

CORNERSTONE STRATEGIC VALUE FUND INC/ NEW
Form N-CSR
March 08, 2004

OMB APPROVAL

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05150

Cornerstone Strategic Value 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 AVE, NEW YORK, NY

(Name and address of agent for service)

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

Date of fiscal year end: DECEMBER 31, 2003

Date of reporting period: JANUARY 1, 2003 THROUGH DECEMBER 31, 2003

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

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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.

Include a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Act (17 CFR 270.30e-1).

CORNERSTONE STRATEGIC VALUE FUND, INC.

DECEMBER 31, 2003

This update contains the following two documents:

- o Letter from the Fund's Chairman
- o Annual Report to Shareholders

LETTER FROM THE FUND'S CHAIRMAN

January 23, 2004

Dear Fellow Shareholders:

We present the following annual report for Cornerstone Strategic Value Fund, Inc. (the "Fund"), covering the year ended December 31, 2003. At the end of the period, the Fund's net assets were \$26.6 million and the Net Asset Value ("NAV") per share was \$6.90. The share price closed at \$9.00 and the Fund's price discount to NAV improved from 8.7% at the beginning of the year to a premium of

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30.4% at the end. After reflecting the reinvestment of monthly distributions totaling \$0.99 per share, the Fund achieved a total investment return at market value of 77.7% for the year ended December 31, 2003.

CREATING VALUE

Under the leadership of the Board of Directors, the Fund has made substantial progress in creating value for its shareholders. A concerted effort to reduce expenses, coupled with the Fund's investment manager volunteering to waive substantial management fees, held the overall expense ratio to 1.2% for the year.

As you are aware, the Fund instituted an aggressive fixed, monthly distribution policy in 2002 designed to provide significant flexibility to all of the Fund's shareholders. It is our belief that shareholders are well served by this policy that provides regular distributions whether markets are up or down. We are proud of this innovative concept and believe it has contributed significantly to the Fund's positive performance.

Over the long-run, a well-managed, diversified equity portfolio provides the best risk/reward tradeoff for many investors. Long-term equity returns are generally found to be higher than those with fixed-income or balanced programs and favorable tax treatment on capital gains makes the net returns even better for taxable investors. The Fund's distribution policy recognizes that many investors are willing to accept the potentially higher asset volatility in this approach, but would prefer that stable distributions were available to them each year to either reinvest or utilize for other purposes of their choosing.

Shortly after the end of the year, it is determined what portion of these distributions is attributable to income, capital gains, or return-of-capital. This year, the Fund's asset base grew even though a large portion of the year's distribution was classified as a return-of-capital. It is important for shareholders to consult their tax advisor on proper recognition of the return-of-capital distributions with regard to the cost basis of their shares.

Each shareholder has the option to receive their distributions in cash or new shares of the Fund and may change this election whenever they wish. It is a goal that long-term investment returns will exceed the level of distributions, but there is no guarantee that this goal will be met. If the amount of distributions taken in cash exceeds the total investment return of the Fund, the assets of the Fund will decline. If the total investment return of the Fund exceeds the amount of cash distributions, as it did in 2003, the assets of the Fund will increase. The distributions of those who chose to reinvest in 2003 participated in the Fund's strong market performance. We encourage you to consider the reinvestment option for your distributions from the Fund.

LETTER FROM THE FUND'S CHAIRMAN (CONTINUED)

ECONOMIC AND MARKET SUMMARY

What a difference a year can make. After shrugging off early concerns centered on Iraq, the major indices closed out 2003 strongly positive. In addition to

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good global news, stocks responded to a fast-recovering economy, benign inflation, and rising profits. In a reversal of the situation for 2002, almost every area of the U.S. equity market was up at the end of 2003. Tax cuts, increased government spending, and the Federal Reserve's accommodative policy toward low interest rates all contributed to boost economic activity. The U.S. economy seemed to be running wide-open as the GDP grew at an almost unheard of annualized rate of 8.2% in the third quarter.

To be sure, both the economy and the markets face risk. Stimulus may generate enough growth to reawaken inflation concerns and lead to increased interest rates. Prices for many equities, which are high relative to earnings, may be vulnerable to even small disappointments. Significantly, the unemployment level remained surprisingly high, though it dropped near the end of the year. In spite of this, consumer confidence continues to improve as many continue to anticipate job growth.

PORTFOLIO PERFORMANCE

The Fund's broadly diversified portfolio performed well in this year's market climb, turning in double digit performance and comparing well with its benchmark S&P 500 Index return of 28.7%. We believe that this approach has served well through both up and down markets of recent years and will continue to benefit the Fund and its stockholders for the long-term.

The investment manager attempts to enhance portfolio performance by taking advantage of temporary and occasional pricing inefficiencies in certain securities. To that end, the percentage of the portfolio represented by discounted closed-end funds increased. The availability and magnitude of such opportunities are unpredictable, and therefore, their effect on possible portfolio out-performance may vary considerably from year to year.

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LETTER FROM THE FUND'S CHAIRMAN (CONCLUDED)

The Fund's Board of Directors, its officers, and its investment manager are mindful of the trust that the Fund's shareholders have placed in us. We know you have a choice, we appreciate your support, and we look forward to continuing our service to you in the future.

Sincerely,

/s/ Ralph W. Bradshaw

Ralph W. Bradshaw
Chairman

IN ADDITION TO HISTORICAL INFORMATION, THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS, WHICH MAY CONCERN, AMONG OTHER THINGS, DOMESTIC AND FOREIGN MARKET, INDUSTRY AND ECONOMIC TRENDS AND DEVELOPMENTS AND GOVERNMENT REGULATION AND THEIR POTENTIAL IMPACT ON THE FUND'S INVESTMENT PORTFOLIO. THESE STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES AND ACTUAL TRENDS, DEVELOPMENTS AND REGULATIONS IN THE FUTURE AND THEIR IMPACT ON THE FUND COULD BE MATERIALLY DIFFERENT FROM THOSE PROJECTED, ANTICIPATED OR IMPLIED. THE FUND HAS NO OBLIGATION TO UPDATE OR REVISE FORWARD-LOOKING STATEMENTS.

THIS LETTER FROM THE FUND'S CHAIRMAN IS NOT A PART OF THE ANNUAL REPORT TO SHAREHOLDERS THAT FOLLOWS.

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CORNERSTONE STRATEGIC
VALUE FUND, INC.

ANNUAL REPORT
DECEMBER 31, 2003

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Portfolio Summary

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CORNERSTONE STRATEGIC VALUE FUND, INC.
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2003 (UNAUDITED)

TOP TEN, BY SECTOR

Sector	Percent of Net Assets
1. Financials	18.7
2. Information Technology	15.8
3. Consumer Discretionary	12.5
4. Healthcare	11.7
5. Industrials	10.8
6. Closed-End Domestic Funds	8.8
7. Consumer Staples	7.9
8. Energy	5.5
9. Telecommunication Services	3.4
10. Materials	2.6

TOP TEN HOLDINGS, BY ISSUER

Holding	Sector	Percent of Net Assets
1. General Electric Co.	Industrials	3.4
2. Microsoft Corp.	Information Technology	3.1
3. Exxon Mobil Corp.	Energy	2.9

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4. Pfizer Inc.	Healthcare	2.7
5. Wal-Mart Stores, Inc.	Consumer Discretionary	2.7
6. Tri-Continental Corp.	Closed-End Domestic Funds	2.4
7. Citigroup Inc.	Financials	2.4
8. Intel Corp.	Information Technology	2.4
9. Adams Express Co.	Closed-End Domestic Funds	2.3
10. American International Group, Inc.	Financials	2.3

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CORNERSTONE STRATEGIC VALUE FUND, INC.
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2003

Description	No. of Shares	Value (Note A)
EQUITY SECURITIES - 99.51%		
CLOSED-END DOMESTIC FUNDS - 8.77%		
Adams Express Co.	49,500	\$ 614,295
General American Investors Co., Inc.	10,500	312,165
Salomon Brothers Fund, Inc. (The)	18,400	221,352
Tri-Continental Corp.	39,000	639,600
Zweig Fund, Inc.	110,400	540,960
		2,328,372
CONSUMER DISCRETIONARY - 12.45%		
Bed Bath & Beyond Inc. +	1,000	43,350
Best Buy Co., Inc.	1,000	52,240
Carnival Corp.	2,100	83,433
Clear Channel Communications, Inc.	2,100	98,343
Comcast Corp., Class A +	3,882	127,601
Costco Wholesale Corp. +	1,500	55,770
CVS Corp.	1,500	54,180
Delphi Corp.	2,000	20,420
Ford Motor Co.	6,500	104,000
Fortune Brands, Inc.	1,000	71,490
Gannett Co., Inc.	1,000	89,160
Gap, Inc. (The)	2,700	62,667
General Motors Corp.	1,900	101,460
Goodyear Tire & Rubber Co. (The) +	2,500	19,650
Harley-Davidson, Inc.	1,000	47,530
Hilton Hotels Corp.	1,500	25,695
Home Depot, Inc. (The)	6,100	216,489
Kohl's Corp. +	1,000	44,940
Lowe's Companies, Inc.	2,500	138,475
Marriott International, Inc.,		

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Class A 1,000 46,200

Description	No. of Shares	Value (Note A)
CONSUMER DISCRETIONARY (CONTINUED)		
May Department Stores Co. (The)	1,000	\$ 29,070
McDonald's Corp.	2,100	52,143
NIKE, Inc., Class B	1,000	68,460
Omnicom Group Inc.	1,000	87,330
Reebok International Ltd.	1,500	58,980
Staples, Inc. +	1,500	40,950
Starbucks Corp. +	1,200	39,672
Target Corp.	3,200	122,880
Time Warner Inc. +	10,500	188,895
Viacom Inc., non-voting Class B	6,000	266,280
Wal-Mart Stores, Inc.	13,300	705,565
Walt Disney Co. (The)	4,700	109,651
Yum! Brands, Inc. +	1,000	34,400

		3,307,369

CONSUMER STAPLES - 7.86%		
Albertson's, Inc.	2,500	56,625
Altria Group, Inc.	4,900	266,658
Anheuser-Busch Companies, Inc.	2,200	115,896
Archer-Daniels-Midland Co.	2,415	36,756
Coca-Cola Co. (The)	6,500	329,875
Colgate-Palmolive Co.	1,000	50,050
ConAgra Foods, Inc.	1,900	50,141
General Mills, Inc.	2,500	113,250
Gillette Co. (The)	2,600	95,498
Kimberly-Clark Corp.	900	53,181
Kroger Co. (The) +	3,500	64,785
PepsiCo, Inc.	5,100	237,762
Procter & Gamble Co. (The)	3,800	379,544
Sysco Corp.	3,300	122,859
Walgreen Co.	3,200	116,416

		2,089,296

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CORNERSTONE STRATEGIC VALUE FUND, INC.
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2003 (CONTINUED)

Description	No. of Shares	Value (Note A)
ENERGY - 5.48%		
Anadarko Petroleum Corp.	900	\$ 45,909

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Baker Hughes Inc.	2,500	80,400
CenterPoint Energy, Inc.	2,500	24,225
ChevronTexaco Corp.	3,340	288,543
ConocoPhillips	1,728	113,305
Exxon Mobil Corp.	19,000	779,000
Reliant Resources, Inc. +	1,971	14,506
Schlumberger Ltd.	2,000	109,440

1,455,328

FINANCIALS - 18.69%

AFLAC Inc.	1,900	68,742
Allstate Corp. (The)	2,500	107,550
American Express Co.	3,000	144,690
American International Group, Inc.	9,042	599,304
Bank of America Corp.	3,900	313,677
Bank of New York Co., Inc. (The)	2,500	82,800
Bank One Corp.	2,600	118,534
BB&T Corp.	1,600	61,824
Charles Schwab Corp. (The)	2,500	29,600
Citigroup Inc.	13,100	635,874
Fannie Mae	2,200	165,132
Fifth Third Bancorp	2,000	118,200
FleetBoston Financial Corp.	2,400	104,760
Freddie Mac	2,500	145,800
Goldman Sachs Group, Inc. (The)	1,300	128,349
HSBC Holdings plc, ADR	963	75,904
J. P. Morgan Chase & Co.	6,000	220,380
Marsh & McLennan Companies, Inc.	4,000	191,560

Description	No. of Shares	Value (Note A)
FINANCIALS (CONTINUED)		
MBNA Corp.	3,000	\$ 74,550
Mellon Financial Corp.	1,800	57,798
Merrill Lynch & Co., Inc.	2,000	117,300
MetLife, Inc.	2,700	90,909
Morgan Stanley	3,500	202,545
National City Corp.	2,200	74,668
PNC Financial Services Group	1,100	60,203
Prudential Financial, Inc.	2,500	104,425
State Street Corp.	1,000	52,080
SunTrust Banks, Inc.	1,100	78,650
Travelers Property Casualty Corp., Class A	738	12,383
Travelers Property Casualty Corp., Class B	1,517	25,743
U.S. Bancorp	4,200	125,076
Wachovia Corp.	3,600	167,724
Washington Mutual, Inc.	3,150	126,378
Wells Fargo & Co.	4,800	282,672
		----- 4,965,784 -----

HEALTHCARE - 11.67%

Abbott Laboratories	4,000	186,400
Amgen Inc. +	3,500	216,300
Baxter International Inc.	2,500	76,300

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Boston Scientific Corp. +	3,000	110,280
Bristol-Myers Squibb Co.	4,500	128,700
Cardinal Health, Inc.	1,000	61,160
Eli Lilly & Co.	3,000	210,990
HCA Inc.	2,000	85,920
HEALTHSOUTH Corp. +	2,500	11,450

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CORNERSTONE STRATEGIC VALUE FUND, INC.
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2003 (CONTINUED)

Description	No. of Shares	Value (Note A)

HEALTHCARE (CONTINUED)		
Johnson & Johnson	7,500	\$ 387,450
McKesson Corp.	1,000	32,160
Medco Health Solutions, Inc. +	723	24,575
Medtronic, Inc.	4,300	209,023
Merck & Co. Inc.	6,000	277,200
Pfizer Inc.	20,500	724,265
Schering-Plough Corp.	2,500	43,475
UnitedHealth Group Inc.	3,000	174,540
Wyeth	3,300	140,085

		3,100,273

INDUSTRIALS - 10.80%		
3M Co.	2,000	170,060
Automatic Data Processing, Inc.	2,000	79,220
Boeing Co. (The)	3,000	126,420
Caterpillar Inc.	1,300	107,926
Cendant Corp. +	2,700	60,129
Concord EFS, Inc. +	2,500	37,100
Emerson Electric Co.	1,500	97,125
FedEx Corp.	1,000	67,500
General Electric Co.	29,000	898,420
Honeywell International Inc.	2,800	93,604
Illinois Tool Works Inc.	1,000	83,910
Lockheed Martin Corp.	1,500	77,100
Masco Corp.	1,700	46,597
Paychex, Inc.	2,500	93,000
Southwest Airlines Co.	2,700	43,578
Transocean Inc. +	2,500	60,025
Tyco International Ltd.	7,000	185,500
Union Pacific Corp.	1,000	69,480
United Parcel Service, Inc., Class B	3,500	260,925
United Technologies Corp.	1,700	161,109
Waste Management, Inc.	1,700	50,320

		2,869,048

No. of

Value

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Description	Shares	(Note A)

INFORMATION TECHNOLOGY - 15.78%		
Agere Systems Inc., Class A +	115	\$ 351
Agere Systems Inc., Class B +	2,830	8,207
Agilent Technologies, Inc.	1,800	52,632
Altera Corp. +	1,500	34,050
Analog Devices, Inc.	1,000	45,650
Applied Materials, Inc. +	2,900	65,105
Cisco Systems, Inc. +	16,900	410,501
Corning Inc. +	3,000	31,290
Dell Inc. +	6,500	220,740
Electronic Data Systems Corp.	1,000	24,540
EMC Corp. +	7,000	90,440
First Data Corp.	5,000	205,450
Hewlett-Packard Co.	7,800	179,166
Intel Corp.	19,500	627,900
International Business Machines Corp.	5,400	500,472
Linear Technology Corp.	1,000	42,070
Maxim Integrated Products, Inc.	1,000	49,800
Micron Technology, Inc. +	2,500	33,675
Microsoft Corp.	30,200	831,708
Motorola, Inc.	6,600	92,862
Oracle Corp. +	12,300	162,360
QUALCOMM Inc.	2,500	134,825
Sanmina-SCI Corp. +	2,500	31,525
Siebel Systems, Inc. +	2,500	34,675
Solelectron Corp. +	3,000	17,730
Sun Microsystems, Inc. +	7,500	33,675
Texas Instruments Inc.	4,900	143,962
Yahoo! Inc. +	1,900	85,823

		4,191,184

MATERIALS - 2.56%		
Air Products & Chemicals, Inc.	1,000	52,830
Alcoa Inc.	3,100	117,800
Dow Chemical Co. (The)	2,700	112,239

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CORNERSTONE STRATEGIC VALUE FUND, INC.
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2003 (CONCLUDED)

Description	No. of Shares	Value (Note A)

MATERIALS (CONTINUED)		
E. I. du Pont de Nemours & Co.	2,200	\$ 100,958
Georgia-Pacific Corp.	1,000	30,670
International Paper Co.	2,000	86,220
Praxair, Inc.	3,000	114,600
Weyerhaeuser Co.	1,000	64,000

		679,317

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TELECOMMUNICATION SERVICES - 3.39%		
AT&T Corp.	2,400	48,720
AT&T Wireless Services Inc. +	4,522	36,131
BellSouth Corp.	6,500	183,950
Lucent Technologies Inc. +	10,700	30,388
Nextel Communications, Inc., Class A +	2,500	70,150
SBC Communications Inc.	7,900	205,953
Sprint Corp. (FON Group)	3,000	49,260
Verizon Communications Inc.	7,900	277,132

		901,684

UTILITIES - 2.06%		
American Electric Power Co., Inc.	1,200	36,612
Dominion Resources, Inc.	1,000	63,830
Duke Energy Corp.	2,800	57,260
Edison International +	2,500	54,825
FirstEnergy Corp.	2,500	88,000
Scottish Power plc, ADR	4,000	108,720
Southern Co. (The)	2,400	72,600
TXU Corp.	1,000	23,720
Xcel Energy, Inc.	2,500	42,450

		548,017

TOTAL EQUITY SECURITIES		
(cost - \$24,321,218)		26,435,672

Description	Amount (000's)	Principal Value (Note A)

SHORT-TERM INVESTMENTS - 2.38%		
REPURCHASE AGREEMENTS - 2.38%		
Bear, Stearns & Co. Inc. (Agreement dated 12/31/03 to be repurchased at \$139,984), 0.85%, 01/02/04 (Note F)	\$ 140	\$ 139,977
Bear, Stearns & Co. Inc. (Agreement dated 12/31/03 to be repurchased at \$425,613), 1.06%*, 01/02/04 ** (Note E)	426	425,588
Bear, Stearns & Co. Inc. (Agreement dated 12/31/03 to be repurchased at \$65,647), 0.94%*, 01/02/04 ** (Note E)	66	65,644

TOTAL SHORT-TERM INVESTMENTS		631,209
(cost - \$631,209)		-----
TOTAL INVESTMENTS - 101.89%		
(cost - \$24,952,427) (Notes A, E, F, G)		27,066,881

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LIABILITIES IN EXCESS OF OTHER	(501,574)
ASSETS - (1.89)%	-----
NET ASSETS - 100.00%	\$ 26,565,307 =====

- + Non-income producing security.
- * Stated interest rate, before rebate earned by borrower of securities on loan.
- * * Represents investment purchased with cash collateral recieved. ADR American Depositary Receipts.

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CORNERSTONE STRATEGIC VALUE FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2003

ASSETS	
Investments, at value (Cost \$24,952,427) (Notes A, E, F, G)	\$ 27,066,881
Receivables:	
Dividends	34,112
Interest	176
Prepaid expenses	877

Total Assets	27,102,046 -----
LIABILITIES	
Payables:	
Upon return of securities loaned (Note E)	491,232
Investment management fees (Note B)	15,332
Other accrued expenses	30,175

Total Liabilities	536,739 -----
NET ASSETS (applicable to 3,849,524 shares of common stock outstanding)	\$ 26,565,307 =====
NET ASSET VALUE PER SHARE (\$26,565,307 / 3,849,524)	\$ 6.90 =====
NET ASSETS CONSISTS OF	
Capital stock, \$0.01 par value; 3,849,524 shares outstanding (25,000,000 shares authorized)	\$ 38,495
Paid-in capital	52,228,222
Cost of 2,239,440 shares repurchased	(26,999,661)
Accumulated net realized loss on investments	(816,203)
Net unrealized appreciation in value of investments	2,114,454

Net assets applicable to shares outstanding	\$ 26,565,307 =====

See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.
STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2003

INVESTMENT INCOME	
Income (Note A):	
Dividends	\$ 461,054
Interest	2,379

Total Investment Income	463,433

Expenses:	
Investment management fees (Note B)	246,113
Administration fees	50,000
Accounting fees	28,413
Legal and audit fees (Note B)	16,730
Transfer agent fees	14,510
Directors' fees	13,697
Stock exchange listing fees	10,359
Custodian fees	5,970
Insurance	4,604
Miscellaneous	301

Total Expenses	390,697
Less: Management fee waivers (Note B)	(82,098)
Less: Fees paid indirectly (Note B)	(13,413)

Net Expenses	295,186

Net Investment Income	168,247

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized loss from investments	(231,146)
Net change in unrealized depreciation in value of investments	5,737,591

Net realized and unrealized gain on investments	5,506,445

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 5,674,692
	=====

See accompanying notes to financial statements.

CORNERSTONE STRATEGIC VALUE FUND, INC.
STATEMENT OF CHANGES IN NET ASSETS

	For the Years December	
	2003	

INCREASE/(DECREASE) IN NET ASSETS Operations:		
Net investment income/(loss)	\$ 168,247	\$
Net realized loss from investments	(231,146)	
Net change in unrealized appreciation/(depreciation) in value of investments	5,737,591	

Net increase/(decrease) in net assets resulting from operations	5,674,692	

Dividends and distributions to shareholders (Notes A, G):		
Net investment income	(168,247)	
Return-of-capital	(3,636,161)	

Total dividends and distributions to shareholders	(3,804,408)	

Capital stock transactions (Note D):		
Proceeds from 45,927 and 33,037 shares newly issued in reinvestment of dividends and distributions, respectively	319,214	
Cost of 62,000 shares repurchased	--	

Net increase/(decrease) in net assets resulting from capital stock transactions	319,214	

Total increase/(decrease) in net assets	2,189,498	

NET ASSETS		
Beginning of year	24,375,809	

End of year	\$ 26,565,307	\$
	=====	=====

See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.
FINANCIAL HIGHLIGHTS

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

	For the Years Ended Dec		
	2003	2002	2001
	-----	-----	-----
PER SHARE OPERATING PERFORMANCE			
Net asset value, beginning of year	\$ 6.41	\$ 9.20	\$ 11.31
Net investment income/(loss) #	0.04	(0.01)	(0.06)
Net realized and unrealized gain/(loss) on investments and foreign currency related translations	1.44	(2.29)	(2.13)
Net increase/(decrease) in net assets resulting from operations	1.48	(2.30)	(2.19)
Dividends and distributions to shareholders:			
Net investment income	(0.04)	--	--
Net realized gain on investments and foreign currency related transactions	--	--	--
Return-of-capital	(0.95)	(0.50)	--
Total dividends and distributions to shareholders	(0.99)	(0.50)	--
Capital stock transactions:			
Anti-dilutive effect due to capital stock repurchased	--	0.02	0.08
Dilutive effect due to shares issued in reinvestment of distributions	--	(0.01)	--
Total capital stock transactions	--	0.01	0.08
Net asset value, end of year	\$ 6.90	\$ 6.41	\$ 9.20
Market value, end of year	\$ 9.00	\$ 5.85	\$ 8.05
Total investment return (a) (b)	77.69%	(20.85)%	(23.98)%
RATIOS/SUPPLEMENTAL DATA			
Net assets, end of year (000 omitted)	\$ 26,565	\$ 24,376	\$ 35,256
Ratio of expenses to average net assets, net of fee waivers, if any (c)	1.20%	1.80%	1.77%
Ratio of expenses to average net assets, excluding fee waivers, if any (d)	1.59%	2.17 %	2.11%

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Ratio of expenses to average net assets, net of fee waivers, if any (d)	1.25%	1.86%	1.95%
Ratio of net investment income/(loss) to average net assets	0.68%	(0.13)%	(0.64)%
Portfolio turnover	11.88%	29.63%	59.83%

See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Cornerstone Strategic Value Fund, Inc. (the "Fund") was incorporated in Maryland on May 1, 1987 and commenced investment operations on June 30, 1987. Its investment objective is to seek long-term capital appreciation through investment in equity securities of companies listed in the United States. 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, 2003, the Fund held no securities valued in good faith by the Board of Directors. The net asset value per share of the Fund is calculated weekly and on the last business day of the month with the exception of those days on which the 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 "Manager" or "Cornerstone") considers creditworthy. The seller under a repurchase agreement will be required to maintain the value of the securities as collateral, subject to the agreement at not less than the repurchase price plus accrued interest. Cornerstone monitors daily, the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Fund to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

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

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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.

DISTRIBUTIONS OF INCOME AND GAINS: Effective June 25, 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. Prior thereto, the Fund distributed at least annually to shareholders, substantially all of its net investment income and net realized short-term capital gains, if any. 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. An additional distribution may be made to the extent necessary to avoid the payment of a 4% U.S. federal excise tax. 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, 2003 from net investment income or net realized gains may differ from their ultimate characterization for U.S. federal 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 waive its management fees from the Fund to the extent that monthly operating expenses exceed 0.10% of average net assets calculated monthly. For the year ended December 31, 2003, Cornerstone earned \$246,113 for investment management services, of which it waived \$82,098. Effective January 1, 2004, the Manager has voluntarily undertaken to waive its investment management fees to the extent such total operating expenses exceed an annualized rate of 0.125% in

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a month. The 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 \$13,413 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$10,600 and \$1,300 for the year ended December 31, 2003 for legal services to Blank Rome LLP ("Blank") and Spitzer & Feldman P.C. ("Spitzer"), current and former counsel, respectively, to the Fund. Thomas R. Westle, a current partner of Blank and former partner of Spitzer, serves as secretary of the Fund.

At December 31, 2003, pursuant to regulatory filings, separate shareholders owned approximately 7% and 16% of the outstanding shares of the Fund based on Schedule 13D/A and Schedule 13G/A filings with the Securities and Exchange Commission on May 9, 2003 and January 9, 2004, respectively.

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CORNERSTONE STRATEGIC VALUE FUND, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C. INVESTMENT IN SECURITIES

For the year ended December 31, 2003, purchases and sales of securities, other than short-term investments, were \$2,909,301 and \$6,230,232 respectively.

NOTE D. SHARE REPURCHASE PROGRAM

On October 5, 1998, the Fund commenced a share repurchase program for purposes of enhancing shareholder value and reducing the discount at which the Fund's shares traded from their net asset value. The Fund had no repurchases for the year ended December 31, 2003. For the year ended December 31, 2002, the Fund repurchased 62,000 of its shares for a total cost of \$419,744 at a weighted average discount of 12.93% from net asset value. The discount of individual repurchases ranged from 6.11% - 17.42%. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of its foregoing objectives, subject to review by the Board of Directors. 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 10% 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

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party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. In the event that the borrower fails to return securities, and collateral maintained by the lender is insufficient to cover the value of loaned securities, the borrower is obligated to pay the amount of the shortfall (and interest thereon) to the Fund. However, there can be no assurance the Fund can recover this amount. The value of securities on loan to brokers at December 31, 2003, was \$474,287. Any cash collateral received is reinvested into repurchase agreements, which in turn is collateralized by various U.S. Government and Agency securities. These repurchase agreements have been segregated to satisfy the future commitment to return the cash collateral.

During the year ended December 31, 2003, the Fund earned \$529 in securities lending income which 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, 2003.

ISSUER	PRINCIPAL AMOUNT (000'S)	MATURITY	MARKET VALUE
United States Treasury Bond, (interest only)	\$ 260	11/15/15	\$ 145,915 =====

NOTE G. FEDERAL INCOME TAXES

Income and capital gains distributions are determined in accordance with federal income tax

CORNERSTONE STRATEGIC VALUE FUND, INC.
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

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 characteristics of dividends and distributions paid during the year ended December 31, 2003 were ordinary income and return-of-capital of \$168,247 and \$3,636,161, respectively.

At December 31, 2003, the components of distributable earnings on a tax basis, for the Fund were as follows:

Capital loss carryforward	\$ (736,070)
Unrealized appreciation	2,114,454

Total gain	\$1,378,384 =====

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Under current tax law, certain capital losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year ("Post-October losses"). For the tax period ended December 31, 2003, the Fund incurred and elected to defer net realized losses from investments of \$80,133.

At December 31, 2003, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$736,070 of which \$142,060 expires in 2009, \$442,997 expires in 2010 and \$151,013 expires in 2011.

At December 31, 2003, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were \$24,952,427, \$3,728,026, \$(1,613,572) and \$2,114,454, respectively.

At December 31, 2003, the Fund reclassified \$3,636,161 from distributions in excess of net investment income to paid-in capital, to adjust for current period permanent book/tax differences. Net assets were not affected by the reclassification.

NOTE H. SUBSEQUENT EVENT

During a meeting held on February 20, 2004, the Fund's Board of Directors approved two separate mergers (the "Mergers") of the Fund with Progressive Return Fund, Inc. ("PGF") and with Investors First Fund, Inc. ("MGC"). If either or both of the separate Mergers receives shareholder approval, each of PGF and MGC will cease to exist, the Fund will be the surviving legal corporation and each share of common stock of PGF and MGC will be converted into an equivalent dollar amount of full and fractional shares of common stock of the Fund based on the relative net asset values of the Fund and each of PGF and MGC, respectively. Consummation of each of the separate Mergers are subject to a number of conditions, including shareholder approval and certain regulatory approvals. The Mergers of the Fund with either PGF or MGC are separate decisions and not contingent on each other. It is proposed that the Mergers be effective on or about May 28, 2004.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors
Cornerstone Strategic Value Fund, Inc.
New York, New York

We have audited the accompanying statement of assets and liabilities of Cornerstone Strategic Value Fund, Inc., including the schedule of investments, as of December 31, 2003, and the related statement of operations for the year then ended, and the statement of changes in net assets and the financial highlights for each of the two 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 three years in the period ended December 31, 2001 have been audited by other auditors, whose report dated February 18, 2002 expressed an unqualified opinion on such financial highlights.

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2003 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, 2003, the results of its operations for the year then ended, and the changes in its net assets and the financial highlights for each of the two 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 13, 2004

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TAX INFORMATION (UNAUDITED)

Cornerstone Strategic Value 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, 2003) as to the U.S. federal tax status of dividends and distributions received by the Fund's shareholders in respect of such fiscal year. During the year ended December 31, 2003 the following dividends and distributions per share were paid by the Fund:

PAYMENT DATE:	1/31/03	2/28/03	3/31/03	4/30/03	5/30/03
	-----	-----	-----	-----	-----
Ordinary Income:	\$ 0.0036	\$ 0.0036	\$ 0.0036	\$ 0.0036	\$ 0.0036
Return-of-Capital:	\$ 0.0789	\$ 0.0789	\$ 0.0789	\$ 0.0789	\$ 0.0789
	-----	-----	-----	-----	-----
Total:	\$ 0.0825	\$ 0.0825	\$ 0.0825	\$ 0.0825	\$ 0.0825
	=====	=====	=====	=====	=====
PAYMENT DATE:	7/31/03	8/29/03	9/30/03	10/31/03	11/28/03
	-----	-----	-----	-----	-----
Ordinary Income:	\$ 0.0036	\$ 0.0036	\$ 0.0036	\$ 0.0036	\$ 0.0036
Return-of-Capital:	\$ 0.0789	\$ 0.0789	\$ 0.0789	\$ 0.0789	\$ 0.0789
	-----	-----	-----	-----	-----
Total:	\$ 0.0825	\$ 0.0825	\$ 0.0825	\$ 0.0825	\$ 0.0825
	=====	=====	=====	=====	=====

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

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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 as noted on Box 1B on Form 1099-DIV. Please note that to utilize the lower tax rate for qualifying dividend income shareholders must have held their shares in the Fund for 60 days or more.

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 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 OFFICERS (UNAUDITED)

NAME AND ADDRESS (AGE)*	POSITION(S) HELD WITH FUND	PRINCIPAL OCCUPATION OVER LAST 5 YEARS
Ralph W. Bradshaw** (53)	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 Investors First Fund, Inc., Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc.
Thomas H. Lenagh (81)	Director	Chairman of the Board of Photonics Products Group; Independent Financial Adviser; Director of Investors First Fund, Inc., Cornerstone Total Return Fund, Inc., Progressive Return Fund, Inc., The Adams Express Company and Petroleum and Resources Corporation.
Edwin Meese III (72)	Director	Distinguished Fellow, The Heritage Foundation, Washington D.C.; Distinguished Visiting Fellow at the Hoover Institution, Stanford University; Distinguished Senior Fellow at the Institute of United States Studies, University of London; Senior Adviser, Revelation L.P.; Formerly U.S. Attorney General under President Ronald Reagan; Director of Investors First Fund, Inc., Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc.

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

NAME AND ADDRESS (AGE)*	POSITION(S) HELD WITH FUND	PRINCIPAL OCCUPATION OVER LAST 5 YEARS
Scott B. Rogers (48)	Director	Chief Executive Officer, Asheville Buncombe Community Christian Ministry; President, ABCCM Doctor's Medical Clinic; Director, Faith Partnerships Inc.; Director, A-B Vision Board; Appointee, NC Governor's Commission on Welfare to Work; Chairman and Director, Recycling Unlimited; Director, Interdenominational Ministerial Alliance; Director of Progressive Return Fund, Inc. and Cornerstone Total Return Fund, Inc.
Andrew A. Strauss (50)	Director	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 Investors First Fund, Inc., Cornerstone Total Return Fund, Inc., Progressive Return Fund, Inc., Investors First Fund, Inc., Memorial Mission Hospital Foundation, Deerfield Episcopal Retirement Community and Asheville Symphony.
Glenn W. Wilcox, Sr. (72)	Director	Chairman of the Board and Chief Executive Officer of Wilcox Travel Agency, Inc.; Director, Champion Industries, Inc.; Chairman of Tower Associates, Inc. (a real estate venture); Director and Chairman of Audit Committee Investors First Fund, Inc.; Director, Wachovia Corp.; Board Trustee Appalachian State University; Director and Chairman of Audit Committee of Progressive Return Fund, Inc. and Cornerstone Total Return Fund, Inc.

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

NAME AND ADDRESS (AGE)*	POSITION(S) HELD WITH FUND	PRINCIPAL OCCUPATION OVER LAST 5 YEARS
Gary A. Bentz** (47)	Director, Vice President and Treasurer	Chief Financial Officer, Chairman and Shareholder of Cornerstone Advisors, Inc.; Previous Director of The Austria Fund, Inc.; Financial Consultant, Certified Public Accountant; Chief Financial Officer of Deep Discount Advisors, Inc. (1993-2000); Director, Vice President and Treasurer of Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc.
Thomas R. Westle (50) 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).

* The mailing address of each Director with respect to the Fund's operation is 383 Madison Ave. -23rd Floor, New York, NY 10179. **Designates a director who is an "interested person" of the Fund as defined by the Investment Company Act of 1940, as amended. Messrs. Bradshaw and Bentz 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 & CASH PLAN (UNAUDITED)

Shareholders who have Shares registered directly in their own names automatically participate in the Fund's Dividend Reinvestment & Cash 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 "Dividend" and collectively, "Dividends"), 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").

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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 a price equal to the average closing price of the Fund over the five trading days preceding the payment date of such dividend.

Registered shareholders who acquire their shares through Open Market Purchases and who do not wish to have their Dividends automatically reinvested should so notify the Fund in writing. If a Shareholder has not elected to receive cash Dividends and the Agent does not receive notice of an election to receive cash Dividends prior to the record date of any dividend, the shareholder will automatically receive such Dividends 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 Dividend 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 Dividends other than their share of brokerage commissions as discussed below. The Agent's fees for administering the Plan and

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DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PLAN (UNAUDITED) (CONCLUDED)

handling the reinvestment of Dividends 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 Dividends.

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

The Fund - Cornerstone Strategic Value Fund, Inc. is a closed-end, diversified investment company whose shares trade on the American Stock Exchange, LLC. Its investment objective is to seek long-term capital appreciation through investment in equity securities of companies listed in the United States. The Fund is managed by Cornerstone Advisors, Inc.

SHAREHOLDER INFORMATION

Effective February 21, 2003, the Fund is listed on the American Stock Exchange, LLC (symbol "CLM"). The share price is published in: THE NEW YORK TIMES (daily) under the designation "CornerStrt" and THE WALL STREET JOURNAL (daily) and BARRON'S (each Monday) under the designation "CornstnStrat." 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 STRATEGIC VALUE FUND, INC. MAY FROM TIME TO TIME PURCHASE SHARES OF ITS CAPITAL STOCK IN THE OPEN MARKET.

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

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PRIVACY POLICY NOTICE

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

parties.

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

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

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

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

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DIRECTORS AND CORPORATE OFFICERS

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

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

ADMINISTRATOR Bear Stearns Funds Management Inc. 383 Madison Avenue New York, NY 10179	INDEPENDENT ACCOUNTANTS Tait, Weller & Baker 1818 Market Street Suite 2400 Philadelphia, PA 19103
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CUSTODIAN Custodial Trust Company 101 Carnegie Center Princeton, NJ 08540	LEGAL COUNSEL Blank Rome LLP 405 Lexington Avenue New York, NY 10174
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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.

- (a) Disclose whether, as of the end of the period covered by the report, the registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party. If the registrant has not adopted such a code of ethics, explain why it has not done so.

THE REGISTRANT HAS ADOPTED A CODE OF ETHICS APPLICABLE TO ITS CHIEF EXECUTIVE OFFICER, PRESIDENT, CHIEF FINANCIAL OFFICER, OR PERSONS PERFORMING SIMILAR FUNCTIONS. A COPY OF THE CODE IS FILED AS EXHIBIT 10(A) (1) TO THIS FORM. THERE WERE NO AMENDMENTS TO THE CODE DURING THE YEAR ENDED DECEMBER 31, 2003. THERE WERE NO WAIVERS OR IMPLICIT WAIVERS FROM THE CODE GRANTED BY THE REGISTRANT DURING THE YEAR ENDED DECEMBER 31, 2003.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

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(a) (1) Disclose that the registrant's board of directors has determined that the registrant either:

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(i) Has at least one audit committee financial expert serving on its audit committee; or

(ii) Does not have an audit committee financial expert serving on its audit committee.

(2) If the registrant provides the disclosure required by paragraph (a)(1)(i) of this Item, it must disclose the name of the audit committee financial expert and whether that person is "independent." In order to be considered "independent" for purposes of this Item, a member of an audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

(i) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer; or

(ii) Be an "interested person" of the investment company as defined in Section 2(a)(19) of the Act (15 U.S.C. 80a- 2(a)(19)).

(3) If the registrant provides the disclosure required by paragraph (a)(1)(ii) of this Item, it must explain why it does not have an audit committee financial expert.

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) Disclose, under the caption AUDIT FEES, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

THE AGGREGATE FEES BILLED FOR PROFESSIONAL SERVICES RENDERED BY ITS INDEPENDENT ACCOUNTANTS, TAIT WELLER & BAKER, FOR THE AUDITS OF THE REGISTRANT'S ANNUAL AND SEMI-ANNUAL FINANCIAL STATEMENTS FOR 2003 AND 2002 WERE \$11,000 FOR EACH OF THE TWO YEARS.

(b) Disclose, under the caption AUDIT-RELATED FEES, the aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item. Registrants shall describe the nature of the services comprising the fees disclosed under this category. THERE WERE NO AUDIT-RELATED FEES IN 2003 AND 2002.

(c) Disclose, under the caption TAX FEES, the aggregate fees billed in each of the last two fiscal years for professional services rendered by the

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principal accountant for tax compliance, tax advice, and tax planning. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

THE AGGREGATE FEES BILLED TO REGISTRANT FOR PROFESSIONAL SERVICES RENDERED BY TAIT, WELLER & BAKER FOR THE REVIEW OF REGISTRANTS EXCISE TAX CALCULATIONS AND PREPARATIONS OF FEDERAL, STATE AND EXCISE TAX RETURNS FOR 2003 AND 2002 WERE \$2,000 FOR EACH YEAR OF THE TWO YEARS.

(d) Disclose, under the caption ALL OTHER FEES, the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item.

THE AGGREGATE FEES BILLED TO REGISTRANT BY TAIT, WELLER & BAKER LLP OTHER THAN FOR THE SERVICES REFERENCED ABOVE FOR 2003 WAS \$0 AND FOR 2002 WAS \$2,500, WHICH RELATED TO PROPOSED MERGER-RELATED WORK. IN ADDITION, PRICEWATERHOUSECOOPERS LLP WAS PAID \$1,925 FOR MERGER-RELATED WORK COMPLETED IN 2002.

(e) (1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

PURSUANT TO ITS CHARTER, THE REGISTRANT'S AUDIT COMMITTEE PRE-APPROVES ALL AUDIT SERVICES PROVIDED BY THE REGISTRANT'S PRINCIPAL ACCOUNTANT FOR THE REGISTRANT AND ALL PERMISSIBLE NON-AUDIT SERVICES PROVIDED BY THE REGISTRANT'S PRINCIPAL ACCOUNTANT FOR THE REGISTRANT, ITS INVESTMENT ADVISER AND ANY ENTITY CONTROLLING, CONTROLLED BY, OR UNDER COMMON CONTROL WITH THE INVESTMENT ADVISER ("ADVISER AFFILIATE") THAT PROVIDES ONGOING SERVICES TO THE FUND, IF THE ENGAGEMENT BY THE INVESTMENT ADVISER OR ADVISER AFFILIATE RELATES DIRECTLY TO THE OPERATIONS AND FINANCIAL REPORTING OF THE REGISTRANT.

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(2) Disclose the percentage of services described in each of paragraphs (b) through (d) of this Item that were approved by the audit committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of Regulation S-X.

NO SERVICES INCLUDED IN (B) - (D) ABOVE WERE APPROVED PURSUANT TO PARAGRAPH (C) (7) (I) (C) OF RULE 2-01 OF REGULATION S-X.

(f) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

NOT APPLICABLE.

(g) Disclose the aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant.

THE AGGREGATE FEES BILLED FOR THE MOST RECENT FISCAL YEAR AND THE PRECEDING FISCAL YEAR BY THE REGISTRANT'S PRINCIPAL ACCOUNTANT FOR NON-AUDIT SERVICES

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RENDERED TO THE REGISTRANT, ITS INVESTMENT ADVISER, AND ADVISER AFFILIATE THAT PROVIDES ONGOING SERVICES TO THE REGISTRANT WERE \$2,000 AND \$4,500, RESPECTIVELY. SUCH AMOUNTS RELATE SOLELY TO THE AMOUNTS PREVIOUSLY DISCLOSED IN ITEM 4(C) - (D). IN ADDITION, PRICEWATERHOUSECOOPERS LLP WAS PAID \$1,925 FOR MERGER-RELATED WORK COMPLETED IN 2002.

(h) Disclose whether the registrant's audit committee of the board of directors has considered whether the provision of nonaudit services that were rendered to the registrant's investment adviser (not including any subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ALL NON-AUDIT SERVICES RENDERED IN (G) ABOVE WERE PRE-APPROVED BY THE REGISTRANT'S AUDIT COMMITTEE. TAIT, WELLER & BAKER DID NOT PROVIDE ANY NON-AUDIT RELATED SERVICES TO THE REGISTRANT'S INVESTMENT ADVISER, OR ANY ENTITY CONTROLLING, CONTROLLED OR UNDER COMMON CONTROL WITH THE INVESTMENT ADVISER.

ITEMS 5. Audit Committee of Listed Registrants - If the registrant is a listed issuer as defined in Rule 10A-3 under the Exchange Act (17CRF 240.10A-3) state whether or not the registrant has a separately-designated standing audit committee established in accordance with Section 3(a) (58)A of the Exchange Act (15 U.S.C. 78c(a) (A)). If the registrant has such a committee, however designated, identify each committee member. If the entire board of directors is acting as the registrant's audit committee as specified in Section 3(a) (58) (B) of the Exchange Act (15U.S.C. 78c(a) (58) (B)), so state.

THE MEMBERS OF THE AUDIT COMMITTEE ARE GLENN W. WILCOX, SR., THOMAS H. LENAGH, EDWIN MEESE III, SCOTT B. ROGERS AND ANDREW A. STRAUSS.

ITEM 6. [RESERVED]

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

ISS 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. 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

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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: An auditor has a financial interest in or association with the company, and is therefore not independent Fees for non-audit services are excessive, or 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 FOR shareholder proposals asking for audit firm rotation, unless the rotation period is so short (less than five years) that it would be unduly burdensome to the company. Transact Other Business Vote AGAINST proposals to approve other business when it appears as voting item.

2. Board of Directors

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: Attend less than 75 percent of the board and committee meetings without a valid excuse Implement or renew a dead-hand or modified dead-hand poison pill Ignore a shareholder proposal that is approved by a majority of the shares outstanding Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years Failed to act on takeover offers where the majority of the shareholders tendered their shares Are inside directors or affiliated outsiders and sit on the audit, compensation, or nominating committees 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 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. AGE LIMITS Vote AGAINST shareholder proposals to impose a mandatory retirement age for outside directors.

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 relative to the company's other governance provisions. 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: 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 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.

INDEPENDENT CHAIRMAN (SEPARATE CHAIRMAN/CEO)

Vote on a CASE-BY-CASE basis shareholder proposals requiring that the positions of chairman and CEO be held separately. Because some companies have governance structures in place that counterbalance a combined position, the following factors should be taken into account in determining whether the proposal warrants support:

Designated lead director appointed from the ranks of the independent board members with clearly delineated duties Majority of independent directors on board All-independent key committees Committee chairpersons nominated by the independent directors CEO performance reviewed annually by a committee of outside directors Established governance guidelines Company performance.

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.

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.

TERM LIMITS

Vote AGAINST shareholder proposals to limit the tenure of outside directors.

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: Long-term financial performance of the

target company relative to its industry; management's track record Background to the proxy contest Qualifications of director nominees (both slates) Evaluation of what each side is offering shareholders as well as the 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 that ask a company to submit its poison pill for shareholder ratification. Review on a CASE-BY-CASE basis shareholder proposals to redeem a company's poison pill. Review on a CASE-BY-CASE basis management proposals to ratify a poison pill. 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. ASSET PURCHASES Vote CASE-BY-CASE on asset purchase proposals, considering the following factors: Purchase price Fairness opinion Financial and strategic benefits How the deal was negotiated Conflicts of interest Other alternatives for the business Noncompletion risk.

ASSET SALES

Votes on asset sales should be determined on a CASE-BY-CASE basis, considering the following factors: Impact on the balance sheet/working capital Potential elimination of diseconomies Anticipated financial and operating benefits Anticipated use of funds Value received for the asset Fairness opinion How the deal was negotiated 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

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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 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: Dilution to existing shareholders' position Terms of the offer Financial issues Management's efforts to pursue other alternatives Control issues 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:

The reasons for the change

Any financial or tax benefits

Regulatory benefits increases in capital structure Changes to the articles of incorporation or bylaws of the company.

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: Increases in common or preferred stock in excess of the allowable maximum as calculated by the ISS Capital Structure model Adverse changes in shareholder rights

GOING PRIVATE TRANSACTIONS (LBOS AND MINORITY SQUEEZEOUTS)

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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 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:

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

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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: Tax and regulatory advantages Planned use of the sale proceeds Valuation of spinoff Fairness opinion Benefits to the parent company Conflicts of interest Managerial incentives Corporate governance changes 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 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.

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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. 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: It is intended for financing purposes with minimal or no dilution to current shareholders 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.

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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, 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 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.