,976
Gilead Sciences, Inc. *	3,000	153,420
Johnson & Johnson	13,500	807,705
McKesson Corporation	2,500	96,825
Medtronic, Inc.	4,500	141,390
Merck & Co. Inc.	5,000	152,000

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Pfizer Inc.	12,000	212,520
St. Jude Medical, Inc. *	2,500	82,400
Stryker Corporation	2,000	79,900
UnitedHealth Group Incorporated	3,500	93,100
Wyeth	2,500	93,775
		-----
		2,791,546
		-----
INDUSTRIALS - 9.97%		
Caterpillar Inc.	2,500	111,675
CSX Corporation	5,000	162,350
Danaher Corporation	2,500	141,525
Deere & Company ^	2,000	76,640
Emerson Electric Co.	2,500	91,525
General Dynamics Corporation	2,500	143,975
General Electric Company	34,000	550,800
Illinois Tool Works Inc.	2,500	87,625
Lockheed Martin Corporation	2,500	210,200
Republic Services, Inc.	1,125	27,889
United Parcel Service, Inc., Class B	4,000	220,640
United Technologies Corporation	4,400	235,840
Waste Management, Inc.	2,500	82,850
		-----
		2,143,534
		-----
INFORMATION TECHNOLOGY - 13.91%		
Agilent Technologies Inc. *	2,500	39,075
Apple, Inc. *	2,000	170,700
Automatic Data Processing, Inc.	2,500	98,350
Cisco Systems, Inc. *	13,000	211,900
Corning Incorporated	3,000	28,590
eBay Inc. *	2,500	34,900
EMC Corporation *	8,000	83,760
Google Inc. *	1,000	307,650
Hewlett-Packard Company	5,000	181,450
Intel Corporation	16,000	234,560
International Business Machines Corporation	4,200	353,472
Intuit Inc. *	2,500	59,475
Microsoft Corporation	22,500	437,400
Oracle Corporation *	23,600	418,428
Paychex, Inc.	2,500	65,700
QUALCOMM Inc.	3,800	136,154
Texas Instruments Incorporated	4,000	62,080
Xerox Corporation	3,000	23,910
Xilinx, Inc.	2,500	44,550
		-----
		2,992,104
		-----
MATERIALS - 2.10%		
Air Products & Chemicals, Inc.	2,500	125,675
Dow Chemical Company (The)	3,500	52,815
E. I. du Pont de Nemours and Company	2,800	70,840
Freeport-McMoRan Copper & Gold, Inc.	2,500	61,100
Monsanto Company	2,000	140,700
		-----
		451,130
		-----
REAL ESTATE INVESTMENT TRUST - 0.62%		



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Simon Property Group, Inc.	2,500	132,825
		-----
TELECOMMUNICATION SERVICES - 3.51%		
AT&T Inc.	17,589	501,286
Verizon Communications Inc.	7,500	254,250
		-----
		755,536
		-----
UTILITIES - 3.48%		
American Electric Power Company, Inc.	5,500	183,040
Dominion Resources, Inc.	2,000	71,680
Duke Energy Corporation	6,600	99,066
FirstEnergy Corp.	2,500	121,450
FPL Group, Inc.	1,000	50,330
NiSource Inc.	2,500	27,425
Southern Company (The)	2,500	92,500
Xcel Energy, Inc.	5,500	102,025
		-----
		747,516
		-----
TOTAL EQUITY SECURITIES		21,315,156
		-----
(cost - \$25,749,449)		
SHORT-TERM INVESTMENTS - 2.62%		
MONEY MARKET SECURITY - 1.07%		
JPMorgan U.S. Government Money Market Fund	230,040	230,040
		-----
		Principal
		Amount
		(000's)
		-----
REPURCHASE AGREEMENTS - 1.55%		
J.P. Morgan Securities Inc. + (Agreement dated 12/31/2008 to be repurchased at \$3,417, 0.01%, 1/2/2009, collateralized by \$5,011 in United States Treasury Notes)	3	3,417
J.P. Morgan Securities Inc. ++ (Agreement dated 12/31/2008 to be repurchased at \$10,390, 0.02%, 1/2/2009, collateralized by \$15,034 in United States Treasury Notes)	10	10,390
J.P. Morgan Securities Inc. ++ (Agreement dated 12/31/2008 to be repurchased at \$320,451, 0.04%, 1/2/2009, collateralized by \$330,741 in United States Treasury Notes)	320	320,450
		-----
		334,257
		-----
TOTAL SHORT-TERM INVESTMENTS		564,297
(cost - \$564,297)		-----
TOTAL INVESTMENTS - 101.74%		21,879,453
(cost - \$26,313,746)		-----

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LIABILITIES IN EXCESS OF OTHER ASSETS - (1.74)%	(374,833)
	-----
NET ASSETS - 100.00%	\$ 21,504,620
	=====

(a) Affiliated investment. The Fund holds 2.73% and 0.27% (based on net assets) of Adams Express Company and Petroleum & Resources Corporation, respectively. A director of the Fund also serves as a director to such companies. During the year ended December 31, 2008, 13,600 and 11,000 shares of Adams Express Company were purchased and sold, respectively.

\* Non-income producing security.  
^ Security or a portion thereof is out on loan.  
+ 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.  
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, 2008, the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2008, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Cornerstone Total Return Fund, Inc. as of December 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

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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, 2008 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 24, 2009

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

The Registrant and Cornerstone Advisors, Inc. share the same Proxy Voting Policies and Procedures. The respective Proxy Voting Policies and Procedures of the Registrant and Adviser are attached as EXHIBIT99.VOTEREG

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

(a)(1) All information contained in this item and its subparts is as of the date of this filing, unless otherwise noted. Ralph W. Bradshaw and William A. Clark are employees of Cornerstone Advisors, Inc. (the Investment Manager) and portfolio managers of the Fund. Mr. Bradshaw has acted as the portfolio manager since 2002. Mr. Clark has acted as the portfolio manager since 2003. Ralph W. Bradshaw's occupation for the last five years is President of Cornerstone Advisors, Inc. and a Financial Consultant. William A. Clark's occupation for the last five years is Director and Stockholder of Cornerstone Advisors, Inc. and Vice President and former Director/Trustee of Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund.

(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 manage two other registered closed-end funds (Cornerstone Strategic Value Fund, Inc. and Cornerstone Progressive Return Fund). As of December 31, 2008, the total assets of Cornerstone Strategic Value Fund, Inc. was \$60.7 million. As of December 31, 2008, the total assets of Cornerstone Progressive Return Fund, Inc. was \$70.0 million.

(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.

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(a) (3) As of the most recent fiscal year end December 31, 2008, 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 \$10,001-\$50,000 and for William A. Clark it is in the range of \$10,001-\$50,000.

(b) None.

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

None.

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

None.

### ITEM 11. CONTROLS AND PROCEDURES.

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

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

### ITEM 12. EXHIBITS.

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

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

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

(99) Proxy Voting Policies of the Registrant and Adviser 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 6, 2009

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

Cornerstone Total Return Fund, Inc.

By: /S/ RALPH W. BRADSHAW

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Name: Ralph W. Bradshaw  
Title: Principal Executive Officer  
Date: March 6, 2009

By: /S/ GARY A. BENTZ

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Name: Gary A. Bentz  
Title: Principal Financial Officer  
Date: March 6, 2009