

CORNERSTONE STRATEGIC VALUE FUND INC/ NEW

Form N-30D

February 28, 2003

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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

INVESTMENT MANAGER

Cornerstone Advisors, Inc.

One West Pack Square

Suite 1650

Asheville, NC 28801

STOCK TRANSFER AGENT

AND REGISTRAR

American Stock Transfer &

Trust Co.

59 Maiden Lane

New York, NY 10038

ADMINISTRATOR

Bear Stearns Funds

Management Inc.

383 Madison Avenue

New York, NY 10179

INDEPENDENT ACCOUNTANTS

Tait, Weller & Baker

1818 Market Street

Suite 2400

Philadelphia, PA 19103

CUSTODIAN

Custodial Trust Company

101 Carnegie Center

Princeton, NJ 08540

LEGAL COUNSEL

Spitzer & Feldman P.C.

405 Park Avenue

New York, NY 10022

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) 272-2093.

[LOGO]  
AMERICAN  
STOCK EXCHANGE (r)  
LISTED  
CML (tm)

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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CORNERSTONE STRATEGIC  
VALUE FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2002

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### LETTER TO SHAREHOLDERS

January 24, 2003

Dear Fellow Shareholders:

Our annual report for Cornerstone Strategic Value Fund, Inc. (the "Fund"), covering the year ended December 31, 2002 follows. At the end of the year, the Fund's net assets were \$24.4 million and the Net Asset Value ("NAV") per share was \$6.41. Monthly distributions to shareholders, which were initiated in July, totaled \$0.50 per share for the year, all of which was classified as return-of-capital. The share price closed at \$5.85 and the Fund's price discount to NAV improved from 12.5% at the beginning of the year to 8.7% at the end of the year.

Cornerstone Advisors, Inc., our Fund's investment manager, began its stewardship over the Fund's assets after the first quarter 2001. The manager's goal is to add value by continuing to outperform the Fund's benchmark. This will be accomplished by striving to optimize portfolio performance, minimizing expenses and taking advantage of the Fund's discount to benefit its shareholders.

The focus on improving the discount to NAV provided substantial benefit to shareholders. The improvement in discount augmented the return from portfolio performance so that the total investment return for a shareholder who reinvested his distributions was (20.9)%, outpacing our benchmark S&P 500 Index which

returned (22.1)%.

ECONOMIC AND MARKET SUMMARY

Throughout the year, it paid to keep a long-term view as the markets in 2002 retreated through the first three quarters only to recover some of the losses in the final period. World crisis in Afghanistan and Iraq alternated headlines with the progressive uncovering of corporate fraud and greed among some of the largest companies in America, further burdening an already sickly economy. Consumer spending and an active market for homes, however, provided steady encouragement and much needed support.

Like the U.S., most of the major global indices were also down substantially. Some Asian economies turned in relatively strong performances, but even with the euro's rise to a three year high against the dollar, many in Europe still finished behind the weak U.S. numbers.

Those seeking safer investments drove short-term Treasury yields down and prices up as they sought a haven from volatile equity markets. Deflation replaced inflation as a cause for concern. Short-term interest rates remained low through the year as the Federal Reserve reduced its benchmark rate to 1.25%. However, growing budget deficits and a fragile economy give mixed signals for bonds in the new year.

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LETTER TO SHAREHOLDERS (CONTINUED)

PORTFOLIO PERFORMANCE

Through most of the period, our Fund's portfolio stayed fully invested. The Fund's holdings were broadly diversified across and within sectors and, at various times, utilized closed-end fund and global equity positions. This approach served us well as many sectors flip-flopped between being leader and laggard.

Ultimately, not a single major U.S. industry group ended the year with a gain. Strong consumer spending allowed consumer non-cyclicals to turn in the best group performance with a single-digit loss. As in 2001, however, telecommunications and technology once again yielded dismal performances. Industrials followed close behind and even utilities, which are often viewed as stable in a storm, left investors with substantial double-digit losses for the year.

OUTLOOK

After three straight years of market decline, we approach 2003 with cautious optimism. Some point out that four down years in a row are almost unheard of but then, they probably are among those who expected positive market returns in 2002. The economy, while certainly not strong, continues to show signs of recovery, albeit without the hoped for drop in unemployment. Recent bear markets have ended with steep gains, however, we expect mild growth with up and down market moves leading to moderate gains for the year.

Recent weakness in the dollar has given a boost to some global markets. In the short-term, larger companies often benefit most from a falling U.S. dollar as their competitive positions improve.

A stronger economy is better viewed as a "when" not an "if". Quick positive resolution in Iraq and North Korea, encouraging earnings reports and bipartisan cooperation in government may all hasten a recovery from current levels. Recent actions by the current administration should provide additional stimulus towards this end. At the end of 2003, the world will still be a dangerous place and earning disappointments or unresolved international situations may prolong negative sentiment, but uncertainty also creates investment opportunity.

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LETTER TO SHAREHOLDERS (CONCLUDED)

CREATING VALUE

Our goal is to produce extra value for our shareholders and to this end, recent additional steps have been taken to benefit the owners of our Fund. The most significant contribution to Fund performance over the last year has been the result of actions designed to exploit the Fund's discount. We believe that the improving discount picture reflects the market's favorable view of our Fund's direction.

We believe the ongoing repurchase of shares selling below NAV in the open market has enhanced NAV performance. In addition, these repurchases reduced the supply of shares available for sale, thus changing the demand/supply balance and helping to reduce the discount.

The manager attempts to enhance portfolio performance by exploiting pricing inefficiencies in components of our fully diversified U.S. stock portfolio. The magnitude and availability of such opportunities are unpredictable and therefore any resulting portfolio out-performance may vary considerably from year to year.

This year, the Board established a monthly distribution policy with a high fixed payout. These distributions allow shareholders to receive substantial portions of their investment in cash or to continue their holdings in the Fund's stock by reinvesting in new shares. This policy gives flexibility to our owners and we believe that it will have a continuing positive influence on the level of the Fund's discount to NAV. Losses in the portfolio allowed the 2002 distributions to be classified as a return-of-capital, which defers taxes until sufficient gains are realized in future periods.

Over the past year, diligent attention to Fund operating expenses has reduced them substantially. In addition, Cornerstone Advisors, Inc. has extended its

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voluntary agreement to waive a substantial portion of its management fees to the extent that monthly operating expenses exceed a monthly rate of 0.1%. This effort demonstrates how seriously the manager views keeping expenses under control. It will result in a lower expense ratio than would otherwise be the case, further adding value. We believe that these steps will also help control the discount and lead to our Fund having one of the lowest expense ratios among comparable closed-end funds.

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

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Ralph W. Bradshaw Chairman

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2002 (UNAUDITED)  
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### TOP TEN, BY SECTOR

|     | Sector                     | Percent of<br>Net Assets |
|-----|----------------------------|--------------------------|
| 1.  | Financials                 | 19.8                     |
| 2.  | Healthcare                 | 15.1                     |
| 3.  | Information Technology     | 12.6                     |
| 4.  | Consumer Discretionary     | 12.3                     |
| 5.  | Industrials                | 12.0                     |
| 6.  | Consumer Staples           | 9.4                      |
| 7.  | Energy                     | 6.2                      |
| 8.  | Telecommunication Services | 6.0                      |
| 9.  | Materials                  | 2.8                      |
| 10. | Utilities                  | 2.1                      |

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TOP TEN HOLDINGS, BY ISSUER

| Holding                                   | Sector                 | Percent of Net Assets |
|---|------------------------|-----------------------|
| 1. Microsoft Corp.                        | Information Technology | 4.4                   |
| 2. General Electric Co.                   | Industrials            | 3.2                   |
| 3. Exxon Mobil Corp.                      | Energy                 | 3.0                   |
| 4. Wal-Mart Stores, Inc.                  | Consumer Discretionary | 2.8                   |
| 5. American International Group, Inc.     | Financials             | 2.7                   |
| 6. Citigroup Inc.                         | Financials             | 2.5                   |
| 7. Pfizer Inc.                            | Healthcare             | 2.4                   |
| 8. Johnson & Johnson                      | Healthcare             | 2.0                   |
| 9. Merck & Co. Inc.                       | Healthcare             | 1.7                   |
| 10. International Business Machines Corp. | Information Technology | 1.7                   |

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2002

| Description                                 | No. of Shares | Value (Note A) |
|---|---------------|----------------|
| EQUITY SECURITIES - 99.54%                  |               |                |
| CLOSED-END DOMESTIC FUNDS - 1.43%           |               |                |
| Gabelli Global Multimedia Trust, Inc.       | 16,000        | \$ 102,400     |
| John Hancock Bank & Thrift Opportunity Fund | 32,500        | 245,050        |
|   |               | -----          |
|   |               | 347,450        |
| CONSUMER DISCRETIONARY - 12.27%             |               |                |
| AOL Time Warner Inc.+                       | 10,500        | 137,550        |
| Bed Bath & Beyond Inc.+                     | 1,000         | 34,530         |

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|                                       |       |         |
|---------------------------------------|-------|---------|
| Best Buy Co., Inc.+                   | 1,000 | 24,150  |
| Carnival Corp.                        | 2,100 | 52,395  |
| Clear Channel Communications, Inc.+   | 2,100 | 78,309  |
| Comcast Corp., Class A+               | 3,882 | 91,499  |
| Costco Wholesale Corp.+               | 1,500 | 42,090  |
| CVS Corp.                             | 1,500 | 37,455  |
| Delphi Corp.                          | 2,000 | 16,100  |
| Ford Motor Co.                        | 6,500 | 60,450  |
| Fortune Brands, Inc.                  | 1,000 | 46,510  |
| Gannett Co., Inc.                     | 2,000 | 143,600 |
| Gap, Inc. (The)                       | 2,700 | 41,904  |
| General Motors Corp.                  | 1,900 | 70,034  |
| Goodyear Tire & Rubber Co. (The)      | 2,500 | 17,025  |
| Harley-Davidson, Inc.                 | 1,000 | 46,200  |
| Harrah's Entertainment, Inc.+         | 1,500 | 59,400  |
| Hilton Hotels Corp.                   | 1,500 | 19,065  |
| Home Depot, Inc. (The)                | 7,100 | 170,116 |
| Kohl's Corp.+                         | 1,000 | 55,950  |
| Limited Brands                        | 2,500 | 34,825  |
| Lowe's Companies, Inc.                | 2,500 | 93,750  |
| Marriott International, Inc., Class A | 1,000 | 32,870  |
| May Department Stores Co. (The)       | 1,000 | 22,980  |
| McDonald's Corp.                      | 4,600 | 73,968  |
| NIKE, Inc., Class B                   | 1,000 | 44,470  |
| Office Depot, Inc.+                   | 2,500 | 36,900  |
| Omnicom Group Inc.                    | 1,000 | 64,600  |
| Reebok International Ltd.+            | 1,500 | 44,100  |
| Sabre Holdings Corp.+                 | 1,000 | 18,110  |
| Sears, Roebuck and Co.                | 1,000 | 23,950  |
| Staples, Inc.+                        | 1,500 | 27,450  |

| Description | No. of<br>Shares | Value<br>(Note A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

CONSUMER DISCRETIONARY (CONTINUED)

|                                  |        |           |
|----------------------------------|--------|-----------|
| Starbucks Corp.+                 | 1,200  | \$ 24,456 |
| Target Corp.                     | 3,200  | 96,000    |
| TJX Companies, Inc. (The)        | 2,500  | 48,800    |
| Viacom Inc., non-voting Class B+ | 6,000  | 244,560   |
| Wal-Mart Stores, Inc.            | 13,300 | 671,783   |
| Walt Disney Co. (The)            | 7,200  | 117,432   |
| Yum! Brands, Inc.+               | 1,000  | 24,220    |
|                                  |        | 2,989,556 |

CONSUMER STAPLES - 9.38%

|                                |       |         |
|--------------------------------|-------|---------|
| Albertson's, Inc.              | 2,500 | 55,650  |
| Anheuser-Busch Companies, Inc. | 3,200 | 154,880 |
| Archer-Daniels-Midland Co.     | 2,415 | 29,946  |
| Coca-Cola Co. (The)            | 9,000 | 394,380 |
| Colgate-Palmolive Co.          | 2,000 | 104,860 |
| ConAgra Foods, Inc.            | 1,900 | 47,519  |
| General Mills, Inc.            | 2,500 | 117,375 |
| Gillette Co. (The)             | 3,800 | 115,368 |
| J. M. Smucker Co. (The)        | 96    | 3,822   |
| Kimberly-Clark Corp.           | 1,900 | 90,193  |
| Kroger Co. (The)+              | 3,500 | 54,075  |
| PepsiCo, Inc.                  | 5,100 | 215,322 |



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|                              |       |         |
|------------------------------|-------|---------|
| Philip Morris Companies Inc. | 7,900 | 320,187 |
| Procter & Gamble Co. (The)   | 3,800 | 326,572 |
| Sara Lee Corp.               | 2,800 | 63,028  |
| Sysco Corp.                  | 3,300 | 98,307  |
| Walgreen Co.                 | 3,200 | 93,408  |

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2,284,892  
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ENERGY - 6.17%

|                            |        |         |
|----------------------------|--------|---------|
| Anadarko Petroleum Corp.   | 900    | 43,110  |
| Baker Hughes Inc.          | 2,500  | 80,475  |
| CenterPoint Energy, Inc.   | 2,500  | 21,250  |
| ChevronTexaco Corp.        | 3,340  | 222,043 |
| ConocoPhillips             | 3,528  | 170,720 |
| El Paso Corp.              | 2,500  | 17,400  |
| Exxon Mobil Corp.          | 21,000 | 733,740 |
| Marathon Oil Corp.         | 2,500  | 53,225  |
| Occidental Petroleum Corp. | 2,500  | 71,125  |
| Reliant Resources, Inc.+   | 1,971  | 6,307   |
| Schlumberger Ltd.          | 2,000  | 84,180  |

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1,503,575  
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See accompanying notes to financial statements

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CORNERSTONE STRATEGIC VALUE FUND, INC  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2002 (CONTINUED)  
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| Description | No. of<br>Shares | Value<br>(Note A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

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FINANCIALS - 19.75%

|   |        |           |
|---|--------|-----------|
| AFLAC Inc.                                    | 1,900  | \$ 57,228 |
| American Express Co.                          | 4,600  | 162,610   |
| American International Group, Inc.            | 11,542 | 667,705   |
| Bank of America Corp.                         | 5,400  | 375,678   |
| Bank of New York Co., Inc. (The)              | 2,500  | 59,900    |
| Bank One Corp.                                | 4,100  | 149,855   |
| BB&T Corp.                                    | 1,600  | 59,184    |
| Charles Schwab Corp. (The)                    | 5,000  | 54,250    |
| Citigroup Inc.                                | 17,100 | 601,749   |
| Fannie Mae                                    | 3,700  | 238,021   |
| Fifth Third Bancorp                           | 2,000  | 117,100   |
| FleetBoston Financial Corp.                   | 3,900  | 94,770    |
| Freddie Mac                                   | 2,500  | 147,625   |
| Hartford Financial Services Group, Inc. (The) | 2,500  | 113,575   |
| Household International, Inc.                 | 1,800  | 50,058    |
| J.P. Morgan Chase & Co.                       | 6,000  | 144,000   |
| Marsh & McLennan Companies, Inc.              | 4,000  | 184,840   |
| MBNA Corp.                                    | 4,500  | 85,590    |
| Mellon Financial Corp.                        | 1,800  | 46,998    |

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|   |       |           |
|---|-------|-----------|
| Merrill Lynch & Co., Inc.                   | 3,000 | 113,850   |
| MetLife, Inc.                               | 2,700 | 73,008    |
| Moody's Corp.                               | 1,000 | 41,290    |
| Morgan Stanley                              | 3,500 | 139,720   |
| National City Corp.                         | 2,200 | 60,104    |
| PNC Financial Services Group                | 1,100 | 46,090    |
| Prudential Financial, Inc.                  | 2,500 | 79,350    |
| SouthTrust Corp.                            | 2,500 | 62,125    |
| State Street Corp.                          | 1,000 | 39,000    |
| SunTrust Banks, Inc.                        | 1,100 | 62,612    |
| Travelers Property Casualty Corp., Class A+ | 738   | 10,812    |
| Travelers Property Casualty Corp., Class B+ | 1,517 | 22,224    |
| U.S. Bancorp                                | 6,700 | 142,174   |
| Wachovia Corp.                              | 3,600 | 131,184   |
| Washington Mutual, Inc.                     | 3,150 | 108,769   |
| Wells Fargo & Co.                           | 5,800 | 271,846   |
|   |       | -----     |
|   |       | 4,814,894 |
|   |       | -----     |

| Description | No. of<br>Shares | Value<br>(Note A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

HEALTHCARE - 15.07%

|                           |        |            |
|---------------------------|--------|------------|
| Abbott Laboratories       | 5,300  | \$ 212,000 |
| Amgen Inc.+               | 3,500  | 169,190    |
| Applied Biosystems Group  | 2,500  | 43,850     |
| Baxter International Inc. | 2,500  | 70,000     |
| Biomet, Inc.              | 2,500  | 71,650     |
| Boston Scientific Corp.+  | 1,500  | 63,780     |
| Bristol-Myers Squibb Co.  | 6,000  | 138,900    |
| Cardinal Health, Inc.     | 2,500  | 147,975    |
| Eli Lilly & Co.           | 4,000  | 254,000    |
| Genzyme Corp.+            | 2,500  | 73,925     |
| HCA Inc.                  | 2,000  | 83,000     |
| Healthsouth Corp.+        | 2,500  | 10,500     |
| Johnson & Johnson         | 9,200  | 494,132    |
| McKesson Corp.            | 1,000  | 27,030     |
| Medtronic, Inc.           | 4,300  | 196,080    |
| Merck & Co. Inc.          | 7,500  | 424,575    |
| Pfizer Inc.               | 19,000 | 580,830    |
| Pharmacia Corp.           | 4,000  | 167,200    |
| Schering-Plough Corp.     | 5,000  | 111,000    |
| UnitedHealth Group Inc.   | 1,500  | 125,250    |
| Wyeth                     | 4,800  | 179,520    |
| Zimmer Holdings, Inc.+    | 710    | 29,479     |
|                           |        | -----      |
|                           |        | 3,673,866  |
|                           |        | -----      |

INDUSTRIALS - 11.95%

|                                    |       |         |
|------------------------------------|-------|---------|
| 3M Co.                             | 1,500 | 184,950 |
| Automatic Data Processing, Inc.    | 2,000 | 78,500  |
| Boeing Co. (The)                   | 6,000 | 197,940 |
| Burlington Northern Santa Fe Corp. | 2,500 | 65,025  |
| Caterpillar Inc.                   | 1,300 | 59,436  |
| Cendant Corp.+                     | 2,700 | 28,296  |
| Concord EFS, Inc.+                 | 2,500 | 39,350  |
| Emerson Electric Co.               | 1,500 | 76,275  |

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|                              |        |         |
|------------------------------|--------|---------|
| FedEx Corp.                  | 1,000  | 54,220  |
| First Data Corp.             | 5,000  | 177,050 |
| General Electric Co.         | 31,500 | 767,025 |
| Genuine Parts Co.            | 1,000  | 30,800  |
| Honeywell International Inc. | 2,800  | 67,200  |
| Illinois Tool Works Inc.     | 1,000  | 64,860  |
| Lockheed Martin Corp.        | 1,500  | 86,625  |
| Masco Corp.                  | 1,700  | 35,785  |

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See accompanying notes to financial statements

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CORNERSTONE STRATEGIC VALUE FUND, INC  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2002 (CONTINUED)  
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| Description | No. of<br>Shares | Value<br>(Note A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

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INDUSTRIALS (CONTINUED)

|                                     |        |           |
|-------------------------------------|--------|-----------|
| Norfolk Southern Corp.              | 1,400  | \$ 27,986 |
| Paychex, Inc.                       | 2,500  | 69,750    |
| Southwest Airlines Co.              | 2,700  | 37,530    |
| Transocean Inc.                     | 2,500  | 58,000    |
| Tyco International Ltd.             | 12,500 | 213,500   |
| Union Pacific Corp.                 | 1,000  | 59,870    |
| United Parcel Service Inc., Class B | 3,500  | 220,780   |
| United Technologies Corp.           | 1,700  | 105,298   |
| Waste Management, Inc.              | 4,700  | 107,724   |
|                                     |        | -----     |
|                                     |        | 2,913,775 |
|                                     |        | -----     |

INFORMATION TECHNOLOGY - 12.58%

|   |        |           |
|---|--------|-----------|
| Agere Systems Inc., Class A+            | 115    | 166       |
| Agere Systems Inc., Class B+            | 2,830  | 3,962     |
| Agilent Technologies, Inc.+             | 1,800  | 32,328    |
| Altera Corp.+                           | 1,500  | 18,510    |
| Analog Devices, Inc.+                   | 1,000  | 23,870    |
| Apple Computer, Inc.+                   | 2,500  | 35,825    |
| Applied Materials, Inc.+                | 5,400  | 70,362    |
| Computer Associates International, Inc. | 2,500  | 33,750    |
| Corning Inc.+                           | 3,000  | 9,930     |
| Dell Computer Corp.+                    | 8,300  | 221,942   |
| EMC Corp.+                              | 7,000  | 42,980    |
| Electronic Data Systems Corp.           | 2,500  | 46,075    |
| Hewlett-Packard Co.                     | 10,300 | 178,808   |
| Intel Corp.                             | 22,000 | 342,540   |
| International Business Machines Corp.   | 5,400  | 418,500   |
| Jabil Circuit, Inc.+                    | 1,500  | 26,880    |
| Linear Technology Corp.                 | 1,000  | 25,720    |
| Maxim Integrated Products, Inc.         | 1,000  | 33,040    |
| Microsoft Corp.+                        | 20,600 | 1,065,020 |

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|                          |       |        |
|--------------------------|-------|--------|
| Micron Technology, Inc.+ | 2,500 | 24,350 |
| Motorola, Inc.           | 6,600 | 57,090 |
| Oracle Corp.+            | 6,300 | 68,040 |
| QUALCOMM Inc.+           | 2,500 | 90,975 |
| Sanmina-SCI Corp.+       | 2,500 | 11,225 |
| Siebel Systems, Inc.+    | 2,500 | 18,700 |

| Description | No. of<br>Shares | Value<br>(Note A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

-----  
INFORMATION TECHNOLOGY (CONTINUED)

|                         |        |           |
|-------------------------|--------|-----------|
| Solectron Corp.+        | 3,000  | \$ 10,650 |
| Sun Microsystems, Inc.+ | 10,000 | 31,100    |
| Texas Instruments Inc.  | 4,900  | 73,549    |
| Xilinx, Inc.+           | 1,000  | 20,600    |
| Yahoo! Inc.+            | 1,900  | 31,065    |
|                         |        | -----     |
|                         |        | 3,067,552 |
|                         |        | -----     |

MATERIALS - 2.80%

|                                |       |         |
|--------------------------------|-------|---------|
| Air Products & Chemicals, Inc. | 1,000 | 42,750  |
| Alcoa Inc.                     | 3,100 | 70,618  |
| Barrick Gold Corp.             | 2,500 | 38,525  |
| Dow Chemical Co. (The)         | 2,700 | 80,190  |
| E.I. du Pont de Nemours & Co.  | 3,700 | 156,880 |
| Georgia-Pacific Corp.          | 1,000 | 16,160  |
| International Paper Co.        | 2,000 | 69,940  |
| Newmont Mining Corp.           | 2,500 | 72,575  |
| Praxair, Inc.                  | 1,500 | 86,655  |
| Weyerhaeuser Co.               | 1,000 | 49,210  |
|                                |       | -----   |
|                                |       | 683,503 |
|                                |       | -----   |

TELECOMMUNICATIONS SERVICES - 6.03%

|                                      |        |           |
|--------------------------------------|--------|-----------|
| ALLTEL Corp.                         | 2,500  | 127,500   |
| AT&T Corp.                           | 2,400  | 62,664    |
| AT&T Wireless Services Inc.+         | 9,522  | 53,799    |
| BellSouth Corp.                      | 6,500  | 168,155   |
| Cisco Systems, Inc.+                 | 24,400 | 319,640   |
| Lucent Technologies Inc.+            | 10,700 | 13,482    |
| Nextel Communications Inc., Class A+ | 3,000  | 34,650    |
| SBC Communications Inc.              | 10,400 | 281,944   |
| Sprint Corp. (FON Group)             | 3,000  | 43,440    |
| Verizon Communications Inc.          | 9,400  | 364,250   |
|                                      |        | -----     |
|                                      |        | 1,469,524 |
|                                      |        | -----     |

UTILITIES - 2.11%

|                                      |       |         |
|--------------------------------------|-------|---------|
| American Electric<br>Power Co., Inc. | 1,200 | 32,796  |
| Dominion Resources, Inc.             | 1,000 | 54,900  |
| Duke Energy Corp.                    | 5,600 | 109,424 |
| Edison International+                | 2,500 | 29,625  |
| FirstEnergy Corp.                    | 2,500 | 82,425  |
| Scottish Power plc ADR               | 4,000 | 91,680  |

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Southern Co. (The) 2,400 68,136

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See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2002 (CONCLUDED)  
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| Description                      | No. of<br>Shares | Value<br>(Note A) |
|----------------------------------|------------------|-------------------|
| -----                            |                  |                   |
| UTILITIES (CONTINUED)            |                  |                   |
| TXU Corp.                        | 1,000            | \$ 18,680         |
| Xcel Energy, Inc.                | 2,500            | 27,500            |
|                                  |                  | -----             |
|                                  |                  | 515,166           |
|                                  |                  | -----             |
| TOTAL EQUITY SECURITIES - 99.54% |                  |                   |
| (cost - \$27,886,890)            |                  | 24,263,753        |
|                                  |                  | -----             |

| Description   | Principal<br>Amount<br>(000's) | Value<br>(Note A) |
|---|--------------------------------|-------------------|
| -----   |                                |                   |
| SHORT-TERM INVESTMENT - 0.49%   |                                |                   |
| REPURCHASE AGREEMENT - 0.49%  |                                |                   |
| Bear, Stearns & Co. Inc.<br>(Agreement dated 12/31/02 to<br>be repurchased at \$118,466),<br>1.10%, 01/02/03<br>(cost - \$118,459) (Note F) |                                |                   |
|   | \$118                          | \$ 118,459        |
|   |                                | -----             |
| TOTAL INVESTMENTS - 100.03%   |                                |                   |
| (cost - \$28,005,349) (Notes A, C, G)   |                                | 24,382,212        |
|   |                                | -----             |
| LIABILITIES IN EXCESS OF<br>OTHER ASSETS - (0.03)%  |                                | (6,403)           |
|   |                                | -----             |
| NET ASSETS - 100.00%  |                                | \$24,375,809      |
|   |                                | =====             |

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+ Non-income producing security.  
ADR American Depositary Receipts.

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 See accompanying notes to financial statements.

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 CORNERSTONE STRATEGIC VALUE FUND, INC.  
 STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2002  
 -----

ASSETS

|   |               |
|---|---------------|
| Investments, at value (Cost \$28,005,349) (Notes A, G)  | \$ 24,382,212 |
| Cash collateral received for securities loaned (Note E) | 74,594        |
| Receivables:  |               |
| Investment sold   | 82,548        |
| Dividends   | 37,865        |
| Interest  | 301           |
| Prepaid expenses  | 6,712         |
|   | -----         |
| Total Assets  | 24,584,232    |
|   | -----         |

LIABILITIES

|  |               |
|--|---------------|
| Payables:  |               |
| Upon return of securities loaned (Note E)                                  | 74,594        |
| Capital stock repurchased (Note D)   | 33,971        |
| Investment management fees (Note B)  | 21,393        |
| Other accrued expenses   | 78,465        |
|  | -----         |
| Total Liabilities  | 208,423       |
|  | -----         |
| NET ASSETS (applicable to 3,803,597<br>shares of common stock outstanding) | \$ 24,375,809 |
|  | =====         |
| NET ASSET VALUE PER SHARE (\$24,375,809 / 3,803,597)                       | \$ 6.41       |
|  | =====         |

NET ASSETS CONSISTS OF

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|   |               |
|---|---------------|
| Capital stock, \$0.01 par value; 3,803,597 shares outstanding<br>(25,000,000 shares authorized) | \$ 38,036     |
| Paid-in capital   | 55,545,628    |
| Cost of 2,239,440 shares repurchased  | (26,999,661)  |
| Accumulated net realized loss on investments  | (585,057)     |
| Net unrealized depreciation in value of investments   | (3,623,137)   |
|   | -----         |
| Net assets applicable to shares outstanding   | \$ 24,375,809 |
|   | =====         |

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See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.  
STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2002  
-----

INVESTMENT LOSS

Income (Note A):

|                              |            |
|------------------------------|------------|
| Dividends                    | \$ 485,527 |
| Interest                     | 7,651      |
| Less: Foreign taxes withheld | (2,301)    |
|                              | -----      |
| Total Investment Income      | 490,877    |
|                              | -----      |

Expenses:

|                                       |          |
|---------------------------------------|----------|
| Investment management fees (Note B)   | 294,686  |
| Merger fees                           | 68,313   |
| Legal and audit fees (Note B)         | 67,500   |
| Directors' fees                       | 52,201   |
| Administration fees                   | 50,000   |
| Accounting fees                       | 28,899   |
| NYSE listing fees                     | 25,000   |
| Printing                              | 21,692   |
| Transfer agent fees                   | 10,134   |
| Insurance                             | 9,230    |
| Custodian fees                        | 6,692    |
| Other                                 | 6,208    |
|                                       | -----    |
| Total Expenses                        | 640,555  |
| Less: Management fee waivers (Note B) | (92,709) |
| Less: Fees paid indirectly (Note B)   | (18,188) |

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|   |                |
|---|----------------|
| Net Expenses  | 529,658        |
| Net Investment Loss   | (38,781)       |
| NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS               |                |
| Net realized loss from investments                            | (116,327)      |
| Net change in unrealized appreciation in value of investments | (8,612,397)    |
| Net realized and unrealized loss on investments               | (8,728,724)    |
| NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS          | \$ (8,767,505) |

See accompanying notes to financial statements.

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

|  | For the Years Ended<br>December 31, |              |
|--|-------------------------------------|--------------|
|  | 2002                                | 2001         |
| DECREASE IN NET ASSETS   |                                     |              |
| Operations:  |                                     |              |
| Net investment loss  | \$ (38,781)                         | \$ (244,220) |
| Net realized gain/(loss) on investments                          | (116,327)                           | 1,031,962    |
| Net change in unrealized appreciation<br>in value of investments | (8,612,397)                         | (9,548,619)  |
| Net decrease in net assets resulting<br>from operations          | (8,767,505)                         | (8,760,877)  |



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|  |               |               |
|--|---------------|---------------|
|  | -----         | -----         |
| Distributions to shareholders (Note A, G):                                   |               |               |
| Return-of-capital  | (1,887,643)   | --            |
|  | -----         | -----         |
| Capital stock transactions (Note D):   |               |               |
| Proceeds from 33,037 shares newly issued<br>in reinvestment of distributions | 194,649       | --            |
| Cost of 62,000 and 234,700 shares<br>repurchased, respectively               | (419,744)     | (1,963,446)   |
|  | -----         | -----         |
| Net decrease in net assets resulting<br>from capital stock transactions      | (225,095)     | (1,963,446)   |
|  | -----         | -----         |
| Total decrease in net assets   | (10,880,243)  | (10,724,323)  |
|  | -----         | -----         |
| <br>NET ASSETS   |               |               |
| Beginning of year  | 35,256,052    | 45,980,375    |
|  | -----         | -----         |
| End of year  | \$ 24,375,809 | \$ 35,256,052 |
|  | =====         | =====         |

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See accompanying notes to financial statements.

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CORNERSTONE STRATEGIC VALUE FUND, INC.

FINANCIAL HIGHLIGHTS

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

For the Years Ended December 31,

|      |      |      |      |      |      |
|------|------|------|------|------|------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| ---- | ---- | ---- | ---- | ---- | ---- |

PER SHARE OPERATING

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PERFORMANCE

|  |          |          |          |          |          |         |
|--|----------|----------|----------|----------|----------|---------|
| Net asset value,<br>beginning of year  | \$ 9.20  | \$ 11.31 | \$ 14.95 | \$ 14.52 | \$ 11.53 | \$ 10.1 |
| Net investment income/(loss)   | (0.01)#  | (0.06)#  | (0.94)#  | (0.09)#  | (0.09)#  | (0.0    |
| Net realized and unrealized<br>gain/(loss)<br>on investments and foreign<br>currency related<br>translations | (2.29)   | (2.13)   | (1.81)   | 4.04     | 2.96     | 2.3     |
| Net increase/(decrease)<br>in net assets<br>resulting from<br>operations                                     | (2.30)   | (2.19)   | (2.75)   | 3.95     | 2.87     | 2.3     |
| Distributions to shareholders:   |          |          |          |          |          |         |
| Net realized gain on<br>investments and<br>foreign currency<br>related transactions                          | --       | --       | (1.01)   | (3.87)   | --       | (0.8    |
| Return-of-capital  | (0.50)   | --       | --       | --       | --       | --      |
| Total distributions to<br>shareholders:  | (0.50)   | --       | (1.01)   | (3.87)   | --       | (0.8    |
| Capital stock transactions:  |          |          |          |          |          |         |
| Anti-dilutive effect<br>due to capital<br>stock repurchased  | 0.02     | 0.08     | 0.12     | 0.35     | 0.12     | --      |
| Dilutive effect due to<br>shares issued<br>in reinvestment<br>of distributions                               | (0.01)   | --       | --       | --       | --       | --      |
| Total capital stock<br>transactions  | 0.01     | 0.08     | 0.12     | 0.35     | 0.12     | --      |
| Net asset value, end of year   | \$ 6.41  | \$ 9.20  | \$ 11.31 | \$ 14.95 | \$ 14.52 | \$ 11.5 |
| Market value, end of year  | \$ 5.85  | \$ 8.05  | \$ 10.59 | \$ 14.25 | \$ 12.88 | \$ 9.4  |
| Total investment return (a) (b)  | (20.85)% | (23.98)% | (19.28)  | 40.74%   | 36.42%   | 37.6    |

RATIOS/SUPPLEMENTAL DATA

|   |           |           |           |           |           |          |
|---|-----------|-----------|-----------|-----------|-----------|----------|
| Net assets, end of year<br>(000 omitted)  | \$ 24,376 | \$ 35,256 | \$ 45,980 | \$ 66,204 | \$ 79,060 | \$ 67,95 |
| Ratio of expenses to average<br>net assets, net of<br>fee waivers, if any   | 1.80% (c) | 1.77% (c) | 1.72% (c) | 1.55% (c) | 1.91%     | 1.7      |
| Ratio of expenses to average<br>net assets, excluding<br>fee waivers, if any (d)                                    | 2.17%     | 2.11%     | 1.83%     | 1.64%     | --        | --       |
| Ratio of expenses to average<br>net assets, net of fee<br>waivers, but excluding<br>fees paid indirectly,<br>if any | 1.86%     | 1.95%     | --        | --        | --        | --       |

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|   |         |         |         |         |         |      |
|---|---------|---------|---------|---------|---------|------|
| Ratio of net investment<br>income/(loss) to average<br>net assets | (0.13)% | (0.64)% | (1.12)% | (0.59)% | (0.69)% | (0.4 |
| Portfolio turnover  | 29.63%  | 59.83%  | 28.26%  | 101.54% | 50.39%  | 81.5 |

|  | 1994     | 1993     |
|--|----------|----------|
|  | ----     | ----     |
| PER SHARE OPERATING PERFORMANCE  |          |          |
| Net asset value,<br>beginning of year  | \$ 12.36 | \$ 9.43  |
| Net investment income/(loss)   | (0.03)   | 0.02     |
| Net realized and unrealized<br>gain/(loss)<br>on investments and foreign<br>currency related<br>translations | (0.64)   | 3.56     |
| Net increase/(decrease)<br>in net assets<br>resulting from<br>operations                                     | (0.67)   | 3.58     |
| Distributions to shareholders:   |          |          |
| Net realized gain on<br>investments and<br>foreign currency<br>related transactions                          | (0.96)   | (0.65)   |
| Return-of-capital  | -        | --       |
| Total distributions to<br>shareholders:  | (0.96)   | (0.65)   |
| Capital stock transactions:  |          |          |
| Anti-dilutive effect<br>due to capital<br>stock repurchased  | -        | --       |
| Dilutive effect due to<br>shares issued<br>in reinvestment<br>of distributions                               | -        | --       |
| Total capital stock<br>transactions  | -        | --       |
| Net asset value, end of year   | \$ 10.73 | \$ 12.36 |
| Market value, end of year  | \$ 8.50  | \$ 11.25 |
| Total investment return (a) (b)  | (15.91)% | 53.55%   |

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RATIOS/SUPPLEMENTAL DATA

|   |          |           |
|---|----------|-----------|
| Net assets, end of year<br>(000 omitted)  | \$63,216 | \$ 72,830 |
| Ratio of expenses to average<br>net assets, net of<br>fee waivers, if any   | 1.75%    | 1.68%     |
| Ratio of expenses to average<br>net assets, excluding<br>fee waivers, if any (d)                                    | --       | --        |
| Ratio of expenses to average<br>net assets, net of fee<br>waivers, but excluding<br>fees paid indirectly,<br>if any | --       | --        |
| Ratio of net investment<br>income/(loss) to average<br>net assets   | (0.25)%  | 0.16%     |
| Portfolio turnover  | 81.73%   | 125.31%   |

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CORNERSTONE STRATEGIC VALUE FUND, INC.

NOTES TO FINANCIAL STATEMENTS  
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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. As a result of an Annual Meeting of Stockholders held on April 19, 2001, the Fund, formerly known as the Clemente Strategic Value Fund, Inc., changed its name. 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 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, 2002, 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 New York Stock Exchange is closed.

REPURCHASE AGREEMENTS: The Fund has agreed to purchase securities from financial institutions subject to the sellers 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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CORNERSTONE STRATEGIC VALUE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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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

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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 distributions made during the year 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. Effective July 1, 2002, Cornerstone voluntarily agreed to waive its management fees to the Fund to the extent that monthly operating expenses exceed 0.10% of average net assets calculated monthly. Such undertaking continued through the end of 2002 and Cornerstone voluntarily agreed to continue the undertaking until December 31, 2003. For the year ended December 31, 2002, Cornerstone earned \$294,686 for investment management services, of which it waived \$92,709.

Included in the Statement of Operations, under the caption FEES PAID INDIRECTLY, are expense offsets of \$18,188 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$78,000, of which \$25,000 was attributable to merger expense, for the year ended December 31, 2002 for legal services to Spitzer & Feldman P.C., counsel to the Fund. Mr. Westle, a partner of the firm, serves as secretary of the Fund.

At December 31, 2002, pursuant to regulatory filings, separate shareholders owned approximately 14% and 37% of the outstanding shares of the Fund based on Schedule 13D/A and Schedule 13G/A filings with the Securities and Exchange Commission on December 10, 2002 and February 15, 2002, respectively.

### NOTE C. INVESTMENT IN SECURITIES

For the year ended December 31, 2002, purchases and sales of securities, other than short-term investments, were \$8,658,055 and \$10,746,617, 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. 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%

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CORNERSTONE STRATEGIC VALUE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

from net asset value. The discount of individual repurchases ranged from 6.11% -17.42%. For the year ended December 31, 2001, the Fund repurchased 234,700 of its shares for a total cost of \$1,963,446 at a weighted average discount of 14.11% from net asset value. The discount of individual repurchases ranged from 6.22% - 26.54%. 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 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 and the related collateral received at December 31, 2002, was \$72,038 and \$74,594, respectively. Any cash collateral received is reinvested into repurchase agreements, which in turn is collateralized by various U.S. Government and Agency securities.

During the year ended December 31, 2002, the Fund earned \$503 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, 2002.

| ISSUER  | PRINCIPAL<br>AMOUNT<br>(000'S) | MATURITY | MARKET<br>VALUE    |
|---|--------------------------------|----------|--------------------|
| -----   | -----                          | -----    | -----              |
| United States Treasury Bond,<br>(interest only) | \$295                          | 2/15/20  | \$122,074<br>===== |

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.

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At December 31, 2002, the components of distributable earnings on a tax basis, for the Fund were as follows:

|                           |                |
|---------------------------|----------------|
| Capital loss carryforward | \$ (585,057)   |
| Unrealized depreciation   | (3,623,137)    |
|                           | -----          |
| Total loss                | \$ (4,208,194) |
|                           | =====          |

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, 2002, the Fund did not realize any of these losses.

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CORNERSTONE STRATEGIC VALUE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
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At December 31, 2002, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$585,057 of which \$142,060 expires in 2009 and \$442,997 expires in 2010.

At December 31, 2002, 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 \$28,005,349, \$1,038,321, \$(4,661,458) and \$(3,623,137), respectively.

At December 31, 2002, the Fund reclassified \$38,781 from net investment loss to paid-in capital, to adjust for current period permanent book/tax differences. Net assets were not affected by these reclassifications. All 2002 distributions were return-of-capital for tax purposes. There were no distributions during 2001.



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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, 2002, and the related statement of operations, the statement of changes in net assets and the financial highlights for the year 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 audit. The statement of changes in net assets for the year ended December 31, 2001 and the financial highlights for each of the nine years in the period then ended have been audited by other auditors, whose report dated February 18, 2002 expressed an unqualified opinion on such financial statement and financial highlights.

We conducted our audit 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, 2002 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 audit provides 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, 2002, the results of its operations, the changes in its net assets, and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER

Philadelphia, Pennsylvania  
February 12, 2003

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RESULTS OF ANNUAL MEETING OF STOCKHOLDERS (UNAUDITED)

On October 11, 2002, the Annual Meeting of Stockholders of Cornerstone Strategic Value Fund, Inc. (the "Fund") was held and the following matters were voted upon:

1. To approve the Merger Agreement and Plan of Reorganization.

| FOR       | AGAINST | ABSTAIN |
|-----------|---------|---------|
| 1,919,366 | 692,855 | 14,159  |

2. To elect two Class I Directors until the year 2005 Annual Meeting.

| NAME OF CLASS I DIRECTORS | FOR       | ABSTAIN |
|---------------------------|-----------|---------|
| Ralph W. Bradshaw         | 2,956,909 | 701,896 |
| Edwin Meese III           | 2,957,182 | 701,623 |

3. To ratify the selection by the Board of Directors of Tait, Weller & Baker as the Fund's independent accountants for the year ending December 31, 2002.

| FOR       | AGAINST | ABSTAIN |
|-----------|---------|---------|
| 3,117,568 | 531,322 | 9,915   |

4. To consider and vote upon the stockholder proposal to open-end the Fund.

| FOR     | AGAINST   | ABSTAIN |
|---------|-----------|---------|
| 939,486 | 1,672,100 | 14,794  |

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See accompanying notes to financial statements.

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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, 2002) as to the U.S. federal tax status of distributions received by the Fund's shareholders in respect of

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such fiscal year. During the year ended December 31, 2002 the following distributions per share were paid by the Fund:

|                    |           |           |           |           |           |           |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Payment Date:      | 7/31/02   | 8/30/02   | 9/30/02   | 10/31/02  | 11/29/02  | 12/31/02  |
| Return-of-Capital: | \$ 0.0825 | \$ 0.0825 | \$ 0.0825 | \$ 0.0825 | \$ 0.0825 | \$ 0.0825 |

These distributions represent a return of your investment. As return-of-capital distributions, they are not taxed as ordinary income dividends and are sometimes referred to as tax-free dividends or nontaxable distributions. A return-of-capital distribution reduces the cost basis of your shares in the Fund. Notification for calendar year 2002 was mailed in January 2003. The notification along with Form 1099-DIV reflects the amount to be used by calendar year taxpayers on their U.S. federal income tax returns.

Foreign shareholders generally will not be subject to U.S. withholding tax on the amount of their non-taxable distributions.

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 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<br>(AGE)  | POSITION(S)<br>HELD WITH FUND                | PRINCIPAL OCCUPATION<br>OVER LAST 5 YEARS  |
|--|--|--|
| Ralph W. Bradshaw* (52)<br>One West Pack Square<br>Suite 1650<br>Asheville, NC 28801 | Chairman of the<br>Board of and<br>President | President, Director and Shareholder of<br>Cornerstone Advisors, Inc.; Financial<br>Consultant; Vice President, Deep Discount<br>Advisors, Inc. (1993-1999); Previous<br>Director The Austria Fund, Inc.; Director<br>of The SMALLCap Fund, Inc., Progressive<br>Return Fund, Inc. and Cornerstone Total<br>Return Fund, Inc. |
| Thomas H. Lenagh (80)  | Director                                     | Chairman of the Board of Inrad Corp.;  |

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13 Allen's Corner Rd.  
Flemington, NJ 08822

Independent Financial Adviser; Director of Cornerstone Total Return Fund, Inc., Progressive Return Fund, Inc., Gintel Fund, The Adams Express Company and Petroleum and Resources Corporation.

Edwin Meese III (71)  
The Heritage Foundation  
214 Massachusetts Ave. NE  
Washington, D.C. 20002

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; Formerly U.S. Attorney General under President Ronald Reagan; Director of Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc.

Scott B. Rogers (47)  
30 Cumberland Ave.  
Asheville, NC 28801

Director

Chief Executive Officer, Asheville Buncombe Community Christian Ministry; President, ABC Doctor's Medical Clinic; Director, Southeastern Jurisdiction Urban Networkers; 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 Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc. .

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

| NAME AND<br>(AGE)  | POSITION(S)<br>HELD WITH FUND | PRINCIPAL OCCUPATION<br>OVER LAST 5 YEARS   |
|--|-------------------------------|---|
| Andrew A. Strauss (49)<br>77 Central Avenue Suite F<br>Asheville, NC 28801             | 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 Cornerstone Total Return Fund, Inc., Progressive Return Fund, Inc., The SMALLCap Fund, Inc., Memorial Mission Hospital Foundation, Deerfield Episcopal Retirement Community and Asheville Symphony. |
| Glenn W. Wilcox, Sr. (71)<br>One West Pack Square<br>Suite 1700<br>Asheville, NC 28801 | 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, Wachovia Corp.; Board Trustee and   |

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|  |  |  |
|--|--|--|
|  |  | Chairman, Appalachian State University; Board Trustee and Director, Mars Hill College; Director of The SMALLCap Fund, Inc., Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc.  |
| Gary A. Bentz* (46)<br>One West Pack Square<br>Suite 1650<br>Asheville, NC 28801 | Director,<br>Vice President<br>and Treasurer | Chief Financial Officer 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 Progressive Return Fund, Inc. and Cornerstone Total Return Fund, Inc. |
| Thomas R. Westle (49)<br>405 Park Avenue<br>New York, NY 10022                   | Secretary                                    | Partner, Spitzer & Feldman P.C. (May 1998-present); Secretary of Cornerstone Total Return Fund, Inc. and Progressive Return Fund, Inc.   |

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DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PURCHASE PLAN  
(UNAUDITED)

Shareholders who have Shares registered directly in their own names automatically participate in the Fund's Dividend Reinvestment & Cash Purchase 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 59 Maiden Lane, New York, NY 10038. 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 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 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

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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 PURCHASE 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

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the case of participants subject to 30% 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. 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 (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 published under "Closed-End Funds" each Sunday in THE NEW YORK TIMES and each Monday in THE WALL STREET JOURNAL and BARRON'S under the designation "CrnstnStrV."

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.

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.



CORNERSTONE STRATEGIC VALUE FUND, INC.