

Edgar Filing: CORNERSTONE TOTAL RETURN FUND INC - Form N-CSR

CORNERSTONE TOTAL RETURN FUND INC  
Form N-CSR  
March 09, 2005

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  
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Cornerstone Total Return Fund, Inc.  
-----

(Exact name of registrant as specified in charter)

383 Madison Avenue, New York, NY 10179  
-----

(Address of principal executive offices) (Zip code)

Jodi B. Levine

383 Madison Avenue, New York, NY 10179  
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(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 272-3550  
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Date of fiscal year end: December 31, 2004  
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Date of reporting period: December 31, 2004  
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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.

ITEM 1. REPORTS TO STOCKHOLDERS.

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CORNERSTONE TOTAL  
RETURN FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2004

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CORNERSTONE TOTAL RETURN FUND, INC.  
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2004 (UNAUDITED)

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SECTOR ALLOCATION

Sector	Percent of Net Assets
Financials	18.5
Information Technology	15.5
Consumer Discretionary	14.1
Healthcare	11.1
Industrials	11.1
Consumer Staples	7.6
Closed-End Domestic Funds	7.0
Energy	6.6
Telecommunication Services	2.8

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Materials	2.8
Utilities	2.2
Other	0.7

### TOP TEN HOLDINGS, BY ISSUER

Holding	Sector	Percent of Net Assets
1. General Electric Co.	Industrials	3.4
2. Tri-Continental Corp.	Closed-End Domestic Funds	3.2
3. Exxon Mobil Corp.	Energy	3.0
4. Microsoft Corp.	Information Technology	2.9
5. Citigroup Inc.	Financials	2.5
6. Wal-Mart Stores, Inc.	Consumer Discretionary	2.1
7. American International Group, Inc.	Financials	2.0
8. Johnson & Johnson	Healthcare	1.9
9. Pfizer Inc.	Healthcare	1.9
10. Bank of America Corp.	Financials	1.6

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### CORNERSTONE TOTAL RETURN FUND, INC. SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2004

Description	No. of Shares	Value (Note A)
EQUITY SECURITIES - 99.60%		
UNITED STATES - 98.27%		
CLOSED-END DOMESTIC FUNDS - 6.97%		
Adams Express Co.	38,800	\$ 509,056
Boulder Total Return Fund, Inc.	21,100	395,625
Tri-Continental Corp.	109,000	1,992,520
Zweig Fund, Inc.	165,900	920,745
Other Closed-End Domestic Funds (a)		457,950
		-----
		4,275,896
		-----
CONSUMER DISCRETIONARY - 12.73%		
Home Depot, Inc. (The)	14,800	632,552
Time Warner Inc. +	25,500	495,720
Viacom Inc., non-voting Class B	9,000	327,510
Wal-Mart Stores, Inc.	24,900	1,315,218
Walt Disney Co. (The)	11,700	325,260
Other Consumer Discretionary (a)		4,716,685
		-----
		7,812,945
		-----
CONSUMER STAPLES - 7.62%		
Altria Group, Inc.	10,700	653,770
Coca-Cola Co. (The)	13,500	562,005
PepsiCo, Inc.	10,000	522,000
Procter & Gamble Co. (The)	15,000	826,200
Other Consumer Staples (a)		2,110,168
		-----

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		4,674,143
		-----
ENERGY - 6.56%		
ChevronTexaco Corp.	16,604	871,876
Exxon Mobil Corp.	36,000	1,845,360
Schlumberger Ltd.	5,100	341,445
Other Energy (a)		969,107
		-----
		4,027,788
		-----
FINANCIALS - 18.49%		
American Express Co.	6,100	\$ 343,857
American International Group, Inc.	18,331	1,203,797
Bank of America Corp.	20,740	974,573
Citigroup Inc.	32,600	1,570,668
Fannie Mae	5,700	405,897
Goldman Sachs Group, Inc. (The)	6,000	624,240
JPMorgan Chase & Co.	12,700	495,427
Morgan Stanley	6,200	344,224
Wachovia Corp.	8,100	426,060
Wells Fargo & Co.	9,000	559,350
Other Financials (a)		4,397,388
		-----
		11,345,481
		-----
HEALTHCARE - 11.15%		
Amgen Inc.+	8,300	532,445
Eli Lilly & Co.	6,600	374,550
Johnson & Johnson	18,200	1,154,244
Medtronic, Inc.	7,100	352,657
Merck & Co. Inc.	12,700	408,178
Pfizer Inc.	42,460	1,141,749
UnitedHealth Group Inc.	5,000	440,150
Other Healthcare (a)		2,440,074
		-----
		6,844,047
		-----
INDUSTRIALS - 11.14%		
3M Co.	5,000	410,350
General Electric Co.	58,000	2,117,000
Tyco International Ltd.	11,600	414,584
United Parcel Service, Inc., Class B	6,500	555,490
Other Industrials (a)		3,335,672
		-----
		6,833,096
		-----

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
SUMMARY SCHEDULE OF INVESTMENTS - DECEMBER 31, 2004 (CONCLUDED)  
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Description	No. of Shares	Value (Note A)
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INFORMATION TECHNOLOGY - 15.53%

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Cisco Systems, Inc. +	35,000	\$ 675,500
Dell Inc.+	16,200	682,668
eBay Inc. +	3,500	406,980
Hewlett-Packard Co.	15,842	332,207
Intel Corp.	38,500	900,515
International Business Machines Corp.	8,200	808,356
Microsoft Corp.	66,800	1,784,228
Oracle Corp. +	33,600	460,992
QUALCOMM Inc.	9,300	394,320
Texas Instruments Inc.	13,500	332,370
Yahoo! Inc. +	8,500	320,280
Other Information Technology (a)		2,433,639
		-----
		9,532,055
		-----
MATERIALS - 2.77%		
Total Materials (a)		1,696,123
		-----
REAL ESTATE INVESTMENT TRUSTS - 0.26%		
Total Real Estate Investment Trusts (a)		161,675
		-----
TELECOMMUNICATION SERVICES - 2.85%		
SBC Communications Inc.	25,600	659,712
Verizon Communications Inc.	14,900	603,599
Other Telecommunication Services (a)		485,598
		-----
		1,748,909
		-----
UTILITIES - 2.20%		
Total Utilities (a)		1,350,215
		-----
TOTAL UNITED STATES		
(cost - \$60,887,946)		60,302,373
		-----
CZECH REPUBLIC - 1.33%		
CONSUMER DISCRETIONARY - 1.33%		
Total Consumer Discretionary # (a)		817,542
		-----
TOTAL CZECH REPUBLIC		
(cost - \$894,867)		817,542
		-----
TOTAL EQUITY SECURITIES		
(cost - \$61,782,813)		61,119,915
		-----

Description	Principal Amount (000's)	Value
-----		
SHORT-TERM INVESTMENTS - 0.98%		
REPURCHASE AGREEMENTS - 0.98%		
Bear, Stearns & Co. Inc.		
(Agreement dated 12/31/04 to be repurchased at \$343,127), 1.50%, 01/03/05 (Note F)	\$ 343	\$ 343,084
Bear, Stearns & Co. Inc.		
(Agreement dated 12/31/04 to be repurchased at \$259,384), 1.16%*, 01/03/05** (Note E)	259	259,359
		-----
TOTAL SHORT-TERM INVESTMENTS		

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(cost - \$602,443)	602,443
	-----
TOTAL INVESTMENTS - 100.58%	
(cost - \$62,385,256) (Notes A, E, F, G)	61,722,358
	-----
LIABILITIES IN EXCESS OF OTHER ASSETS - (0.58)%	(356,981)
	-----
NET ASSETS - 100.00%	\$ 61,365,377
	=====

- 
- + Non-income producing security.
  - # 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 cash collateral received for securities on loan.
  - ADR American Depositary Receipts.
  - (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, 2004.

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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, 2004

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ASSETS	
Investments, at value (Cost \$62,385,256) (Notes A, E, F, G)	\$ 61,722,358
Receivables:	
Dividends	69,963
Interest	1,352
Prepaid expenses	1,211
	-----
Total Assets	61,794,884
	-----
LIABILITIES	
Payables:	
Upon return of securities loaned (Note E)	259,359
Investment management fees (Note B)	51,581
Directors' fees	13,722
Other accrued expenses	104,845
	-----
Total Liabilities	429,507
	-----
NET ASSETS (applicable to 4,799,831 shares of common stock outstanding)	\$ 61,365,377
	=====
NET ASSET VALUE PER SHARE (\$61,365,377 / 4,799,831)	\$ 12.78
	=====
NET ASSETS CONSISTS OF	
Capital stock, \$0.01 par value; 4,799,831 shares issued and outstanding (15,000,000 shares authorized)	\$ 47,998
Paid-in capital	76,965,259

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Accumulated net realized loss on investments	(14,984,982)
Net unrealized depreciation in value of investments	(662,898)
	-----
Net assets applicable to shares outstanding	\$ 61,365,377
	=====

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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, 2004  
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INVESTMENT INCOME

Income (Note A):

Dividends (net of foreign taxes withheld of \$188)	\$ 1,327,991
Interest	8,014
	-----

Total Investment Income	1,336,005
	-----

Expenses:

Investment management fees (Note B)	618,101
Administration fees	61,864
Directors' fees	47,598
Legal and audit fees (Note B)	46,751
Accounting fees	33,923
Transfer agent fees	31,422
Printing	28,699
Custodian fees	10,501
Stock exchange listing fees	9,715
Insurance	5,182
Miscellaneous	1,901
	-----

Total Expenses	895,657
Less: Management fee waivers (Note B)	(11,305)
Less: Fees paid indirectly (Note B)	(10,501)
	-----

Net Expenses	873,851
	-----

Net Investment Income	462,154
	-----

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS

Net realized loss from investments	(428,172)
Net change in unrealized depreciation in value of investments	4,649,941
	-----

Net realized and unrealized gain on investments	4,221,769
	-----

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 4,683,923
	=====

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 See accompanying notes to financial statements.

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

	For the Years Ended December 31	
	2004	2003
INCREASE/(DECREASE) IN NET ASSETS		
Operations:		
Net investment income	\$ 462,154	\$ 462,154
Net realized loss from investments	(428,172)	(428,172)
Net change in unrealized depreciation in value of investments	4,649,941	4,649,941
Net increase in net assets resulting from operations	4,683,923	4,683,923
Dividends and distributions to shareholders (Notes A, G):		
Net investment income	(462,154)	(462,154)
Return-of-capital	(9,584,964)	(9,584,964)
Total dividends and distributions to shareholders	(10,047,118)	(10,047,118)
Capital stock transactions (Note D):		
Proceeds from 73,202 and 68,969 newly shares issued in reinvestment of dividends and distributions, respectively	1,086,831	1,086,831
Cost of 7,500 shares repurchased	--	--
Net increase in net assets resulting from capital stock transactions	1,086,831	1,086,831
Total increase/(decrease) in net assets	(4,276,364)	(4,276,364)
NET ASSETS		
Beginning of year	65,641,741	65,641,741
End of year	\$ 61,365,377	\$ 61,365,377

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.  
FINANCIAL HIGHLIGHTS

Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each year indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.



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	For the Years Ended De		
	2004	2003	2002
<b>PER SHARE OPERATING PERFORMANCE</b>			
Net asset value, beginning of year	\$ 13.89	\$ 12.89	\$ 18.30
Net investment income	0.10#	0.08#	0.15
Net realized and unrealized gain/(loss) on investments	0.87	2.91	(3.57)
Net increase/(decrease) in net assets resulting from operations	0.97	2.99	(3.42)
<b>Dividends and distributions to shareholders:</b>			
Net investment income	(0.10)	(0.08)	(0.18)
Return-of-capital	(2.01)	(1.91)	(1.80)
Total dividends and distributions to shareholders	(2.11)	(1.99)	(1.98)
<b>Capital stock transactions:</b>			
Anti-dilutive effect due to capital stock repurchased	--	--	0.02
Anti-dilutive/(dilutive) effect due to shares issued in reinvestment of dividends and distributions	0.03	--	(0.03)
Total capital stock transactions	0.03	--	(0.01)
Net asset value, end of year	\$ 12.78	\$ 13.89	\$ 12.89
Market value, end of year	\$ 17.95	\$ 17.95	\$ 11.35
Total investment return (a)	15.11%	82.96%	(19.30)
<b>RATIOS/SUPPLEMENTAL DATA</b>			
Net assets, end of year (000 omitted)	\$ 61,365	\$ 65,642	\$ 60,151
Ratio of expenses to average net assets, net of fee waivers, if any (b)	1.41%	1.20%	1.50
Ratio of expenses to average net assets, excluding fee waivers, if any (c)	1.45%	1.43%	2.07
Ratio of expenses to average net assets, net of fee waivers, if any (c)	1.43%	1.23%	1.63
Ratio of net investment income to average net assets	0.75%	0.65%	1.01
Portfolio turnover rate	12.15%	3.62%	86.60

# 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.

See accompanying notes to financial statements.

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CORNERSTONE TOTAL RETURN FUND, INC.

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### NOTES TO FINANCIAL STATEMENTS

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#### NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Cornerstone Total Return Fund, Inc. (the "Fund") was incorporated in New York on March 16, 1973 and commenced investment operations on May 15, 1973. Its investment objective is to seek 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. The Board of Directors has established general guidelines for calculating fair value of not readily marketable securities. At December 31, 2004, the Fund held 1.33% 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 \$817,542. 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 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.

**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.

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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.

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

The character of dividends and distributions made during the year ended December 31, 2004 from net investment income or net realized gains, if any, may differ from their ultimate characterization for U.S. income tax purposes due to U.S. generally accepted accounting principles/tax differences in the character of income and expense recognition.

### 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. Cornerstone has voluntarily agreed to continue to waive its management fees from the Fund to the extent that monthly operating expenses exceed 0.125% of average net assets calculated monthly. For the year ended December 31, 2004, Cornerstone earned \$618,101 for investment management services, of which it waived \$11,305. 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 \$10,501 arising from credits earned on portfolio

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transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid approximately \$28,800 for the year ended December 31, 2004 for legal services to Blank Rome LLP ("Blank"), counsel to the Fund. Thomas R. Westle, partner of Blank, serves as secretary of the Fund.

At December 31, 2004, pursuant to a regulatory filing, an affiliate owned approximately 15% of the outstanding shares of the Fund based on a Schedule 13G/A filing with the Securities and Exchange Commission on February 3, 2005.

### NOTE C. INVESTMENT IN SECURITIES

For the year ended December 31, 2004, purchases and sales of securities, other than short-term investments, were \$7,505,642 and \$15,641,050, respectively.

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

As had 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. For the year ended December 31, 2004, the Fund had no repurchases. For the year ended December 31, 2003, the Fund repurchased 7,500 of its shares for a total cost of \$ 90,050 at a weighted average discount of 12.01% from net asset value. The discount of the individual repurchases ranged from 11.76% - 12.13%. No limit has been placed on the number of shares to be purchased by the Fund other than those imposed by federal securities laws.

All purchases are made in accordance with federal securities laws, with shares repurchased held in treasury, effective January 1, 2002.

### NOTE E. 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, 2004 was \$259,359.

Collateral for repurchased agreements in connection with securities lending at

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December 31, 2004 are listed below:

ISSUER -----	PRINCIPAL AMOUNT (000'S) -----	MATURITY -----	MARKET VALUE -----
United States Treasury Bond, (interest only)	\$730	11/15/24	\$267,377 =====

During the year ended December 31, 2004, the Fund earned \$3,378 in securities lending income that is included under the caption INTEREST in the Statement of Operations.

### NOTE F. COLLATERAL FOR REPURCHASE AGREEMENT

Listed below is the collateral associated with the repurchase agreement with Bear, Stearns & Co. Inc. outstanding at December 31, 2004.

ISSUER -----	PRINCIPAL AMOUNT (000'S) -----	MATURITY -----	MARKET VALUE -----
United States Treasury Bond, (interest only)	\$965	11/15/24	\$353,451 =====

### NOTE G. 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 -----	
2004 ----	2003 ----	2004 ----	2003 ----
\$462,154	\$394,232	\$9,584,964	\$8,947,881

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

At December 31, 2004, the components of distributable earnings on a tax basis, for the Fund were as follows:

Accumulated net realized loss	\$(14,933,353)
Unrealized depreciation	(714,527)
	-----
Total accumulated deficit	\$(15,647,880) =====

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

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following tax year ("Post-October losses"). For the tax period ended December 31, 2004, the Fund incurred and elected to defer net realized losses from investments of \$91,899.

At December 31, 2004, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$14,841,454 of which \$12,887,270 expires in 2008, \$1,170,157 expires in 2009, \$425,706 expires in 2011 and \$358,321 expires in 2012.

At December 31, 2004, 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 depreciation from investments were \$62,436,885, \$7,299,117, \$(8,013,644) and \$(714,527), respectively.

At December 31, 2004, the Fund reclassified \$9,584,964 from distributions in excess of net investment income and \$86,347 from accumulated net realized loss on investments to paid-in capital, to adjust for current period 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 summary schedule of investments, as of December 31, 2004, 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 three 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 each of the two years in the period 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. 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, 2004 by correspondence with the custodian. 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, 2004, 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

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the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER

Philadelphia, Pennsylvania  
February 15, 2005

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### 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, 2004) 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. During the year ended December 31, 2004, the following dividends and distributions per share were paid by the Fund:

PAYMENT DATE:	1/30/04	2/27/04	3/31/04	4/30/04	5/21/04	6/30/04
	-----	-----	-----	-----	-----	-----
Ordinary Income:	\$ 0.008	\$ 0.008	\$ 0.008	\$ 0.008	\$ 0.008	\$ 0.008
Return-of-Capital:	\$ 0.168	\$ 0.168	\$ 0.168	\$ 0.168	\$ 0.168	\$ 0.168
	-----	-----	-----	-----	-----	-----
Total:	\$ 0.176	\$ 0.176	\$ 0.176	\$ 0.176	\$ 0.176	\$ 0.176
	=====	=====	=====	=====	=====	=====

PAYMENT DATE:	7/30/04	8/31/04	9/30/04	10/29/04	11/30/04	12/31/04
	-----	-----	-----	-----	-----	-----
Ordinary Income:	\$ 0.008	\$ 0.008	\$ 0.008	\$ 0.008	\$ 0.008	\$ 0.008
Return-of-Capital:	\$ 0.168	\$ 0.168	\$ 0.168	\$ 0.168	\$ 0.168	\$ 0.168
	-----	-----	-----	-----	-----	-----
Total:	\$ 0.176	\$ 0.176	\$ 0.176	\$ 0.176	\$ 0.176	\$ 0.176
	=====	=====	=====	=====	=====	=====

Ordinary income dividends should be reported as dividend income on Form 1040. To the extent that the distributions represent a return of your investment, they are not taxed as ordinary income dividends and are sometimes referred to as nontaxable distributions. A return-of-capital distribution reduces the cost basis of your shares in the Fund.

The Fund has met the requirements to pass through all ordinary income as qualified dividends. Please note that to utilize the lower tax rate for qualifying dividend income, shareholders 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 their distribution(s).

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

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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
Ralph W. Bradshaw** (54)	Chairman of the Board of Directors and President	President, Cornerstone Advisors, Inc.; Financial Consultant; Vice President, Deep Discount Advisors, Inc. (1993-1999); previous Director of The Austria Fund, Inc.; Director of Cornerstone Strategic Value Fund, Inc.
William A. Clark ** (59)	Director and Vice President	Director and Stockholder of 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.
Thomas H. Lenagh (82)	Director; Audit, Nominating and Corporate Governance Committee Member	Chairman of the Board of Photonics Products Group; Independent Financial Adviser; Director of Cornerstone Strategic Value Fund, Inc., Adams Express Company and Petroleum and Resources Corporation.
Edwin Meese III (73)	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, Revela L.P.; formerly U.S. Attorney General under President Ronald Reagan; Director of Carrington Laboratories Inc.; Director of Cornerstone Strategic Value Fund, Inc.
Scott B. Rogers (49)	Director; Audit, Nominating and Corporate Governance Committee Member	Chief Executive Officer, Asheville Buncombe Community Christian Ministry; President of ABCCM Doctor's Medical Clinic; Director of Faith Partnerships Inc.; Director of A-B Vision Board; Appointee, NC Governor's Commission on Welfare to Work; Chairman and Director of Recycling Unlimited; Director of Interdenominational Ministerial Alliance; 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
Andrew A. Strauss (51)	Director; Audit, Nominating and Corporate Governance 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., Memorial Mission Hospital Foundation, Deerfield Episcopal Retirement Community and Asheville Symphony.
Glenn W. Wilcox, Sr. (73)	Director; Audit, Nominating and Corporate Governance Committee Member	Chairman of the Board of Wilcox Travel Agen Inc.; Director of Champion Industries, Inc. Chairman of Tower Associates, Inc. (a real estate venture); Director of Wachovia Corp. Board Trustee of Appalachian State Universi Director and Chairman of Audit Committee of Cornerstone Strategic Value Fund, Inc.
Gary A. Bentz (48)	Chief Compliance Officer	Chief Financial Officer, Chairman and Shareholder of Cornerstone Advisors, Inc.; previous Director of The Austria Fund, Inc. previous Director, Vice President and Treasurer of the Fund and Cornerstone Strategic Value Fund, Inc.; Financial Consultant, Certified Public Accountant; Ch Financial Officer of Deep Discount Advisors Inc. (1993-2000); Chief Compliance Officer Cornerstone Strategic Value Fund, Inc.
Thomas R. Westle (51) 405 Lexington Avenue New York, NY 10174	Secretary	Partner, Blank Rome LLP (October 31, 2003 - Present); prior thereto Partner, Spitzer & Feldman P.C. (May, 1998-October 30, 2003).
Jodi B. Levine (35)	Treasurer	Associate Director, Bear Stearns Funds Management Inc.

\* The mailing address of each Director and/or Officer with respect to the  
Fund's operations 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 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

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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.

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### 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.

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

Information regarding how the Cornerstone Total Return Fund, Inc. (the "Fund") voted proxies related to its portfolio securities during the 12-month period ended June 30, 2004 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

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

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

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

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

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

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### SUMMARY OF GENERAL INFORMATION (UNAUDITED)

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

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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.

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#### 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	STOCK TRANSFER AGENT AND REGISTRAR
Cornerstone Advisors, Inc.	American Stock Transfer & Trust Co.
One West Pack Square	59 Maiden Lane
Suite 1650	New York, NY 10038
Asheville, NC 28801	

ADMINISTRATOR	INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Bear Stearns Funds	Tait, Weller & Baker
Management Inc.	1818 Market Street
383 Madison Avenue	Suite 2400
New York, NY 10179	Philadelphia, PA 19103

CUSTODIAN	LEGAL COUNSEL
Custodial Trust Company	Blank Rome LLP
101 Carnegie Center	405 Lexington Avenue
Princeton, NJ 08540	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.

#### ITEM 2. CODE OF ETHICS.

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 financial officer, and persons performing similar functions.

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A copy of the code is filed as an EX.99.CODEETH to this Form. There were no amendments to the code during the calendar year ended December 31, 2004. There were no waivers or implicit waivers from the code granted by the registrant during the year ended December 31, 2004.

### 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. 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, for its years ended December 31, 2003 and December 31, 2004.

	2004	2003
Audit Fees	\$11,800	\$11,000
Audit-related Fees		0
Tax	\$2,200	2,000
Other		0
Total	\$14,000	\$13,000

### (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) None

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

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

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), Andrew A. Strauss, Scott Rogers, Thomas Lenagh and Edwin Meese III are the members of the Registrant's audit committee.

### ITEM 6. SCHEDULE OF INVESTMENTS.

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CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004  
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DESCRIPTION	NO. OF SHARES	VALUE
EQUITY SECURITIES - 99.60%		
UNITED STATES - 98.27%		
CLOSED-END DOMESTIC FUNDS - 6.97%		
Adams Express Co.	38,800	\$ 509,056
Boulder Total Return Fund, Inc.	21,100	395,625
Dreman/Claymore Dividend & Income Fund	11,000	206,800
General American Investors Co., Inc.	2,500	78,250
Salomon Brothers Fund, Inc. (The)	13,300	172,900
Tri-Continental Corp.	109,000	1,992,520
Zweig Fund, Inc.	165,900	920,745
		4,275,896
CONSUMER DISCRETIONARY - 12.73%		
Bed Bath & Beyond Inc. +	2,500	99,575
Best Buy Co. Inc.	2,500	148,550
Carnival Corp.	5,300	305,439
Clear Channel Communications, Inc.	2,700	90,423
Comcast Corp., Class A +	8,508	283,146
Comcast Corp., Special Class A +	4,500	147,780
Costco Wholesale Corp.	2,600	125,866
Dana Corp.	2,500	43,325
Delphi Corp.	5,100	46,002
Eastman Kodak Co.	2,500	80,625
Ford Motor Co.	15,200	222,528
Fortune Brands, Inc.	2,500	192,950
Gap, Inc. (The)	6,900	145,728
General Motors Corp.	2,500	100,150
Harley-Davidson, Inc	2,500	151,875
Harrah's Entertainment, Inc.	2,500	167,225
Hilton Hotels Corp.	2,500	56,850
Home Depot, Inc. (The)	14,800	632,552

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J.C. Penney Co. Inc.	2,500	103,500
Kohl's Corp. +	2,500	122,925
Limited Brands, Inc.	2,000	46,040
Lowe's Companies, Inc.	3,700	213,083
Mattel, Inc.	4,500	87,705
McDonald's Corp.	8,100	259,686
McGraw-Hill Companies, Inc. (The)	2,500	228,850
Monsanto Co.	1,773	98,490
Office Depot, Inc. +	2,500	43,400
Omnicom Group Inc.	1,500	126,480
Reebok International Ltd.	2,500	110,000
Rockwell Automation, Inc.	2,500	123,875

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CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004 (continued)  
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DESCRIPTION	NO. OF SHARES	VALUE
Staples, Inc.	2,100	70,791
Starbucks Corp. +	2,500	155,900
Target Corp.	4,600	238,878
Time Warner Inc. +	25,500	495,720
TJX Companies, Inc. (The)	4,000	100,520
Tribune Co.	2,500	105,350
Univision Communications Inc., Class A +	2,500	73,175
Viacom Inc., non-voting Class B	9,000	327,510
Wal-Mart Stores, Inc.	24,900	1,315,218
Walt Disney Co. (The)	11,700	325,260
		-----
		7,812,945
		-----

CONSUMER STAPLES - 7.62%

Albertson's, Inc.	2,500	59,700
Altria Group, Inc.	10,700	653,770
Anheuser-Busch Companies, Inc.	3,700	187,701
Archer-Daniels-Midland Co.	5,650	126,051
Avon Products, Inc.	2,500	96,750
Campbell Soup Co.	3,200	95,648
Coca-Cola Co. (The)	13,500	562,005
Coca-Cola Enterprises Inc.	2,500	52,125
Colgate-Palmolive Co.	2,600	133,016
ConAgra Foods, Inc.	2,500	73,625
General Mills, Inc.	2,500	124,275
Gillette Co. (The)	5,100	228,378
H.J. Heinz Co.	2,700	105,273
Kimberly-Clark Corp.	2,500	164,525
Kroger Co. (The) +	6,600	115,764
PepsiCo, Inc.	10,000	522,000
Procter & Gamble Co. (The)	15,000	826,200
Safeway Inc.+	4,900	96,726
Sara Lee Corp.	2,600	62,764
Walgreen Co.	5,600	214,872
Wm. Wrigley Jr. Co.	2,500	172,975
		-----
		4,674,143



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ENERGY - 6.56%		
Anadarko Petroleum Corp.	2,500	162,025
Burlington Resources, Inc.	2,500	108,750
CenterPoint Energy, Inc.	5,700	64,410
ChevronTexaco Corp.	16,604	871,876
ConocoPhillips	3,669	318,579
Exxon Mobil Corp.	36,000	1,845,360
Occidental Petroleum Corp.	2,500	145,900
Reliant Energy Inc.+	4,494	61,343
Schlumberger Ltd.	5,100	341,445
Unocal Corp.	2,500	108,100
		4,027,788
FINANCIALS - 18.49%		
AFLAC Inc.	4,000	159,360
Allstate Corp. (The)	5,200	268,944

CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004 (continued)

DESCRIPTION	NO. OF SHARES	VALUE
American Express Co.	6,100	343,857
American International Group, Inc.	18,331	1,203,797
AmSouth Bancorporation	2,500	64,750
Bank of America Corp.	20,740	974,573
Bank of New York Co., Inc. (The)	5,900	197,178
BB&T Corp.	2,000	84,100
Capital One Financial Corp.	1,000	84,210
Charles Schwab Corp. (The)	8,200	98,072
Citigroup Inc.	32,600	1,570,668
Countrywide Financial Corp.	3,500	129,535
Fannie Mae	5,700	405,897
Fifth Third Bancorp	2,500	118,200
Fiserv, Inc. +	2,500	100,475
Freddie Mac	3,300	243,210
Goldman Sachs Group, Inc. (The)	6,000	624,240
Hartford Financial Services Group, Inc. (The)	1,600	110,896
JPMorgan Chase & Co.	12,700	495,427
KeyCorp	2,500	84,750
Lehman Brothers Holdings Inc.	2,500	218,700
Marsh & McLennan Companies, Inc.	4,600	151,340
MBNA Corp.	7,550	212,834
Mellon Financial Corp.	2,300	71,553
Merrill Lynch & Co., Inc.	1,100	65,747
MetLife Inc.	6,000	243,060
Moody's Corp.	1,000	86,850
Morgan Stanley	6,200	344,224
National City Corp.	5,000	187,750
Northern Trust Corp.	1,100	53,438
PNC Financial Services Group, Inc.	1,400	80,416
Progressive Corp. (The)	2,500	212,100

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Providian Financial Corp.+	2,500	41,175
Prudential Financial, Inc.	2,500	137,400
SLM Corp.	2,500	133,475
St. Paul Travelers Companies, Inc. (The)	2,292	84,964
State Street Corp.	1,600	78,592
SunTrust Banks, Inc.	1,500	110,820
U.S. Bancorp	9,700	303,804
Wachovia Corp.	8,100	426,060
Washington Mutual, Inc.	4,250	179,690
Wells Fargo & Co.	9,000	559,350
		-----
		11,345,481
		-----

HEALTHCARE - 11.15%

Aetna Inc.	1,000	124,750
Amgen Inc.+	8,300	532,445
Baxter International Inc.	2,600	89,804
Becton, Dickinson & Co.	2,500	142,000
Biogen Idec Inc. +	2,500	166,525
Biomet, Inc.	2,500	108,475
Boston Scientific Corp. +	5,000	177,750
Bristol-Myers Squibb Co.	9,600	245,952
Cardinal Health, Inc.	2,500	145,375

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CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004 (continued)  
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DESCRIPTION	NO. OF SHARES	VALUE
Caremark Rx, Inc.+	2,500	98,575
CIGNA Corp.	800	65,256
Eli Lilly & Co.	6,600	374,550
Forest Laboratories, Inc. +	2,500	112,150
Genzyme Corp. +	1,500	87,105
Health Management Associates, Inc., Class A	2,500	56,800
Johnson & Johnson	18,200	1,154,244
King Pharmaceuticals, Inc. +	2,500	31,000
McKesson Corp.	2,500	78,650
Medco Health Solutions, Inc. +	1,531	63,690
Medtronic, Inc.	7,100	352,657
Merck & Co. Inc.	12,700	408,178
Pfizer Inc.	42,460	1,141,749
Schering-Plough Corp.	8,400	175,392
Stryker Corp.	2,000	96,500
Tenet Healthcare Corp. +	5,000	54,900
UnitedHealth Group Inc.	5,000	440,150
Wyeth	7,500	319,425
		-----
		6,844,047
		-----

INDUSTRIALS - 11.14%

3M Co.	5,000	410,350
Apollo Group, Inc., Class A+	1,000	80,710
Boeing Co. (The)	3,900	201,903

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Burlington Northern Santa Fe Corp.	2,000	94,620
Caterpillar Inc.	2,500	243,775
Cendant Corp.	7,100	165,998
CSX Corp.	2,500	100,200
Danaher Corp.	2,500	143,525
Deere & Co.	2,500	186,000
Dover Corp.	1,000	41,940
Emerson Electric Co.	2,000	140,200
FedEx Corp.	2,500	246,225
General Dynamics Corp.	2,500	261,500
General Electric Co.	58,000	2,117,000
Honeywell International Inc.	3,300	116,853
Illinois Tool Works Inc.	2,500	231,700
Lockheed Martin Corp.	2,500	138,875
Masco Corp.	4,600	168,038
Paychex, Inc.	2,500	85,200
Raytheon Co.	2,500	97,075
Southwest Airlines Co.	6,100	99,308
Transocean Inc. +	2,500	105,975
Tyco International Ltd.	11,600	414,584
United Parcel Service, Inc., Class B	6,500	555,490
United Technologies Corp.	2,200	227,370
Waste Management, Inc.	5,300	158,682
		-----
		6,833,096
		-----

INFORMATION TECHNOLOGY - 15.53%

Agere Systems Inc, Class A +	75	103
Agilent Technologies, Inc. +	5,000	120,500

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CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004 (continued)  
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DESCRIPTION	NO. OF SHARES	VALUE
-----		
Analog Devices, Inc.	2,500	92,300
Apple Computer, Inc. +	2,500	161,000
Applied Materials, Inc. +	13,400	229,140
Cisco Systems, Inc. +	35,000	675,500
Computer Associates International, Inc.	2,700	83,862
Corning Inc. +	7,500	88,275
Dell Inc.+	16,200	682,668
eBay Inc. +	3,500	406,980
Electronic Data Systems Corp.	7,500	173,250
EMC Corp. +	8,000	118,960
First Data Corp.	4,325	183,985
Freescall Semiconductor Inc., Class B+	1,777	32,626
Hewlett-Packard Co.	15,842	332,207
Intel Corp.	38,500	900,515
International Business Machines Corp.	8,200	808,356
JDS Uniphase Corp. +	9,700	30,749
Lucent Technologies Inc. +	15,000	56,400
Maxim Integrated Products Inc.	2,500	105,975
Micron Technology, Inc. +	5,500	67,925
Microsoft Corp.	66,800	1,784,228

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Motorola, Inc.	16,100	276,920
Network Appliance, Inc. +	2,500	83,050
Oracle Corp. +	33,600	460,992
PerkinElmer, Inc.	1,500	33,735
QUALCOMM Inc.	9,300	394,320
Sanmina-SCI Corp. +	4,000	33,880
Siebel Systems, Inc. +	5,000	52,500
Solelectron Corp. +	5,700	30,381
Sun Microsystems, Inc. +	17,600	94,688
Symantec Corp. +	2,500	64,400
Texas Instruments Inc.	13,500	332,370
Waters Corp. +	2,500	116,975
Xerox Corp. +	6,000	102,060
Yahoo! Inc. +	8,500	320,280
		-----
		9,532,055
		-----

MATERIALS - 2.77%

Air Products & Chemicals, Inc.	2,500	144,925
Alcan Inc.	1,500	73,560
Alcoa Inc.	4,300	135,106
Dow Chemical Co. (The)	4,700	232,697
E.I. du Pont de Nemours & Co.	5,800	284,490
Georgia-Pacific Corp.	2,500	93,700
International Paper Co.	4,800	201,600
Newmont Mining Corp.	2,500	111,025
Nucor Corp.	2,500	130,850
Praxair, Inc.	2,500	110,375
Rohm & Hass Co.	2,500	110,575
Weyerhaeuser Co.	1,000	67,220
		-----
		1,696,123
		-----

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CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004 (continued)  
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DESCRIPTION	NO. OF SHARES	VALUE
-----		
REAL ESTATE INVESTMENT TRUSTS - 0.26%		
Simon Property Group Inc.	2,500	161,675
		-----
TELECOMMUNICATION SERVICES - 2.85%		
AT&T Corp.	5,260	100,255
BellSouth Corp.	10,200	283,458
SBC Communications Inc.	25,600	659,712
Sprint Corp.	4,100	101,885
Verizon Communications Inc.	14,900	603,599
		-----
		1,748,909
		-----
UTILITIES - 2.20%		
American Electric Power Co., Inc.	5,500	188,870

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Dominion Resources, Inc.	2,000	135,480
Duke Energy Corp.	6,600	167,178
Edison International	2,500	80,075
FirstEnergy Corp.	2,500	98,775
Scottish Power plc, ADR	4,000	124,640
Sempra Energy	2,500	91,700
Southern Co. (The)	2,500	83,800
TXU Corp.	3,700	238,872
Williams Companies, Inc. (The)	2,500	40,725
Xcel Energy, Inc.	5,500	100,100

-----  
1,350,215  
-----

TOTAL UNITED STATES 60,302,373  
(cost \$60,887,946) -----

CZECH REPUBLIC - 1.33%  
CONSUMER DISCRETIONARY - 1.33%

Bonton AS +#	68,590	136,257
Bonton Book AS +#	68,590	136,257
Bonton Discs AS +#	68,590	136,257
Bonton Film Entertainment AS +#	68,590	136,257
Bonton Music AS +#	68,590	136,257
Bonton Pictures AS +#	68,590	136,257

-----  
817,542  
-----

TOTAL CZECH REPUBLIC  
(cost \$894,867)

TOTAL EQUITY SECURITIES 61,119,915  
(cost \$61,782,813) -----

PRINCIPAL  
AMOUNT  
(000'S)  
-----

Short-Term Investments - 0.98%		
Repurchase Agreements - 0.98%		
Bear, Stearns & Co. Inc.		
(Agreement dated 12/31/04 to be repurchased at \$343,127), 1.50%, 01/03/05	\$343	343,084

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CORNERSTONE TOTAL RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2004 (concluded)  
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DESCRIPTION	PRINCIPAL AMOUNT (000'S)	VALUE
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Bear, Stearns & Co. Inc.		
(Agreement dated 12/31/04 to be repurchased at \$259,384), 1.16%*, 01/03/05 **	259	259,359 -----
 TOTAL SHORT-TERM INVESTMENTS (cost - \$602,443)		 602,443 -----
 TOTAL INVESTMENTS - 100.58% (cost - \$62,385,256)		 61,722,358 -----
 LIABILITIES IN EXCESS OF OTHER ASSETS - (0.58)%		 (356,981) -----
 NET ASSETS - 100.00%		 \$61,365,377 =====

### 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, 2004, 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 three 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 each of the two years in the period 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. 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, 2004, by correspondence with the custodian. 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 Strategic Value Fund, Inc. as of December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for the each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

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TAIT, WELLER & BAKER

PHILADELPHIA, PENNSYLVANIA  
FEBRUARY 15, 2005

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. ISS 2005 PROXY VOTING GUIDELINES SUMMARY The following is a condensed version of all proxy voting recommendations contained in the ISS Proxy Voting Manual.

### 1. OPERATIONAL ITEMS ADJOURN MEETING

Generally vote AGAINST proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. Vote FOR proposals that relate specifically to soliciting votes for a merger or transaction for which ISS has recommended a FOR vote. Vote AGAINST proposals if the wording is too vague or if the proposal includes "other business."

### AMEND QUORUM REQUIREMENTS

Vote AGAINST proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.

### AMEND MINOR BYLAWS

Vote FOR bylaw or charter changes that are of a housekeeping nature (updates or corrections).

### CHANGE COMPANY NAME

Vote FOR proposals to change the corporate name.

### CHANGE DATE, TIME, OR LOCATION OF ANNUAL MEETING

Vote FOR management proposals to change the date/time/location of the annual meeting unless the proposed change is unreasonable.

Vote AGAINST shareholder proposals to change the date/time/location of the annual meeting unless the current scheduling or location is unreasonable.

### RATIFYING AUDITORS

Vote FOR proposals to ratify auditors, unless any of the following apply:

- o An auditor has a financial interest in or association with the company, and is therefore not independent
- o Fees for non-audit services are excessive, or
- o There is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position.

Vote CASE-BY-CASE on shareholder proposals asking companies to prohibit or limit their auditors from engaging in non-audit services.

Vote CASE-BY-CASE on shareholder proposals asking for audit firm rotation, taking into account the tenure of the audit firm, the length of rotation specified in the proposal, any significant audit-related issues at the company, the number of Audit Committee meetings held each year, the number of financial experts serving on the committee, and whether the company has a periodic renewal

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process where the auditor is evaluated for both audit quality and competitive price.

### TRANSACT OTHER BUSINESS

Vote AGAINST proposals to approve other business when it appears as voting item.

### VOTING ON DIRECTOR NOMINEES IN UNCONTESTED ELECTIONS

Votes on director nominees should be made on a CASE-BY-CASE basis, examining the following factors:

composition of the board and key board committees, attendance at board meetings, corporate governance provisions and takeover activity, long-term company performance relative to a market index, directors' investment in the company, whether the chairman is also serving as CEO, and whether a retired CEO sits on the board. However, there are some actions by directors that should result in votes being withheld. These instances include directors who:

- o Attend less than 75 percent of the board and committee meetings without a valid excuse
  - o Implement or renew a dead-hand or modified dead-hand poison pill
  - o Adopt a poison pill without shareholder approval since the company's last annual meeting and there is no requirement to put the pill to shareholder vote within 12 months of its adoption
  - o Ignore a shareholder proposal that is approved by a majority of the shares outstanding
  - o Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years
  - o Failed to act on takeover offers where the majority of the shareholders tendered their shares
  - o Are inside directors or affiliated outsiders and sit on the audit, compensation, or nominating committees
  - o Are inside directors or affiliated outsiders and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees
  - o Are audit committee members and the non -audit fees paid to the auditor are excessive.
- In addition, directors who enacted egregious corporate governance policies or failed to replace management as appropriate would be subject to recommendations to withhold votes.
- o Are inside directors or affiliated outside directors and the full board is less than majority independent
  - o Sit on more than six public company boards, or on more than two public boards in addition to their own if they are CEOs of public companies.
  - o Are on the compensation committee when there is a negative correlation between chief executive pay and company performance
  - o Have failed to address the issue(s) that resulted in any of the directors receiving more than 50% withhold votes out of those cast at the previous board election



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### AGE LIMITS

Vote AGAINST shareholder or management proposals to limit the tenure of outside directors either through term limits or mandatory retirement ages.

### BOARD SIZE

Vote FOR proposals seeking to fix the board size or designate a range for the board size.

Vote AGAINST proposals that give management the ability to alter the size of the board outside of a specified range without shareholder approval.

### CLASSIFICATION/DECLASSIFICATION OF THE BOARD

Vote AGAINST proposals to classify the board.

Vote FOR proposals to repeal classified boards and to elect all directors annually.

### CUMULATIVE VOTING

Vote AGAINST proposals to eliminate cumulative voting.

Vote proposals to restore or permit cumulative voting on a CASE-BY-CASE basis based on the extent that shareholders have access to the board through their own nominations.

### DIRECTOR AND OFFICER INDEMNIFICATION AND LIABILITY PROTECTION

Proposals on director and officer indemnification and liability protection should be evaluated on a CASE-BY-CASE basis, using Delaware law as the standard.

Vote AGAINST proposals to eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care.

Vote AGAINST indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligation than mere carelessness.

Vote FOR only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if both of the following apply:

- o The director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and
- o Only if the director's legal expenses would be covered.

### ESTABLISH/AMEND NOMINEE QUALIFICATIONS

Vote CASE-BY-CASE on proposals that establish or amend director qualifications. Votes should be based on how reasonable the criteria are and to what degree they may preclude dissident nominees from joining the board.

Vote AGAINST shareholder proposals requiring two candidates per board seat.

### FILLING VACANCIES/REMOVAL OF DIRECTORS

Vote AGAINST proposals that provide that directors may be removed only for cause.

Vote FOR proposals to restore shareholder ability to remove directors with or without cause.

Vote AGAINST proposals that provide that only continuing directors may elect replacements to fill board vacancies. Vote FOR proposals that permit shareholders to elect directors to fill board vacancies.

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### INDEPENDENT CHAIRMAN (SEPARATE CHAIRMAN/CEO)

Generally vote FOR shareholder proposals requiring the position of chairman be filled by an independent director unless there are compelling reasons to recommend against the proposal, such as a counterbalancing governance structure. This should include all of the following:

- o Designated lead director, elected by and from the independent board members with clearly delineated and comprehensive duties. (The role may alternatively reside with a presiding director, vice chairman, or rotating lead director).
- o Two-thirds independent board
- o All-independent key committees
- o Established governance guidelines Additionally, the company should not have under-performed its peers.

### MAJORITY OF INDEPENDENT DIRECTORS/ESTABLISHMENT OF COMMITTEES

Vote FOR shareholder proposals asking that a majority or more of directors be independent unless the board composition already meets the proposed threshold by ISS's definition of independence.

Vote FOR shareholder proposals asking that board audit, compensation, and/or nominating committees be composed exclusively of independent directors if they currently do not meet that standard.

### OPEN ACCESS

Vote CASE-BY-CASE on shareholder proposals asking for open access taking into account the ownership threshold specified in the proposal and the proponent's rationale for targeting the company in terms of board and director conduct.

### STOCK OWNERSHIP REQUIREMENTS

Generally vote AGAINST shareholder proposals that mandate a minimum amount of stock that directors must own in order to qualify as a director or to remain on the board. While ISS favors stock ownership on the part of directors, the company should determine the appropriate ownership requirement.

Vote CASE-BY-CASE shareholder proposals asking that the company adopt a holding or retention period for its executives (for holding stock after the vesting or exercise of equity awards), taking into account any stock ownership requirements or holding period/retention ratio already in place and the actual ownership level of executives.

### TERM LIMITS

Vote AGAINST shareholder or management proposals to limit the tenure of outside directors either through term limits or mandatory retirement ages.

### 3. PROXY CONTESTS

#### VOTING FOR DIRECTOR NOMINEES IN CONTESTED ELECTIONS

Votes in a contested election of directors must be evaluated on a CASE-BY-CASE basis, considering the following factors:

- o Long-term financial performance of the target company relative to its industry; management's track record
- o Background to the proxy contest
- o Qualifications of director nominees (both slates)
- o Evaluation of what each side is offering shareholders as well as the

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likelihood that the proposed objectives and goals can be met; and stock ownership positions.

### REIMBURSING PROXY SOLICITATION EXPENSES

Voting to reimburse proxy solicitation expenses should be analyzed on a CASE-BY-CASE basis. In cases where ISS recommends in favor of the dissidents, we also recommend voting for reimbursing proxy solicitation expenses.

### CONFIDENTIAL VOTING

Vote FOR shareholder proposals requesting that corporations adopt confidential voting, use independent vote tabulators and use independent inspectors of election, as long as the proposal includes a provision for proxy contests as follows: In the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents will not agree, the confidential voting policy is waived.

Vote FOR management proposals to adopt confidential voting.

### 4. ANTI-TAKEOVER DEFENSES AND VOTING RELATED ISSUES

Advance Notice Requirements for Shareholder Proposals/Nominations Votes on advance notice proposals are determined on a CASE-BY-CASE basis, giving support to those proposals which allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible.

### AMEND BYLAWS WITHOUT SHAREHOLDER CONSENT

Vote AGAINST proposals giving the board exclusive authority to amend the bylaws.

Vote FOR proposals giving the board the ability to amend the bylaws in addition to shareholders.

### POISON PILLS

Vote FOR shareholder proposals requesting that the company submit its poison pill to a shareholder vote or redeem it.

Vote FOR shareholder proposals asking that any future pill be put to a shareholder vote.

### SHAREHOLDER ABILITY TO ACT BY WRITTEN CONSENT

Vote AGAINST proposals to restrict or prohibit shareholder ability to take action by written consent.

Vote FOR proposals to allow or make easier shareholder action by written consent.

### SHAREHOLDER ABILITY TO CALL SPECIAL MEETINGS

Vote AGAINST proposals to restrict or prohibit shareholder ability to call special meetings.

Vote FOR proposals that remove restrictions on the right of shareholders to act independently of management.

### SUPERMAJORITY VOTE REQUIREMENTS

Vote AGAINST proposals to require a supermajority shareholder vote.

Vote FOR proposals to lower supermajority vote requirements.

### 5. MERGERS AND CORPORATE RESTRUCTURINGS

#### APPRAISAL RIGHTS

Vote FOR proposals to restore, or provide shareholders with, rights of appraisal.

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### ASSET PURCHASES

Vote CASE-BY-CASE on asset purchase proposals, considering the following factors:

- o Purchase price
- o Fairness opinion
- o Financial and strategic benefits
- o How the deal was negotiated
- o Conflicts of interest
- o Other alternatives for the business
- o Noncompletion risk.

### ASSET SALES

Votes on asset sales should be determined on a CASE-BY-CASE basis, considering the following factors:

- o Impact on the balance sheet/working capital
- o Potential elimination of diseconomies
- o Anticipated financial and operating benefits
- o Anticipated use of funds
- o Value received for the asset
- o Fairness opinion
- o How the deal was negotiated
- o Conflicts of interest.

### BUNDLED PROPOSALS

Review on a CASE-BY-CASE basis bundled or "conditioned" proxy proposals.

In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items.

In instances when the joint effect of the conditioned items is not in shareholders' best interests, vote against the proposals. If the combined effect is positive, support such proposals.

### CONVERSION OF SECURITIES

Votes on proposals regarding conversion of securities are determined on a CASE-BY-CASE basis. When evaluating these proposals the investor should review the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

Vote FOR the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

CORPORATE REORGANIZATION/DEBT RESTRUCTURING/PREPACKAGED BANKRUPTCY PLANS/REVERSE LEVERAGED BUYOUTS/WRAP PLANS

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Votes on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan are determined on a CASE-BY-CASE basis, taking into consideration the following:

- o Dilution to existing shareholders' position
- o Terms of the offer
- o Financial issues
- o Management's efforts to pursue other alternatives
- o Control issues
- o Conflicts of interest.

Vote FOR the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

### FORMATION OF HOLDING COMPANY

Votes on proposals regarding the formation of a holding company should be determined on a CASE-BY-CASE basis, taking into consideration the following:

- o The reasons for the change
- o Any financial or tax benefits
- o Regulatory benefits
- o Increases in capital structure
- o Changes to the articles of incorporation or bylaws of the company.
- o Absent compelling financial reasons to recommend the transaction, vote AGAINST the formation of a holding company if the transaction would include either of the following:
  - o Increases in common or preferred stock in excess of the allowable maximum as calculated by the ISS Capital Structure model
  - o Adverse changes in shareholder rights

### GOING PRIVATE TRANSACTIONS (LBOS AND MINORITY SQUEEZEOUTS)

Vote going private transactions on a CASE-BY-CASE basis, taking into account the following: offer price/premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and noncompletion risk.

### JOINT VENTURES

Votes CASE-BY-CASE on proposals to form joint ventures, taking into account the following: percentage of assets/business contributed, percentage ownership, financial and strategic benefits, governance structure, conflicts of interest, other alternatives, and noncompletion risk.

### LIQUIDATIONS

Votes on liquidations should be made on a CASE-BY-CASE basis after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

Vote FOR the liquidation if the company will file for bankruptcy if the proposal

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is not approved.

### MERGERS AND ACQUISITIONS/ ISSUANCE OF SHARES TO FACILITATE MERGER OR ACQUISITION

Votes on mergers and acquisitions should be considered on a CASE-BY-CASE basis, determining whether the transaction enhances shareholder value by giving consideration to the following:

- o Prospects of the combined company, anticipated financial and operating benefits
- o Offer price
- o Fairness opinion
- o How the deal was negotiated
- o Changes in corporate governance
- o Change in the capital structure
- o Conflicts of interest.

### PRIVATE

#### PLACEMENTS/WARRANTS/CONVERTIBLE DEBENTURES

Votes on proposals regarding private placements should be determined on a CASE-BY-CASE basis. When evaluating these proposals the investor should review: dilution to existing shareholders' position, terms of the offer, financial issues, management's efforts to pursue other alternatives, control issues, and conflicts of interest.

Vote FOR the private placement if it is expected that the company will file for bankruptcy if the transaction is not approved.

### SPINOFFS

Votes on spinoffs should be considered on a CASE-BY-CASE basis depending on:

- o Tax and regulatory advantages
- o Planned use of the sale proceeds
- o Valuation of spinoff
- o Fairness opinion
- o Benefits to the parent company
- o Conflicts of interest
  
- o Managerial incentives
- o Corporate governance changes
- o Changes in the capital structure.

### VALUE MAXIMIZATION PROPOSALS

Vote CASE-BY-CASE on shareholder proposals seeking to maximize shareholder value by hiring a financial advisor to explore strategic alternatives, selling the company or liquidating the company and distributing the proceeds to shareholders. These proposals should be evaluated based on the following factors: prolonged poor performance with no turnaround in sight, signs of

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entrenched board and management, strategic plan in place for improving value, likelihood of receiving reasonable value in a sale or dissolution, and whether company is actively exploring its strategic options, including retaining a financial advisor.

### 6. STATE OF INCORPORATION CONTROL SHARE ACQUISITION PROVISIONS

Vote FOR proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.

Vote AGAINST proposals to amend the charter to include control share acquisition provisions. Vote FOR proposals to restore voting rights to the control shares.

### CONTROL SHARE CASHOUT PROVISIONS

Vote FOR proposals to opt out of control share cashout statutes.

### DISGORGEMENT PROVISIONS

Vote FOR proposals to opt out of state disgorgement provisions.

### FAIR PRICE PROVISIONS

Vote proposals to adopt fair price provisions on a CASE-BY-CASE basis, evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price. Generally, vote AGAINST fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

### FREEZEOUT PROVISIONS

Vote FOR proposals to opt out of state freezeout provisions.

### GREENMAIL

Vote FOR proposals to adopt antigreenmail charter of bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

Review on a CASE-BY-CASE basis antigreenmail proposals when they are bundled with other charter or bylaw amendments.

### REINCORPORATION PROPOSALS

Proposals to change a company's state of incorporation should be evaluated on a CASE-BY-CASE basis, giving consideration to both financial and corporate governance concerns, including the reasons for reincorporating, a comparison of the governance provisions, and a comparison of the jurisdictional laws.

Vote FOR reincorporation when the economic factors outweigh any neutral or negative governance changes.

### STAKEHOLDER PROVISIONS

Vote AGAINST proposals that ask the board to consider nonshareholder constituencies or other nonfinancial effects when evaluating a merger or business combination.

### STATE ANTITAKEOVER STATUTES

Review on a CASE-BY-CASE basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freezeout provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, antigreenmail provisions, and disgorgement provisions).

### 7. CAPITAL STRUCTURE

#### ADJUSTMENTS TO PAR VALUE OF COMMON STOCK

Vote FOR management proposals to reduce the par value of common stock.

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### COMMON STOCK AUTHORIZATION

Votes on proposals to increase the number of shares of common stock authorized for issuance are determined on a CASE-BY-CASE basis using a model developed by ISS.

Vote AGAINST proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

Vote FOR proposals to approve increases beyond the allowable increase when a company's shares are in danger of being delisted or if a company's ability to continue to operate as a going concern is uncertain.

### DUAL-CLASS STOCK

Vote AGAINST proposals to create a new class of common stock with superior voting rights.

Vote FOR proposals to create a new class of nonvoting or subvoting common stock if:

- o It is intended for financing purposes with minimal or no dilution to current shareholders
- o It is not designed to preserve the voting power of an insider or significant shareholder

### ISSUE STOCK FOR USE WITH RIGHTS PLAN

Vote AGAINST proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

### PREEMPTIVE RIGHTS

Review on a CASE-BY-CASE basis shareholder proposals that seek preemptive rights. In evaluating proposals on preemptive rights, consider the size of a company, the characteristics of its shareholder base, and the liquidity of the stock.

### PREFERRED STOCK

Vote AGAINST proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote FOR proposals to create "declawed" blank check preferred stock (stock that cannot be used as a takeover defense).

Vote FOR proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Vote AGAINST proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.

Vote CASE-BY-CASE on proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for issue given a company's industry and performance in terms of shareholder returns.

### RECAPITALIZATION

Votes CASE-BY-CASE on recapitalizations (reclassifications of securities), taking into account the following: more simplified capital structure, enhanced liquidity, fairness of conversion terms, impact on voting power and dividends,



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reasons for the reclassification, conflicts of interest, and other alternatives considered.

### REVERSE STOCK SPLITS

Vote FOR management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced.

Vote FOR management proposals to implement a reverse stock split to avoid delisting.

Votes on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorized for issue should be determined on a CASE-BY-CASE basis using a model developed by ISS.

### SHARE REPURCHASE PROGRAMS

Vote FOR management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

### STOCK DISTRIBUTIONS: SPLITS AND DIVIDENDS

Vote FOR management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance as determined using a model developed by ISS.

### TRACKING STOCK

Votes on the creation of tracking stock are determined on a CASE-BY-CASE basis, weighing the strategic value of the transaction against such factors as: adverse governance changes, excessive increases in authorized capital stock, unfair method of distribution, diminution of voting rights, adverse conversion features, negative impact on stock option plans, and other alternatives such as spinoff.

### 8. EXECUTIVE AND DIRECTOR COMPENSATION

Votes with respect to equity-based compensation plans should be determined on a CASE-BY-CASE basis. Our methodology for reviewing compensation plans primarily focuses on the transfer of shareholder wealth (the dollar cost of pay plans to shareholders instead of simply focusing on voting power dilution). Using the expanded compensation data disclosed under the SEC's rules, ISS will value every award type. ISS will include in its analyses an estimated dollar cost for the proposed plan and all continuing plans. This cost, dilution to shareholders' equity, will also be expressed as a percentage figure for the transfer of shareholder wealth, and will be considered along with dilution to voting power. Once ISS determines the estimated cost of the plan, we compare it to a company-specific dilution cap.

Our model determines a company-specific allowable pool of shareholder wealth that may be transferred from the company to plan participants, adjusted for:

- o Long-term corporate performance (on an absolute basis and relative to a standard industry peer group and an appropriate market index),
- o Cash compensation, and
- o Categorization of the company as emerging, growth, or mature. These adjustments are pegged to market capitalization.

Vote AGAINST plans that expressly permit the repricing of underwater stock options without shareholder approval.

Generally vote AGAINST plans in which (1) there is a disconnect between the CEO's pay and company performance (an increase in pay and a decrease in

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performance) and the main source of the pay increase (over half) is equity-based and (2) the CEO is the participant of the equity proposal. A decrease in performance is based on negative one- and three-year total shareholder returns. An increase in pay is based on the CEO's total direct compensation (salary, cash bonus, present value of stock options, face value of restricted stock, face value of long-term incentive plan payouts, and all other compensation) increasing over the previous year. Also may WITHHOLD votes from the Compensation Committee members. Generally vote AGAINST plans if the company's most recent three-year burn rate exceeds one standard deviation in excess of the industry mean and is over two percent of common shares outstanding. See Table 1 for details.

A company with high three-year average burn rates may avoid triggering the burn rate policy by committing to the industry average over the next years.

However, the above general voting guidelines for pay for performance may change if the compensation committee members can demonstrate that they have improved committee performance based on additional public filing such as an DEFA 14A or 8K. The additional filing needs to present strong and compelling evidence of improved performance with new information that has not been disclosed in the original proxy statement. The reiteration of the compensation committee report will not be sufficient evidence of improved committee performance.

Evidence of improved compensation committee performance includes all of the following:

- o The compensation committee has reviewed all components of the CEO's compensation, including the following:

- Base salary, bonus, long-term incentives

- Accumulative realized and unrealized stock option and restricted stock gains

- Dollar value of perquisites and other personal benefits to the CEO and the cost to the company

- Earnings and accumulated payment obligations under the company's nonqualified deferred compensation program

- Actual projected payment obligations under the company's supplemental executive retirement plan (SERPs)

A tally sheet setting forth all the above components was prepared and reviewed affixing dollar amounts under the various payout scenarios.

- o A tally sheet with all the above components should be disclosed for the following termination scenarios:

- Payment if termination occurs within 12 months: \$\_\_\_\_\_

- Payment if "not for cause" termination occurs within 12 months: \$\_\_\_\_\_

- Payment if "change of control" termination occurs within 12 months: \$\_\_\_\_\_

- o The compensation committee is committed to provide additional information on the named executives' annual cash bonus program and/or long-term incentive cash plan for the current fiscal year. The compensation committee will provide full disclosure of the qualitative and quantitative performance criteria and hurdle rates used to determine the payouts of the cash program. From this disclosure, shareholders will know the minimum level of performance required for any cash bonus to be delivered as well as the maximum cash bonus payable for superior performance.

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TABLE 1 : PROXY SEASON 2005 BURN  
RATE THRESHOLDS

GICS	GICS Dsec	RUSSELL 3000			NON-RUSSELL 3000	
		Mean	Standard Deviation	Mean + Std Dev	Mean	Standard Deviation
1010	Energy	1.60%	1.02%	2.61%	2.59%	2.19%
1510	Materials	1.55%	0.81%	2.36%	2.54%	1.92%
2010	Capital Goods	1.86%	1.19%	3.05%	3.23%	2.93%
2020	Commercial Services & Supplies	2.87%	1.53%	4.40%	4.39%	3.68%
2030	Transportation	2.10%	1.50%	3.60%	2.44%	2.22%
2510	Automobiles & Components	2.10%	1.37%	3.48%	2.90%	2.28%
2520	Consumer Durables & Apparel	2.40%	1.51%	3.90%	3.42%	2.79%
2530	Hotels Restaurants & Leisure	2.39%	1.08%	3.48%	3.30%	2.87%
2540	Media	2.34%	1.50%	3.84%	4.12%	2.89%
2550	Retailing	2.89%	1.95%	4.84%	4.26%	3.50%
3010 to 3030	Food & Staples Retailing	1.98%	1.50%	3.48%	3.37%	3.32%
3510	Health Care Equipment & Services	3.24%	1.96%	5.20%	4.55%	3.24%
3520	Pharmaceuticals & Biotechnology	3.60%	1.72%	5.32%	5.77%	4.15%
4010	Banks	1.44%	1.17%	2.61%	1.65%	1.60%

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4020	Diversified Financials	3.12%	2.54%	5.66%	5.03%	3.53%
4030	Insurance	1.45%	0.88%	2.32%	2.47%	1.77%
4040	Real Estate	1.01%	0.89%	1.90%	1.51%	1.50%
4510	Software & Services	5.44%	3.05%	8.49%	8.08%	6.01%
4520	Technology Hardware & Equipment	4.00%	2.69%	6.68%	5.87%	4.25%
4530	Semiconductors & Semiconductor Equipment	5.12%	2.86%	7.97%	6.79%	3.95%
5010	Telecommunication Services	2.56%	2.39%	4.95%	4.66%	3.90%
5510	Utilities	0.90%	0.65%	1.55%	3.74%	4.63%

The repetition of the compensation committee report does not meet ISS' requirement of compelling and strong evidence of improved disclosure. The level of transparency and disclosure is at the highest level where shareholders can understand the mechanics of the annual cash bonus and/or long-term incentive cash plan based on the additional disclosure.

o The compensation committee is committed to grant a substantial portion of performance-based equity awards to the named executive officers. A substantial portion of performance-based awards would be at least 50 percent of the shares awarded to each of the named executive officers. Performance-based equity awards are earned or paid out based on the achievement of company performance targets. The company will disclose the details of the performance criteria (e.g., return on equity) and the hurdle rates (e.g., 15 percent) associated with the performance targets. From this disclosure, shareholders will know the minimum level of performance required for any equity grants to be made. The performance-based equity awards do not refer to non-qualified stock options<sup>1</sup> or performance-accelerated grants<sup>2</sup>. Instead, performance-based equity awards are performance contingent grants where the individual will not receive the equity grant by not meeting the target performance and vice versa.

The level of transparency and disclosure is at the highest level where shareholders can understand the mechanics of the performance-based equity awards based on the additional disclosure.

o The compensation committee has the sole authority to hire and fire outside compensation consultants. The role of the outside compensation consultant is to assist the compensation committee to analyze executive pay packages or contracts and understand the company's financial measures.

BASED ON THE ADDITIONAL DISCLOSURE OF IMPROVED PERFORMANCE OF THE COMPENSATION COMMITTEE, ISS WILL GENERALLY VOTE FOR THE COMPENSATION COMMITTEE MEMBERS UP FOR ANNUAL ELECTION AND VOTE FOR THE EMPLOYEE-BASED STOCK PLAN IF THERE IS ONE ON THE BALLOT. HOWEVER, ISS IS NOT LIKELY TO VOTE FOR THE COMPENSATION COMMITTEE

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MEMBERS AND/OR THE EMPLOYEE-BASED STOCK PLAN IF ISS BELIEVES THE COMPANY HAS NOT PROVIDED COMPELLING AND SUFFICIENT EVIDENCE OF TRANSPARENT ADDITIONAL DISCLOSURE OF EXECUTIVE COMPENSATION BASED ON THE ABOVE REQUIREMENTS.

### DIRECTOR COMPENSATION

Votes on compensation plans for directors are determined on a CASE-BY-CASE basis, using a proprietary, quantitative model developed by ISS.

On occasion, director stock plans that set aside a relatively small of shares when combined with employee or executive stock compensation plans exceed the allowable cap. In such cases, starting proxy season 2005, ISS will supplement the analytical approach with a qualitative review of board compensation for companies, taking into consideration:

- o Director stock ownership guidelines
  - A minimum of three times the annual cash retainer.
- o Vesting schedule or mandatory holding/deferral period
  - A minimum vesting of three years for stock options or restricted stock, or
  - Deferred stock payable at the end of a three-year deferral period.
- o Mix between cash and equity
  - A balanced mix of cash and equity, for example 40% cash/60% equity or 50% cash/50% equity.
  - If the mix is heavier on the equity component, the vesting schedule or deferral period should be more stringent, with the lesser of five years or the term of directorship.

(1) Non-qualified stock options are not performance-based awards unless the grant or the vesting of the stock options is tied to the achievement of a pre-determined and disclosed performance measure. A rising stock market will generally increase share prices of all companies, despite of the company's underlying performance.

(2) Performance-accelerated grants are awards that vest earlier based on the achievement of a specified measure. However, these grants will ultimately vest over time even without the attainment of the goal(s).

- o Retirement/Benefit and Perquisites programs
  - No retirement/benefits and perquisites provided to non-employee directors.
- o Quality of disclosure
  - Provide detailed disclosure on cash and equity compensation delivered to each non-employee director for the most recent fiscal year in a table. The column headers for the table may include the following: name of each non-employee director, annual retainer, board meeting fees, committee retainer, committee-meeting fees, and equity grants.

For ISS to recommend a vote FOR director equity plans based on the above qualitative features, a company needs to demonstrate that it meets all the above qualitative features in its proxy statement.

### STOCK PLANS IN LIEU OF CASH

Votes for plans which provide participants with the option of taking all or a portion of their cash compensation in the form of stock are determined on a CASE-BY-CASE basis.

Vote FOR plans which provide a dollar-for-dollar cash for stock exchange.

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Votes for plans which do not provide a dollar-for-dollar cash for stock exchange should be determined on a CASE-BY-CASE basis using a proprietary, quantitative model developed by ISS. In cases where the exchange is not dollar-for-dollar, the request for new or additional shares for such equity program will be considered in the quantitative model. However, the cost would be lower than full-value awards since part of the deferral compensation is in-lieu-of cash compensation.

### DIRECTOR RETIREMENT PLANS

Vote AGAINST retirement plans for nonemployee directors.

Vote FOR shareholder proposals to eliminate retirement plans for nonemployee directors.

### MANAGEMENT PROPOSALS SEEKING APPROVAL TO REPRICE OPTIONS

Votes on management proposals seeking approval to reprice options are evaluated on a CASE-BY-CASE basis giving consideration to the following:

- o Historic trading patterns
- o Rationale for the repricing
- o Value-for-value exchange
- o Treatment of surrendered options
- o Option vesting
- o Term of the option
- o Exercise price
- o Participation.

### QUALIFIED EMPLOYEE STOCK PURCHASE PLANS

Votes on qualified employee stock purchase plans should be determined on a CASE-BY-CASE basis.

Vote FOR employee stock purchase plans where all of the following apply:

- o Purchase price is at least 85 percent of fair market value
- o Offering period is 27 months or less, and
- o The number of shares allocated to the plan is ten percent or less of the outstanding shares

Vote AGAINST qualified employee stock purchase plans where any of the following apply:

- o Purchase price is less than 85 percent of fair market value, or
- o Offering period is greater than 27 months, or
- o The number of shares allocated to the plan is more than ten percent of the outstanding shares

### NONQUALIFIED EMPLOYEE STOCK PURCHASE PLANS

Votes on nonqualified employee stock purchase plans should be determined on a CASE-BY-CASE basis.

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Vote FOR nonqualified employee stock purchase plans with all the following features:

- o Broad-based participation (i.e., all employees of the company with the exclusion of individuals with 5 percent or more of beneficial ownership of the company).
- o Limits on employee contribution, which may be a fixed dollar amount or expressed as a percent of base salary.
- o Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value.
- o No discount on the stock price on the date of purchase since there is a company matching contribution.

Vote AGAINST nonqualified employee stock purchase plans when any of the plan features do not meet the above criteria.

### INCENTIVE BONUS PLANS AND TAX DEDUCTIBILITY PROPOSALS (OBRA-RELATED COMPENSATION PROPOSALS)

Vote FOR proposals that simply amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m).

Vote FOR proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

Votes to amend existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m) should be considered on a CASE-BY-CASE basis using a proprietary, quantitative model developed by ISS.

Generally vote FOR cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

### EMPLOYEE STOCK OWNERSHIP PLANS (ESOPS)

Vote FOR proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares.)

### 401(K) EMPLOYEE BENEFIT PLANS

Vote FOR proposals to implement a 401(k) savings plan for employees.

### SHAREHOLDER PROPOSALS REGARDING EXECUTIVE AND DIRECTOR PAY

Generally, vote FOR shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company.

Vote AGAINST shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.

Vote AGAINST shareholder proposals requiring director fees be paid in stock only. Vote FOR shareholder proposals to put option repricings to a shareholder vote.

Vote on a CASE-BY-CASE basis for all other shareholder proposals regarding

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executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

### OPTION EXPENSING

Generally vote FOR shareholder proposals asking the company to expense stock options, unless the company has already publicly committed to expensing options by a specific date.

### PERFORMANCE-BASED AWARDS

Generally vote FOR shareholder proposals advocating the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares, unless:

- o The proposal is overly restrictive (e.g., it mandates that awards to all employees must be performance-based or all awards to top executives must be a particular type, such as indexed options)
- o The company demonstrates that it is using a substantial portion of performance-based awards for its top executives

### GOLDEN PARACHUTES AND EXECUTIVE SEVERANCE AGREEMENTS

Vote FOR shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts.

Vote on a CASE-BY-CASE basis on proposals to ratify or cancel golden parachutes. An acceptable parachute should include the following:

- o The triggering mechanism should be beyond the control of management
- o The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs)
- o Change-in-control payments should be double-triggered, i.e., (1) after a change in control has taken place, and (2) termination of the executive as a result of the change in control. ISS defines change in control as a change in the company ownership structure.

### PENSION PLAN INCOME ACCOUNTING

Generally vote FOR shareholder proposals to exclude pension plan income in the calculation of earnings used in determining executive bonuses/compensation.

### SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS)

Generally vote FOR shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans.

## 9. SOCIAL AND ENVIRONMENTAL ISSUES

### CONSUMER ISSUES AND PUBLIC SAFETY

#### ANIMAL RIGHTS

Vote CASE-BY-CASE on proposals to phase out the use of animals in product testing, taking into account:

- o The nature of the product and the degree that animal testing is necessary or federally mandated (such as medical products),
- o The availability and feasibility of alternatives to animal testing to ensure



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product safety, and

- o The degree that competitors are using animal-free testing.
- o Generally vote FOR proposals seeking a report on the company's animal welfare standards unless:
  - o The company has already published a set of animal welfare standards and monitors compliance
  - o The company's standards are comparable to or better than those of peer firms, and
  - o There are no serious controversies surrounding the company's treatment of animals

### DRUG PRICING

Vote CASE-BY-CASE on proposals asking the company to implement price restraints on pharmaceutical products, taking into account:

- o Whether the proposal focuses on a specific drug and region
- o Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness
- o The extent that reduced prices can be offset through the company's marketing budget without affecting R&D spending
- o Whether the company already limits price increases of its products
- o Whether the company already contributes life -saving pharmaceuticals to the needy and Third World countries
- o The extent that peer companies implement price restraints

### GENETICALLY MODIFIED FOODS

Vote AGAINST proposals asking companies to voluntarily label genetically engineered (GE) ingredients in their products or alternatively to provide interim labeling and eventually eliminate GE ingredients due to the costs and feasibility of labeling and/or phasing out the use of GE ingredients.

Vote CASE-BY-CASE on proposals asking for a report on the feasibility of labeling products containing GE ingredients taking into account:

- o The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution
- o The quality of the company's disclosure on GE product labeling and related voluntary initiatives and how this disclosure compares with peer company disclosure
- o Company's current disclosure on the feasibility of GE product labeling, including information on the related costs
- o Any voluntary labeling initiatives undertaken or considered by the company. Vote CASE-BY-CASE on proposals asking for the preparation of a report on the financial, legal, and environmental impact of continued use of GE ingredients/seeds.
- o The relevance of the proposal in terms of the company's business and the

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proportion of it affected by the resolution

- o The quality of the company's disclosure on risks related to GE product use and how this disclosure compares with peer company disclosure

- o The percentage of revenue derived from international operations, particularly in Europe, where GE products are more regulated and consumer backlash is more pronounced.

Vote AGAINST proposals seeking a report on the health and environmental effects of genetically modified organisms (GMOs). Health studies of this sort are better undertaken by regulators and the scientific community.

Vote AGAINST proposals to completely phase out GE ingredients from the company's products or proposals asking for reports outlining the steps necessary to eliminate GE ingredients from the company's products. Such resolutions presuppose that there are proven health risks to GE ingredients (an issue better left to federal regulators) that outweigh the economic benefits derived from biotechnology.

### HANDGUNS

Generally vote AGAINST requests for reports on a company's policies aimed at curtailing gun violence in the United States unless the report is confined to product safety information. Criminal misuse of firearms is beyond company control and instead falls within the purview of law enforcement agencies.

### HIV/AIDS

Vote CASE-BY-CASE on requests for reports outlining the impact of the health pandemic (HIV/AIDS, malaria and tuberculosis) on the company's Sub-Saharan operations and how the company is responding to it, taking into account:

- o The nature and size of the company's operations in Sub-Saharan Africa and the number of local employees

- o The company's existing healthcare policies, including benefits and healthcare access for local workers

- o Company donations to healthcare providers operating in the region

Vote AGAINST proposals asking companies to establish, implement, and report on a standard of response to the HIV/AIDS, TB, and Malaria health pandemic in Africa and other developing countries, unless the company has significant operations in these markets and has failed to adopt policies and/or procedures to address these issues comparable to those of industry peers.

### PREDATORY LENDING

Vote CASE-BY CASE on requests for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, taking into account:

- o Whether the company has adequately disclosed mechanisms in place to prevent abusive lending practices

- o Whether the company has adequately disclosed the financial risks of its subprime business

- o Whether the company has been subject to violations of lending laws or serious lending controversies

- o Peer companies' policies to prevent abusive lending practices.

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### TOBACCO

Most tobacco-related proposals should be evaluated on a CASE-BY-CASE basis, taking into account the following factors:

#### Second-hand smoke:

- o Whether the company complies with all local ordinances and regulations
- o The degree that voluntary restrictions beyond those mandated by law might hurt the company's competitiveness
- o The risk of any health-related liabilities. Advertising to youth:
  - o Whether the company complies with federal, state, and local laws on the marketing of tobacco or if it has been fined for violations

o

Whether the company has gone as far as peers in restricting advertising

o Whether the company entered into the Master Settlement Agreement, which restricts marketing of tobacco to youth

o Whether restrictions on marketing to youth extend to foreign countries

Cease production of tobacco-related products or avoid selling products to tobacco companies:

- o The percentage of the company's business affected
- o The economic loss of eliminating the business versus any potential tobacco-related liabilities.
- o Spinoff tobacco-related businesses:
  - o The percentage of the company's business affected
  - o The feasibility of a spinoff
  - o Potential future liabilities related to the company's tobacco business.

#### Stronger product warnings:

Vote AGAINST proposals seeking stronger product warnings. Such decisions are better left to public health authorities.

#### Investment in tobacco stocks:

Vote AGAINST proposals prohibiting investment in tobacco equities. Such decisions are better left to portfolio managers.

### ENVIRONMENT AND ENERGY

#### ARCTIC NATIONAL WILDLIFE REFUGE

Generally vote AGAINST request for reports outlining potential environmental damage from drilling in the Arctic National Wildlife Refuge (ANWR) unless:

- o New legislation is adopted allowing development and drilling in the ANWR region;
- o The company intends to pursue operations in the ANWR; and
- o The company does not currently disclose an environmental risk report for their operations in the ANWR.

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### CERES PRINCIPLES

Vote CASE-BY-CASE on proposals to adopt the CERES Principles, taking into account:

- o The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES
- o The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills
- o Environmentally conscious practices of peer companies, including endorsement of CERES
- o Costs of membership and implementation.

### ENVIRONMENTAL-ECONOMIC RISK REPORT

Vote CASE BY CASE on proposals requesting an economic risk assessment of environmental performance considering:

- o The feasibility of financially quantifying environmental risk factors,
- o The company's compliance with applicable legislation and/or regulations regarding environmental performance,
- o The costs associated with implementing improved standards,
- o The potential costs associated with remediation resulting from poor environmental performance, and
- o The current level of disclosure on environmental policies and initiatives.

### ENVIRONMENTAL REPORTS

Generally vote FOR requests for reports disclosing the company's environmental policies unless it already has well-documented environmental management systems that are available to the public.

### GLOBAL WARMING

Generally vote FOR proposals requesting a report on greenhouse gas emissions from company operations and/or products unless this information is already publicly disclosed or such factors are not integral to the company's line of business.

Generally vote AGAINST proposals that call for reduction in greenhouse gas emissions by specified amounts or within a restrictive time frame unless the company lags industry standards and has been the subject of recent, significant fines or litigation resulting from greenhouse gas emissions.

### RECYCLING

Vote CASE-BY-CASE on proposals to adopt a comprehensive recycling strategy, taking into account:

- o The nature of the company's business and the percentage affected
- o The extent that peer companies are recycling
- o The timetable prescribed by the proposal
- o The costs and methods of implementation

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o Whether the company has a poor environmental track record, such as violations of federal and state regulations.

### RENEWABLE ENERGY

In general, vote FOR requests for reports on the feasibility of developing renewable energy sources unless the report is duplicative of existing disclosure or irrelevant to the company's line of business.

Generally vote AGAINST proposals requesting that the company invest in renewable energy sources. Such decisions are best left to management's evaluation of the feasibility and financial impact that such programs may have on the company.

### SUSTAINABILITY REPORT

Generally vote FOR proposals requesting the company to report on policies and initiatives related to social, economic, and environmental sustainability, unless:

o The company already discloses similar information through existing reports or policies such as an Environment, Health, and Safety (EHS) report; comprehensive Code of Corporate Conduct; and/or Diversity Report; or

o The company has formally committed to the implementation of a reporting program based on Global Reporting Initiative (GRI) guidelines or a similar standard within a specified time frame.

### GENERAL CORPORATE ISSUES

#### OUTSOURCING/ OFFSHORING

Vote CASE BY CASE on proposals calling for companies to report on the risks associated with outsourcing, considering:

o Risks associated with certain international markets

o The utility of such a report to shareholders

o The existence of a publicly available code of corporate conduct that applies to international operations

### LINK EXECUTIVE COMPENSATION TO SOCIAL PERFORMANCE

Vote CASE-BY-CASE on proposals to review ways of linking executive compensation to social factors, such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities. Such resolutions should be evaluated in the context of:

o The relevance of the issue to be linked to pay

o The degree that social performance is already included in the company's pay structure and disclosed

o The degree that social performance is used by peer companies in setting pay

o Violations or complaints filed against the company relating to the particular social performance measure

o Artificial limits sought by the proposal, such as freezing or capping executive pay

o Independence of the compensation committee

o Current company pay levels.

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### CHARITABLE/POLITICAL CONTRIBUTIONS

Generally vote AGAINST proposals asking the company to affirm political nonpartisanship in the workplace so long as:

- o The company is in compliance with laws governing corporate political activities, and
- o The company has procedures in place to ensure that employee contributions to company-sponsored political action committees (PACs) are strictly voluntary and not coercive.

Vote AGAINST proposals to report or publish in newspapers the company's political contributions. Federal and state laws restrict the amount of corporate contributions and include reporting requirements.

Vote AGAINST proposals disallowing the company from making political contributions. Businesses are affected by legislation at the federal, state, and local level and barring contributions can put the company at a competitive disadvantage.

Vote AGAINST proposals restricting the company from making charitable contributions. Charitable contributions are generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should determine which contributions are in the best interests of the company.

Vote AGAINST proposals asking for a list of company executives, directors, consultants, legal counsels, lobbyists, or investment bankers that have prior government service and whether such service had a bearing on the business of the company. Such a list would be burdensome to prepare without providing any meaningful information to shareholders.

### LABOR STANDARDS AND HUMAN RIGHTS

#### CHINA PRINCIPLES

Vote AGAINST proposals to implement the China Principles unless:

- o There are serious controversies surrounding the company's China operations, and
- o The company does not have a code of conduct with standards similar to those promulgated by the International Labor Organization (ILO).

#### COUNTRY-SPECIFIC HUMAN RIGHTS REPORTS

Vote CASE-BY-CASE on requests for reports detailing the company's operations in a particular country and steps to protect human rights, based on:

- o The nature and amount of company business in that country
- o The company's workplace code of conduct
- o Proprietary and confidential information involved
- o Company compliance with U.S. regulations on investing in the country
- o Level of peer company involvement in the country.

#### INTERNATIONAL CODES OF CONDUCT/VENDOR STANDARDS

Vote CASE-BY-CASE on proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring. In evaluating these proposals, the following should be considered:

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- o The company's current workplace code of conduct or adherence to other global standards and the degree they meet the standards promulgated by the proponent
- o Agreements with foreign suppliers to meet certain workplace standards
- o Whether company and vendor facilities are monitored and how
- o Company participation in fair labor organizations
- o Type of business
- o Proportion of business conducted overseas
- o Countries of operation with known human rights abuses
- o Whether the company has been recently involved in significant labor and human rights controversies or violations
- o Peer company standards and practices
- o Union presence in company's international factories
- o Generally vote FOR reports outlining vendor standards compliance unless any of the following apply:
  - o The company does not operate in countries with significant human rights violations
  - o The company has no recent human rights controversies or violations, or
  - o The company already publicly discloses information on its vendor standards compliance.

### MACBRIDE PRINCIPLES

Vote CASE-BY-CASE on proposals to endorse or increase activity on the MacBride Principles, taking into account:

- o Company compliance with or violations of the Fair Employment Act of 1989
- o Company antidiscrimination policies that already exceed the legal requirements
- o The cost and feasibility of adopting all nine principles
- o The cost of duplicating efforts to follow two sets of standards (Fair Employment and the MacBride Principles)
- o The potential for charges of reverse discrimination
- o The potential that any company sales or contracts in the rest of the United Kingdom could be negatively impacted
- o The level of the company's investment in Northern Ireland
- o The number of company employees in Northern Ireland
- o The degree that industry peers have adopted the MacBride Principles
- o Applicable state and municipal laws that limit contracts with companies that have not adopted the MacBride Principles.

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### MILITARY BUSINESS FOREIGN MILITARY SALES/OFFSETS

Vote AGAINST reports on foreign military sales or offsets. Such disclosures may involve sensitive and confidential information. Moreover, companies must comply with government controls and reporting on foreign military sales.

### LANDMINES AND CLUSTER BOMBS

Vote CASE-BY-CASE on proposals asking a company to renounce future involvement in antipersonnel landmine production, taking into account:

- o Whether the company has in the past manufactured landmine components
- o Whether the company's peers have renounced future production
- o Vote CASE-BY-CASE on proposals asking a company to renounce future involvement in cluster bomb production, taking into account:
  - o What weapons classifications the proponent views as cluster bombs
  - o Whether the company currently or in the past has manufactured cluster bombs or their components
  - o The percentage of revenue derived from cluster bomb manufacture
  - o Whether the company's peers have renounced future production

### NUCLEAR WEAPONS

Vote AGAINST proposals asking a company to cease production of nuclear weapons components and delivery systems, including disengaging from current and proposed contracts. Components and delivery systems serve multiple military and non-military uses, and withdrawal from these contracts could have a negative impact on the company's business.

### OPERATIONS IN NATIONS SPONSORING TERRORISM (IRAN)

Vote CASE-BY-CASE on requests for a board committee review and report outlining the company's financial and reputational risks from its operations in Iran, taking into account current disclosure on:

- o The nature and purpose of the Iranian operations and the amount of business involved (direct and indirect revenues and expenses) that could be affected by political disruption
- o Compliance with U.S. sanctions and laws

### SPACED-BASED WEAPONIZATION

Generally vote FOR reports on a company's involvement in spaced-based weaponization unless:

- o The information is already publicly available or
- o The disclosures sought could compromise proprietary information.

### WORKPLACE DIVERSITY BOARD DIVERSITY

Generally vote FOR reports on the company's efforts to diversify the board, unless:

- o The board composition is reasonably inclusive in relation to companies of similar size and business or
- o The board already reports on its nominating procedures and diversity initiatives.

Generally vote AGAINST proposals that would call for the adoption of specific



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committee charter language regarding diversity initiatives unless the company fails to publicly disclose existing equal opportunity or nondiscrimination policies.

Vote CASE-BY-CASE on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- o The degree of board diversity
- o Comparison with peer companies
- o Established process for improving board diversity
- o Existence of independent nominating committee
- o Use of outside search firm
- o History of EEO violations.

### EQUAL EMPLOYMENT OPPORTUNITY (EEO)

Generally vote FOR reports outlining the company's affirmative action initiatives unless all of the following apply:

- o The company has well-documented equal opportunity programs
- o The company already publicly reports on its company-wide affirmative initiatives and provides data on its workforce diversity, and
- o The company has no recent EEO-related violations or litigation.

Vote AGAINST proposals seeking information on the diversity efforts of suppliers and service providers, which can pose a significant cost and administration burden on the company.

### GLASS CEILING

Generally vote FOR reports outlining the company's progress towards the Glass Ceiling Commission's business recommendations, unless:

- o The composition of senior management and the board is fairly inclusive
- o The company has well-documented programs addressing diversity initiatives and leadership development
- o The company already issues public reports on its company-wide affirmative initiatives and provides data on its workforce diversity, and
- o The company has had no recent, significant EEO-related violations or litigation

### SEXUAL ORIENTATION

Vote FOR proposals seeking to amend a company's EEO statement in order to prohibit discrimination based on sexual orientation, unless the change would result in excessive costs for the company.

Vote AGAINST proposals to extend company benefits to or eliminate benefits from domestic partners. Benefits decisions should be left to the discretion of the company.

### 10. MUTUAL FUND PROXIES ELECTION OF DIRECTORS

Vote the election of directors on a CASE-BY-CASE basis, considering the following factors: board structure; director independence and qualifications;

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and compensation of directors within the fund and the family of funds attendance at board and committee meetings.

Votes should be withheld from directors who:

- o attend less than 75 percent of the board and committee meetings
- o without a valid excuse for the absences. Valid reasons include illness or
- o absence due to company business. Participation via telephone is acceptable.
- o In addition, if the director missed only one meeting or one day's
- o meetings, votes should not be withheld even if such absence dropped the
- o director's attendance below 75 percent.
- o ignore a shareholder proposal that is approved by a majority of shares
- o outstanding;
- o ignore a shareholder proposal that is approved by a majority of the
- o votes cast for two consecutive years;
- o are interested directors and sit on the audit or nominating committee; or
- o are interested directors and the full board serves as the audit or
- o nominating committee or the company does not have one of these
- o committees.

### CONVERTING CLOSED-END FUND TO OPEN-END FUND

Vote conversion proposals on a CASE-BY-CASE basis, considering the following factors: past performance as a closed-end fund; market in which the fund invests; measures taken by the board to address the discount; and past shareholder activism, board activity, and votes on related proposals. Proxy Contests

Votes on proxy contests should be determined on a CASE-BY-CASE basis, considering the following factors:

- o Past performance relative to its peers
- o Market in which fund invests
- o Measures taken by the board to address the issues
- o Past shareholder activism, board activity, and votes on related proposals
- o Strategy of the incumbents versus the dissidents
- o Independence of directors o Experience and skills of director candidates o Governance profile of the company
- o Evidence of management entrenchment

### INVESTMENT ADVISORY AGREEMENTS

Votes on investment advisory agreements should be determined on a CASE-BY-CASE basis, considering the following factors:

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- o Proposed and current fee schedules
- o Fund category/investment objective
- o Performance benchmarks
- o Share price performance as compared with peers
- o Resulting fees relative to peers
- o Assignments (where the advisor undergoes a change of control)

### APPROVING NEW CLASSES OR SERIES OF SHARES

Vote FOR the establishment of new classes or series of shares.

### PREFERRED STOCK PROPOSALS

Votes on the authorization for or increase in preferred shares should be determined on a CASE-BY-CASE basis, considering the following factors: stated specific financing purpose, possible dilution for common shares, and whether the shares can be used for antitakeover purposes

### 1940 ACT POLICIES

Votes on 1940 Act policies should be determined on a CASE-BY-CASE basis, considering the following factors: potential competitiveness; regulatory developments; current and potential returns; and current and potential risk. Generally vote FOR these amendments as long as the proposed changes do not fundamentally alter the investment focus of the fund and do comply with the current SEC interpretation.

### CHANGING A FUNDAMENTAL RESTRICTION TO A NONFUNDAMENTAL RESTRICTION

Proposals to change a fundamental restriction to a nonfundamental restriction should be evaluated on a CASEBY- CASE basis, considering the following factors: the fund's target investments, the reasons given by the fund for the change, and the projected impact of the change on the portfolio.

### CHANGE FUNDAMENTAL INVESTMENT OBJECTIVE TO NONFUNDAMENTAL

Vote AGAINST proposals to change a fund's fundamental investment objective to nonfundamental.

### NAME CHANGE PROPOSALS

Votes on name change proposals should be determined on a CASE-BY-CASE basis, considering the following factors: political/economic changes in the target market, consolidation in the target market, and current asset composition

### CHANGE IN FUND'S SUBCLASSIFICATION

Votes on changes in a fund's subclassification should be determined on a CASE-BY-CASE basis, considering the following factors: potential competitiveness, current and potential returns, risk of concentration, and consolidation in target industry

### DISPOSITION OF ASSETS/TERMINATION/LIQUIDATION

Vote these proposals on a CASE-BY-CASE basis, considering the following factors: strategies employed to salvage the company; the fund's past performance; and terms of the liquidation.

### CHANGES TO THE CHARTER DOCUMENT

Votes on changes to the charter document should be determined on a CASE-BY-CASE basis, considering the following factors:

- o The degree of change implied by the proposal
- o The efficiencies that could result

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- o The state of incorporation
- o Regulatory standards and implications

Vote AGAINST any of the following changes:

- o Removal of shareholder approval requirement to reorganize or terminate the trust or any of its series
- o Removal of shareholder approval requirement for amendments to the new declaration of trust
- o Removal of shareholder approval requirement to amend the fund's management contract, allowing the contract to be modified by the investment manager and the trust management, as permitted by the 1940 Act
- o Allow the trustees to impose other fees in addition to sales charges on investment in a fund, such as deferred sales charges and redemption fees that may be imposed upon redemption of a fund's shares
- o Removal of shareholder approval requirement to engage in and terminate subadvisory arrangements
- o Removal of shareholder approval requirement to change the domicile of the fund

### CHANGING THE DOMICILE OF A FUND

Vote reincorporations on a CASE-BY-CASE basis, considering the following factors: regulations of both states; required fundamental policies of both states; and the increased flexibility available.

### AUTHORIZING THE BOARD TO HIRE AND TERMINATE SUBADVISORS WITHOUT SHAREHOLDER APPROVAL

Vote AGAINST proposals authorizing the board to hire/terminate subadvisors without shareholder approval.

### DISTRIBUTION AGREEMENTS

Vote these proposals on a CASE-BY-CASE basis, considering the following factors: fees charged to comparably sized funds with similar objectives, the proposed distributor's reputation and past performance, the competitiveness of the fund in the industry, and terms of the agreement.

### MASTER-FEEDER STRUCTURE

Vote FOR the establishment of a master-feeder structure.

### MERGERS

Vote merger proposals on a CASE-BY-CASE basis, considering the following factors: resulting fee structure, performance of both funds, continuity of management personnel, and changes in corporate governance and their impact on shareholder rights.

### SHAREHOLDER PROPOSALS TO ESTABLISH DIRECTOR OWNERSHIP REQUIREMENT

Generally vote AGAINST shareholder proposals that mandate a specific minimum amount of stock that directors must own in order to qualify as a director or to remain on the board. While ISS favors stock ownership on the part of directors, the company should determine the appropriate ownership requirement.

### SHAREHOLDER PROPOSALS TO REIMBURSE SHAREHOLDER FOR EXPENSES INCURRED

Voting to reimburse proxy solicitation expenses should be analyzed on a CASE-BY-CASE basis. In cases where ISS recommends in favor of the dissidents, we also recommend voting for reimbursing proxy solicitation expenses.

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### SHAREHOLDER PROPOSALS TO TERMINATE THE INVESTMENT ADVISOR

Vote to terminate the investment advisor on a CASE-BY-CASE basis, considering the following factors: performance of the fund's NAV, the fund's history of shareholder relations, and the performance of other funds under the advisor's management.

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

Not applicable.

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

Not applicable.

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

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's Board of Directors since the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(g) of Schedule 14A in its definitive proxy statement dated April 28, 2004.

### ITEM 11. CONTROLS AND PROCEDURES.

(a) As a date within 90 days from the filing date of this report, the principal executive officer and the principal financial officer concluded that that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) were effective based on their evaluation of the disclosure controls and procedures required by Rule 30a-3 (b) under the Act and Rules 13a-15(b) or 15d-15(b) under the Securities and Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as define in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are 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.CODEETH.

(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-99.906CERT.

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

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Name: Ralph W. Bradshaw  
Title: Principal Executive Officer  
Date: March 9, 2005

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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 9, 2005

By:/S/ JODI B. LEVINE

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Name: Jodi B. Levine  
Title: Principal Financial Officer  
Date: March 9, 2005