

PROGRESSIVE RETURN FUND INC
Form N-30D
February 28, 2003

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PROGRESSIVE RETURN FUND, INC.

ANNUAL REPORT
DECEMBER 31, 2002

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CONTENTS

| | |
|--|----|
| Letter to Shareholders | 1 |
| Portfolio Summary | 3 |
| Schedule of Investments | 4 |
| Statement of Assets and Liabilities | 8 |
| Statement of Operations | 9 |
| Statements of Changes in Net Assets | 10 |
| Financial Highlights | 11 |
| Notes to Financial Statements | 12 |
| Report of Independent Accountants | 16 |
| Results of Special Meeting of Stockholders | 17 |
| Tax Information | 17 |

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| | |
|--|----|
| Additional Information Regarding the Fund's Directors and Officers | 18 |
| Description of Dividend Reinvestment & Cash Purchase Plan | 21 |
| Summary of General Information | 23 |
| Shareholder Information | 23 |
| Privacy Policy Notice | 24 |

LETTER TO SHAREHOLDERS

January 24, 2003

Dear Fellow Shareholders,

We are pleased to report the annual results of Progressive Return Fund, Inc. (the "Fund"). As of December 31, 2002 the net assets stood at \$23.6 million and the Net Asset Value (NAV) per share was \$20.52. The market price ended the year at \$18.95 a share, after adjusting for a one-for-four reverse stock split. The share price represents a discount of 7.7% to NAV, an improvement compared to a discount of 9.6% at the beginning of the year, while averaging 9.8% for the year. Distributions to shareholders during the year totaled \$11.61 per share, all of which was designated as return-of-capital. The total investment return for a shareholder who reinvested his distributions was (20.3)%, outperforming the Fund's benchmark S&P 500 Index, which returned (22.1)% for the year. The Fund outperformed the previous year as well with an investment return of 4.0% versus (11.9)% for the S&P 500 Index. Cornerstone Advisors, Inc. assumed portfolio management responsibilities for the Fund almost two years ago, and its goal is to add value by continuing to outperform the Fund's benchmark. This will be accomplished by focusing on portfolio performance, minimizing expenses, and taking advantage of the Fund's discount to benefit its shareholders.

The Fund attempts to enhance its portfolio performance by exploiting temporary and occasional undervaluation in certain securities that represent different parts of a fully diversified U.S. stock portfolio. The magnitude and availability of such opportunities are unpredictable, and therefore their contribution to enhanced portfolio performance may vary considerably from year to year. The strategies of portfolio selection are also enhanced by other techniques that accrue to the benefit of shareholders, including expense control, share buybacks, and large distributions.

EXPENSE CONTROL

Over the past year, we have paid special attention to reducing Fund operating expenses substantially. In addition, Cornerstone Advisors, Inc. has extended its 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 investment manager views keeping expenses under control. These efforts create a lower expense ratio than would otherwise be the case, resulting in what we believe to be one of the lowest expense ratios among comparable closed-end funds.

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BUYBACKS AND DISTRIBUTIONS

The most significant contribution to Fund performance over the last two years has been the result of various actions taken by the Fund's board and management that are designed to exploit the Fund's discount. First, substantial repurchase of shares in the open market has enhanced NAV performance and reduced the supply of shares available for sale, thus changing the demand/supply balance and reducing the discount. Second, this year the board has established a monthly distribution policy with a high fixed payout. These distributions

1

LETTER TO SHAREHOLDERS (CONCLUDED)

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 great flexibility to shareholders, while providing general market incentive for discount reduction. Closed-end funds that maintain high payouts regardless of market conditions have shown a history of reducing or eliminating discounts, sometimes causing shares to trade at premiums. Furthermore, the distributions for 2002 are classified as return-of-capital, which defers capital gains taxes until significant profits are realized in future periods.

ECONOMIC AND MARKET SUMMARY

Many of the uncertainties that have depressed the financial markets for the past two years are still with us. World crisis in Afghanistan and Iraq have alternated headlines with the progressive uncovering of corporate fraud and greed among some of the largest companies in America, further burdening an already weak economy. Continued consumer spending and an active market for homes, however, provided some encouragement and much needed support.

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

Those seeking safer investments drove short-term Treasury yields down and prices up as they sought a safe haven from the volatility of equity markets. In recent months, the prospect of deflation has 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%.

Most economists see mixed signals with regard to the overall health of the economy, but it is encouraging that we have finally seen a positive quarter after so many negative quarters. Some analysts have seen the beginnings of a foundation for a gradual recovery in the financial markets. However, it is likely that any strong positive turn in the markets will probably be delayed until there is a decisive resolution to the problem in Iraq. In any case, we

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are confident that our portfolio is well positioned with the strongest companies in our economy, and that our efforts to control expenses and reduce the discount will enhance long-term returns for our shareholders.

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

2

PROGRESSIVE RETURN FUND, INC.
PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2002 (UNAUDITED)

TOP TEN, BY SECTOR

| | Sector | Percent of Net Assets |
|-----|----------------------------|--------------------------|
| 1. | Financials | 17.9 |
| 2. | Healthcare | 14.6 |
| 3. | Consumer Discretionary | 13.4 |
| 4. | Information Technology | 12.9 |
| 5. | Industrials | 11.4 |
| 6. | Consumer Staples | 9.3 |
| 7. | Energy | 6.1 |
| 8. | Telecommunication Services | 5.9 |
| 9. | Closed-end Domestic Funds | 3.0 |
| 10. | Utilities | 2.4 |

TOP TEN HOLDINGS, BY ISSUER

| | Holding | Sector | Percent of Net Assets |
|-----|--|------------------------------|--------------------------|
| 1. | Microsoft Corp. | Information Technology | 3.8 |
| 2. | General Electric Co. | Industrials | 3.0 |
| 3. | John Hancock Bank & Thrift Opportunity Fund | Closed-end Domestic Funds | 3.0 |
| 4. | Exxon Mobil Corp. | Energy | 2.9 |
| 5. | Wal-Mart Stores, Inc. | Consumer Discretionary | 2.9 |
| 6. | Merck & Co. Inc. | Healthcare | 2.5 |
| 7. | Citigroup Inc. | Financials | 2.5 |
| 8. | Pfizer Inc. | Healthcare | 2.0 |
| 9. | Johnson & Johnson | Healthcare | 1.8 |
| 10. | International Business Machines Corp. | Information Technology | 1.8 |

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3

 PROGRESSIVE RETURN FUND, INC.
 SCHEDULE OF INVESTMENTS - DECEMBER 31, 2002

| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
|--|------------------|-------------------|
| ----- | | |
| EQUITY SECURITIES - 98.84% | | |
| CLOSED-END DOMESTIC FUNDS - 2.96% | | |
| John Hancock Bank & Thrift Opportunity Fund | 92,600 | \$698,204 |
| ----- | | |
| CONSUMER DISCRETIONARY - 13.41% | | |
| AOL Time Warner Inc.+ | 14,250 | 186,675 |
| Best Buy Co., Inc.+ | 1,250 | 30,188 |
| CarMax, Inc.+ | 313 | 5,597 |
| Carnival Corp. | 2,700 | 67,365 |
| Circuit City Stores, Inc. | 1,000 | 7,420 |
| Clear Channel Communications, Inc.+ | 2,700 | 100,683 |
| Comcast Corp., Class A+ | 3,655 | 86,148 |
| Comcast Corp., Special Class A+ | 4,100 | 92,618 |
| Costco Wholesale Corp.+ | 2,500 | 70,150 |
| CVS Corp. | 1,000 | 24,970 |
| Delphi Corp. | 2,600 | 20,930 |
| Dollar General Corp. | 1,500 | 17,925 |
| Eastman Kodak Co. | 1,400 | 49,056 |
| Federated Department Stores, Inc.+ | 1,000 | 28,760 |
| Ford Motor Co. | 5,800 | 53,940 |
| Gannett Co., Inc. | 1,000 | 71,800 |
| Gap, Inc. (The) | 2,500 | 38,800 |
| General Motors Corp. | 2,600 | 95,836 |
| Harley-Davidson, Inc. | 1,400 | 64,680 |
| Hilton Hotels Corp. | 1,700 | 21,607 |
| Home Depot, Inc. (The) | 7,500 | 179,700 |
| 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 | 1,100 | 36,157 |
| Mattel, Inc. | 1,500 | 28,725 |

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| | | |
|------------------------------------|-------|--------|
| May Department Stores Co. (The) | 1,400 | 32,172 |
| McDonald's Corp. | 4,000 | 64,320 |
| Monsanto Co. | 580 | 11,165 |

| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
|-------------|------------------|-------------------|
|-------------|------------------|-------------------|

CONSUMER DISCRETIONARY (CONTINUED)

| | | |
|-------------------------------------|--------|-----------|
| NIKE, Inc., Class B | 1,300 | \$ 57,811 |
| Omnicom Group Inc. | 1,600 | 103,360 |
| Sears, Roebuck & Co. | 1,600 | 38,320 |
| Staples, Inc.+ | 1,500 | 27,450 |
| Starbucks Corp.+ | 1,700 | 34,646 |
| Target Corp. | 4,100 | 123,000 |
| TJX Companies, Inc. (The) | 2,500 | 48,800 |
| Toys "R" Us, Inc.+ | 1,000 | 10,000 |
| Tribune Co. | 1,000 | 45,460 |
| Viacom Inc., non-voting Class B+ | 5,400 | 220,104 |
| Wal-Mart Stores, Inc. | 13,500 | 681,885 |
| Walt Disney Co. (The) | 6,500 | 106,015 |
| | | ----- |
| | | 3,168,763 |
| | | ----- |

CONSUMER STAPLES - 9.25%

| | | |
|-----------------------------------|-------|-----------|
| Anheuser-Busch Companies, Inc. | 2,500 | 121,000 |
| Archer-Daniels-Midland Co. | 3,045 | 37,758 |
| Campbell Soup Co. | 2,000 | 46,940 |
| Coca-Cola Co. (The) | 6,300 | 276,066 |
| Coca-Cola Enterprises Inc. | 1,500 | 32,580 |
| Colgate-Palmolive Co. | 2,600 | 136,318 |
| ConAgra Foods, Inc. | 2,500 | 62,525 |
| Del Monte Foods Co.+ | 714 | 5,498 |
| Gillette Co. (The) | 3,000 | 91,080 |
| H.J. Heinz Co. | 1,600 | 52,592 |
| J.M. Smucker Co. (The) | 70 | 2,787 |
| Kimberly-Clark Corp. | 2,500 | 118,675 |
| Kroger Co. (The)+ | 1,300 | 20,085 |
| Pepsi Bottling Group | 1,000 | 25,700 |
| PepsiCo, Inc. | 5,600 | 236,432 |
| Philip Morris Companies Inc. | 6,900 | 279,657 |
| Proctor & Gamble Co. (The) | 4,000 | 343,760 |
| Safeway Inc.+ | 2,500 | 58,400 |
| Sara Lee Corp. | 1,300 | 29,263 |
| Sysco Corp. | 2,500 | 74,475 |
| Walgreen Co. | 4,600 | 134,274 |
| | | ----- |
| | | 2,185,865 |
| | | ----- |

See accompanying notes to financial statements.

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 PROGRESSIVE RETURN FUND, INC.
 SCHEDULE OF INVESTMENTS - DECEMBER 31, 2002

| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
|--|------------------|-------------------|
| ENERGY - 6.13% | | |
| Andarko Petroleum Corp. | 1,200 | \$ 57,480 |
| Baker Hughes Inc. | 1,100 | 35,409 |
| Burlington Resources Inc. | 1,000 | 42,650 |
| CenterPoint Energy, Inc. | 1,400 | 11,900 |
| ChevronTexaco Corp. | 4,325 | 287,526 |
| ConocoPhillips | 2,509 | 121,410 |
| El Paso Corp. | 2,500 | 17,400 |
| Exxon Mobil Corp. | 19,800 | 691,812 |
| Marathon Oil Corp. | 1,500 | 31,935 |
| Reliant Resources, Inc. + | 1,104 | 3,533 |
| Schlumberger Ltd. | 2,600 | 109,434 |
| Unocal Corp. | 1,200 | 36,696 |
| | | ----- |
| | | 1,447,185 |
| | | ----- |
| FINANCIALS - 17.85% | | |
| AFLAC Inc. | 2,600 | 78,312 |
| Allstate Corp. (The) | 3,300 | 122,067 |
| American Express Co. | 4,100 | 144,935 |
| American International Group, Inc. | 5,989 | 346,464 |
| AmSouth Bancorp | 1,800 | 34,560 |
| Aon Corp. | 1,200 | 22,668 |
| Bank of America Corp. | 4,300 | 299,151 |
| Bank of New York Co., Inc. (The) | 3,400 | 81,464 |
| Bank One Corp. | 2,800 | 102,340 |
| Charles Schwab Corp. (The) | 3,500 | 37,975 |
| Charter One Financial, Inc. | 1,102 | 31,660 |
| Citigroup Inc. | 16,500 | 580,635 |
| Fannie Mae | 1,500 | 96,495 |
| Fifth Third Bancorp | 2,000 | 117,100 |
| FleetBoston Financial Corp. | 4,100 | 99,630 |
| Franklin Resources, Inc. | 1,200 | 40,896 |
| Freddie Mac | 3,100 | 183,055 |
| Goldman Sachs Group, Inc. (The) | 1,500 | 102,150 |
| Hartford Financial Services Group, Inc. (The) | 1,000 | 45,430 |
| Household International, Inc. | 2,500 | 69,525 |
| John Hancock Financial Services, Inc. | 2,500 | 69,750 |
| J.P. Morgan Chase & Co. | 6,200 | 148,800 |

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| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
|---|------------------|-------------------|
| FINANCIALS (CONTINUED) | | |
| Lehman Brothers Holdings Inc. | 1,100 | \$ 58,619 |
| Marsh & McLennan Companies, Inc. | 2,600 | 120,146 |
| MBNA Corp. | 2,100 | 39,942 |
| Mellon Financial Corp. | 2,500 | 65,275 |
| Merrill Lynch & Co., Inc. | 3,700 | 140,415 |
| MetLife, Inc. | 3,500 | 94,640 |
| Moody's Corp. | 1,000 | 41,290 |
| Morgan Stanley | 2,500 | 99,800 |
| Northern Trust Corp. | 1,000 | 35,050 |
| Principal Financial Group | 2,500 | 75,325 |
| St. Paul Companies, Inc. (The) | 1,000 | 34,050 |
| Synovus Financial Corp. | 1,300 | 25,220 |
| Travelers Property Casualty Corp., Class A+ | 712 | 10,431 |
| Travelers Property Casualty Corp., Class B+ | 1,464 | 21,448 |
| UnumProvident Corp. | 1,100 | 19,294 |
| U.S. Bancorp | 6,201 | 131,585 |
| Washington Mutual, Inc. | 2,800 | 96,684 |
| Wells Fargo & Co. | 5,400 | 253,098 |
| | | ----- |
| | | 4,217,374 |
| | | ----- |
| HEALTHCARE - 14.58% | | |
| Abbott Laboratories | 5,000 | 200,000 |
| Advanced Medical Optics, Inc.+ | 222 | 2,657 |
| Allergan, Inc. | 1,000 | 57,620 |
| Amgen Inc.+ | 4,300 | 207,862 |
| Baxter International Inc. | 2,800 | 78,400 |
| Becton, Dickinson & Co. | 1,200 | 36,828 |
| Boston Scientific Corp.+ | 1,500 | 63,780 |
| Bristol-Myers Squibb Co. | 6,400 | 148,160 |
| Cardinal Health, Inc. | 1,950 | 115,421 |
| Eli Lilly & Co. | 2,800 | 177,800 |
| Guidant Corp.+ | 1,400 | 43,190 |
| HCA Inc. | 1,500 | 62,250 |
| Healthsouth Corp.+ | 1,800 | 7,560 |
| Johnson & Johnson | 8,000 | 429,680 |
| McKesson Corp. | 1,300 | 35,139 |
| MedImmune, Inc+ | 1,000 | 27,170 |
| Medtronic, Inc. | 4,000 | 182,400 |

See accompanying notes to financial statements.

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| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
|---|------------------|-------------------|
| ----- | | |
| HEALTHCARE (CONTINUED) | | |
| Merck & Co. Inc. | 10,500 | \$594,405 |
| Pfizer Inc. | 15,100 | 461,607 |
| Pharmacia Corp. | 3,400 | 142,120 |
| Schering-Plough Corp. | 4,200 | 93,240 |
| Tenet Healthcare Corp.+ | 2,250 | 36,900 |
| UnitedHealth Group Inc. | 1,000 | 83,500 |
| Wyeth | 4,200 | 157,080 |
| | | ----- |
| | | 3,444,769 |
| | | ----- |
| INDUSTRIALS - 11.44% | | |
| 3M Co. | 1,200 | 147,960 |
| Automatic Data Processing, Inc. | 2,900 | 113,825 |
| Boeing Co. (The) | 2,600 | 85,774 |
| Burlington Northern | | |
| Sante Fe Corp. | 1,900 | 49,419 |
| Caterpillar Inc. | 1,600 | 73,152 |
| Cendant Corp.+ | 3,300 | 34,584 |
| Concord EFS, Inc.+ | 2,500 | 39,350 |
| CSX Corp. | 1,000 | 28,310 |
| Emerson Electric Co. | 2,000 | 101,700 |
| FedEx Corp. | 1,000 | 54,220 |
| General Dynamics Corp. | 600 | 47,622 |
| General Electric Co. | 28,700 | 698,845 |
| Honeywell International Inc. | 3,600 | 86,400 |
| IMS Health Inc. | 1,400 | 22,400 |
| Illinois Tools Works Inc. | 1,400 | 90,804 |
| Imagistics International, Inc.+ | 88 | 1,760 |
| Ingersoll-Rand Co., Class A | 1,000 | 43,060 |
| Lockheed Martin Corp. | 2,500 | 144,375 |
| Masco Corp. | 2,500 | 52,625 |
| Paychex, Inc. | 1,700 | 47,430 |
| Pitney Bowes Inc. | 1,100 | 35,926 |
| Raytheon Co. | 1,600 | 49,200 |
| Southwest Airlines Co. | 3,750 | 52,125 |
| Tyco International Ltd. | 6,397 | 109,261 |
| Union Pacific Corp. | 1,000 | 59,870 |
| United Parcel Service, Inc., Class B | 3,500 | 220,780 |
| United Technologies Corp. | 2,500 | 154,850 |
| Waste Management, Inc. | 2,500 | 57,300 |
| | | ----- |
| | | 2,702,927 |
| | | ----- |
| ----- | | |
| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
| ----- | | |
| INFORMATION TECHNOLOGY - 12.86% | | |
| Adobe Systems Inc. | 1,100 | \$ 27,401 |
| Agere Systems Inc., Class A+ | 125 | 180 |
| Agere Systems Inc., Class B+ | 3,068 | 4,295 |
| Agilent Technologies, Inc.,+ | 1,500 | 26,940 |
| Altera Corp.+ | 1,900 | 23,446 |

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| | | |
|--|--------|-----------|
| Analog Devices, Inc.+ | 1,700 | 40,579 |
| Apple Computer, Inc.+ | 1,500 | 21,495 |
| Applied Materials, Inc.+ | 4,900 | 63,847 |
| Computer Associates International, Inc. | 2,700 | 36,450 |
| Dell Computer Corp.+ | 7,200 | 192,528 |
| Electronic Arts Inc.+ | 1,000 | 49,770 |
| Electronic Data Systems Corp. | 2,500 | 46,075 |
| EMC Corp.+ | 7,000 | 42,980 |
| Hewlett-Packard Co. | 8,100 | 140,616 |
| Intel Corp. | 21,600 | 336,312 |
| International Business Machines Corp. | 5,500 | 426,250 |
| Linear Technology Corp. | 1,500 | 38,580 |
| LSI Logic Corp.+ | 1,500 | 8,655 |
| Maxim Intergrated Products, Inc. | 1,300 | 42,952 |
| Micron Technology, Inc.+ | 2,600 | 25,324 |
| Microsoft Corp.+ | 17,300 | 894,410 |
| Motorola, Inc. | 7,100 | 61,415 |
| NVIDIA Corp.+ | 1,000 | 11,510 |
| Oracle Corp.+ | 17,800 | 192,240 |
| QUALCOMM Inc.+ | 1,500 | 54,585 |
| Skyworks Solutions, Inc.+ | 386 | 3,327 |
| Solectron Corp.+ | 3,700 | 13,135 |
| SunGard Data Systems Inc.+ | 2,500 | 58,900 |
| Sun Microsystems, Inc.+ | 10,000 | 31,100 |
| Texas Instruments Inc. | 5,400 | 81,054 |
| Yahoo! Inc.+ | 2,500 | 40,875 |
| | | ----- |
| | | 3,037,226 |
| | | ----- |
| MATERIALS - 2.12% | | |
| Alcoa Inc. | 4,200 | 95,676 |
| Dow Chemical Co. (The) | 2,700 | 80,190 |
| E.I. du Pont de Nemours & Co. | 3,300 | 139,920 |
| Georgia-Pacific Corp. | 1,000 | 16,160 |
| International Paper Co. | 2,500 | 87,425 |
| Rohm & Haas Co. | 1,000 | 32,480 |
| Weyerhaeuser Co. | 1,000 | 49,210 |
| | | ----- |
| | | 501,061 |
| | | ----- |

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| DESCRIPTION | NO. OF SHARES | VALUE (NOTE A) |
|--|------------------|-------------------|
| TELECOMMUNICATION SERVICES - 5.86% | | |
| ALLTEL Corp. | 1,500 | \$ 76,500 |
| AT&T Corp. | 2,260 | 59,009 |
| AT&T Wireless Services Inc.+ | 8,534 | 48,217 |
| BellSouth Corp. | 6,000 | 155,220 |
| Cisco Systems, Inc.+ | 23,500 | 307,850 |
| Lucent Technologies Inc.+ | 11,600 | 14,616 |
| Nextel Communications, Inc., Class A+ | 2,600 | 30,030 |
| SBC Communications Inc. | 10,700 | 290,077 |
| Sprint Corp. (FON Group) | 4,000 | 57,920 |
| Sprint Corp. (PCS Group)+ | 1,800 | 7,884 |
| Verizon Communications Inc. | 8,700 | 337,125 |
| | | ----- |
| | | 1,384,448 |
| | | ----- |
| UTILITIES - 2.38% | | |
| American Electric Power Company, Inc. | 1,500 | 40,995 |
| Dominion Resources, Inc. | 1,100 | 60,390 |
| Duke Energy Corp. | 2,500 | 48,850 |
| Edison International+ | 1,500 | 17,775 |
| Exelon Corp. | 1,500 | 79,155 |
| FPL Group, Inc. | 1,000 | 60,130 |
| NiSource Inc. | 1,000 | 20,000 |
| PG&E Corp.+ | 1,800 | 25,020 |
| Progress Energy, Inc. | 1,000 | 43,350 |
| Public Service Enterprises Group Inc. | 1,000 | 32,100 |
| Sempra Energy | 1,000 | 23,650 |
| Southern Co. (The) | 2,500 | 70,975 |
| TXU Corp. | 1,200 | 22,416 |
| Xcel Energy, Inc. | 1,600 | 17,600 |
| | | ----- |
| | | 562,406 |
| | | ----- |
| TOTAL EQUITY SECURITIES - 98.84% | | |
| (cost - \$32,456,792) | | 23,350,228 |
| | | ----- |

| DESCRIPTION | PRINCIPAL AMOUNT | VALUE (NOTE A) |
|---|---------------------|-------------------|
| SHORT-TERM INVESTMENT - 1.74% | | |
| REPURCHASE AGREEMENT - 1.74% | | |
| Bear, Stearns & Co. Inc. (Agreement dated 12/31/02 to be repurchased at \$411,204), 1.10%, 01/02/03 (cost - \$411,179) (Note F) | \$411 | \$ 411,179 |
| TOTAL INVESTMENTS - 100.58% | | ----- |
| (cost - \$32,867,971) (Notes A,C) | | 23,761,407 |
| | | ----- |

LIABILITIES IN EXCESS OF

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| | |
|------------------------|--------------|
| OTHER ASSETS - (0.58)% | (136,565) |
| | ----- |
| NET ASSETS - 100.00% | \$23,624,842 |
| | ===== |

See accompanying notes to financial statements.

7

 PROGRESSIVE RETURN FUND, INC.
 STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2002

ASSETS

| | |
|---|---------------|
| Investments, at value (Cost \$32,867,971) (Notes A, G) | \$ 23,761,407 |
| Cash collateral received for securities loaned (Note E) | 86,887 |
| Receivables: | |
| Investments sold | 51,325 |
| Dividends | 37,967 |
| Interest | 320 |
| Prepaid expenses | 7,351 |
| | ----- |
| Total Assets | 23,945,257 |
| | ----- |

LIABILITIES

| | |
|---|---------|
| Payables: | |
| Upon return of securities loaned (Note E) | 86,887 |
| Investments purchased | 79,218 |
| Capital stock repurchased | 58,541 |
| Investment management fee (Note B) | 17,829 |
| Other accrued expenses | 77,940 |
| | ----- |
| Total Liabilities | 320,415 |
| | ----- |

| | |
|---|---------------|
| NET ASSETS (applicable to 1,151,324 shares of common stock outstanding) | \$ 23,624,842 |
| | ===== |

| | |
|--|----------|
| NET ASSET VALUE PER SHARE (\$23,624,842 / 1,151,324) | \$ 20.52 |
| | ===== |

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NET ASSETS CONSISTS OF

| | |
|--|---------------|
| Capital stock, \$0.001 par value; 1,151,324 shares issued and outstanding (100,000,000 shares authorized) | \$ 1,151 |
| Paid-in capital | 46,048,658 |
| Cost of 9,093 shares repurchased | (172,403) |
| Accumulated net realized loss on investments | (13,146,000) |
| Net unrealized depreciation in value of investments | (9,106,564) |
| | ----- |
| Net assets applicable to shares outstanding | \$ 23,624,842 |
| | ===== |

See accompanying notes to financial statements.

8

 PROGRESSIVE RETURN FUND, INC.
 STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2002

INVESTMENT LOSS

| | |
|------------------------------|------------|
| Income (Note A): | |
| Dividends | \$ 489,213 |
| Interest | 18,963 |
| Less: Foreign taxes withheld | (1,477) |
| | ----- |
| Total Investment Income | 506,699 |
| | ----- |

Expenses:

| | |
|-------------------------------------|---------|
| Investment management fees (Note B) | 301,557 |
| Legal and audit fees (Note B) | 78,435 |
| Merger fees | 77,513 |
| Directors' fees | 53,601 |
| Administration fees | 50,000 |
| Accounting fees | 29,828 |
| Printing | 28,502 |
| Transfer agent fees | 24,665 |
| NYSE listing fees | 23,750 |
| Insurance | 9,519 |
| Custodian fees | 8,369 |
| Other | 12,548 |
| | ----- |

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| | |
|---|----------------|
| Total Expenses | 698,287 |
| Less: Management fee waivers (Note B) | (97,990) |
| Less: Fees paid indirectly (Note B) | (28,805) |
| | ----- |
| Net Expenses | 571,492 |
| | ----- |
| Net Investment Loss | (64,793) |
| | ----- |
| NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS | |
| Net realized loss from investments | (974,824) |
| Net change in unrealized depreciation in value of investments | (7,187,168) |
| | ----- |
| Net realized and unrealized loss on investments | (8,161,992) |
| | ----- |
| NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS | \$ (8,226,785) |
| | ===== |

See accompanying notes to financial statements.

9

 PROGRESSIVE RETURN FUND, INC.
 STATEMENTS OF CHANGES IN NET ASSETS

| | FOR THE YEARS ENDED DECEMBER 31, | |
|---|-------------------------------------|-------------|
| | 2002 | 2001 |
| | ---- | ---- |
| DECREASE IN NET ASSETS | | |
| Operations: | | |
| Net investment income/(loss) | \$ (64,793) | \$ 7,386 |
| Net realized loss on investments | (974,824) | (4,384,728) |
| Net change in unrealized depreciation in value of investments | (7,187,168) | (2,439,912) |
| | ----- | ----- |
| Net decrease in net assets resulting from operations | (8,226,785) | (6,817,254) |
| | ----- | ----- |
| Distributions to shareholders (Note A, G): | | |
| Return-of-capital | (12,692,520) | (4,228,516) |
| | ----- | ----- |
| Capital stock transactions* (Note D): | | |

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| | | |
|---|---------------|---------------|
| Proceeds from 59,181 shares issued from treasury in reinvestment of distributions | 1,815,669 | -- |
| Proceeds from 52,350 shares newly issued in reinvestment of distributions | 1,216,519 | -- |
| Cash paid in-lieu of an aggregate of 36 fractional shares | (1,000) | -- |
| Cost of 17,300 and 50,975 shares repurchased, respectively | (334,483) | (1,947,040) |
| | ----- | ----- |
| Net increase/(decrease) in net assets resulting from capital stock transactions | 2,696,705 | (1,947,040) |
| | ----- | ----- |
| Total decrease in net assets | (18,222,600) | (12,992,810) |
| | ----- | ----- |
| NET ASSETS | | |
| Beginning of year | 41,847,442 | 54,840,252 |
| | ----- | ----- |
| End of year | \$ 23,624,842 | \$ 41,847,442 |
| | ===== | ===== |

See accompanying notes to financial statements.

10

PROGRESSIVE RETURN FUND, INC.
FINANCIAL HIGHLIGHTS(ss).

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 PERFORMANCE | | | | | | |
| Net asset value, | | | | | | |
| beginning of year | \$ 39.60 | \$ 49.48 | \$ 61.84 | \$ 73.24 | \$ 77.80 | \$ 81.80 |
| Net investment income/(loss) | (0.06)# | -#* | (0.04)# | 0.36# | 0.48 | 0.48 |

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| | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|------|
| Net realized and unrealized gain/(loss) on investments and foreign currency related translations, if any | (7.22) | (6.20) | (12.68) | (3.60) | 17.80 | |
| Net increase/(decrease) in net assets resulting from operations | (7.28) | (6.20) | (12.72) | (3.24) | 18.28 | |
| Dividends and distributions to shareholders: | | | | | | |
| Net investment income | -- | -- | --* | (0.32) | (0.28) | |
| Net realized gain on investments and foreign currency related transactions | -- | -- | (1.04) | (8.32) | (22.48) | (|
| Return of capital | (11.61) | (4.00) | -- | -- | -- | |
| Total dividends and distributions to shareholders | (11.61) | (4.00) | (1.04) | (8.64) | (22.76) | (|
| Capital stock transactions; | | | | | | |
| Anti-dilutive effect due to capital stock repurchased | 0.04 | 0.32 | 1.40 | 0.48 | -- | |
| Dilutive effect due to shares issued in reinvestment of dividends and distributions | (0.23) | -- | -- | -- | (0.08) | |
| Total capital stock transactions | (0.19) | 0.32 | 1.40 | 0.48 | (0.08) | |
| Net asset value, end of year | \$ 20.52 | \$ 39.60 | \$ 49.48 | \$ 61.84 | \$ 73.24 | \$ |
| Market value, end of year | \$ 18.950 | \$35.800 | \$ 38.000 | \$52.252 | \$ 62.500 | \$ 6 |
| Total investment return (a) | (20.28)% | 4.04% | (27.27)% | (1.84)% | 32.56% | |
| RATIOS/SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of year (000 omitted) | \$ 23,625 | \$ 41,847 | 54,840 | \$ 78,609 | \$98,084 | \$1 |
| Ratio of expenses to average net assets, net of fee waivers, if any | 1.90% (b) | 1.63% (b) | 2.46% | 2.10% | 1.50% | |
| Ratio of expenses to average net assets, excluding fee waivers, if any | 2.31% (c) | 1.73% (c) | 2.65% | 2.28% | 1.66% | |
| Ratio of expenses to average net assets, net of fee waivers but excluding fees paid indirectly, if any | 1.99% | 1.72% | -- | -- | -- | |
| Ratio of net investment income/(loss) to average net assets | (0.21)% | 0.02% | (0.06)% | 0.59% | 0.51% | |
| Portfolio turnover rate | 29.91% | 36.17% | 38.13% | 39.60% | 48.52% | |

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| | 1994 | 1993 |
|--|-----------|----------|
| PER SHARE OPERATING PERFORMANCE | | |
| Net asset value, beginning of year | \$ 50.08 | \$ 35.60 |
| Net investment income/(loss) | 0.24 | 0.28 |
| Net realized and unrealized gain/(loss) on investments and foreign currency related translations, if any | 7.24 | 14.20 |
| Net increase/(decrease) in net assets resulting from operations | 7.48 | 14.48 |
| Dividends and distributions to shareholders: | | |
| Net investment income | (0.24) | -- |
| Net realized gain on investments and foreign currency related transactions | -- | -- |
| Return of capital | -- | -- |
| Total dividends and distributions to shareholders | (0.24) | -- |
| Capital stock transactions; | | |
| Anti-dilutive effect due to capital stock repurchased | -- | -- |
| Dilutive effect due to shares issued in reinvestment of dividends and distributions | -- | -- |
| Total capital stock transactions | -- | -- |
| Net asset value, end of year | \$ 57.32 | \$ 50.08 |
| Market value, end of year | \$ 55.500 | \$56.500 |
| Total investment return (a) | (1.35)% | 76.56% |
| RATIOS/SUPPLEMENTAL DATA | | |
| Net assets, end of year (000 omitted) | \$ 75,908 | \$66,351 |
| Ratio of expenses to average net assets, net of fee waivers, if any | 1.41% | 1.97% |
| Ratio of expenses to average net assets, excluding fee waivers, if any | 1.59% | 2.00% |
| Ratio of expenses to average net assets, net of fee waivers but excluding fees paid indirectly, if any | -- | -- |

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| | | |
|---|--------|--------|
| Ratio of net investment income/(loss) to average net assets | 0.43% | 0.66% |
| Portfolio turnover rate | 15.47% | 24.47% |

11

PROGRESSIVE RETURN FUND, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Progressive Return Fund, Inc. (the "Fund") was incorporated in Maryland on August 11, 1989 and commenced investment operations on November 9, 1989. Its investment objective is to seek total return, consisting of capital appreciation and current income through investing substantially all of its assets in equity securities of U.S. and non-U.S. companies and U.S. dollar denominated debt securities. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, non-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 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, 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 seller's agreement to repurchase them at an agreed-upon time and price ("repurchase agreements"). The financial institutions

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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 PROGRESSIVE RETURN FUND, INC.

12

PROGRESSIVE RETURN FUND, INC.
NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) method for both financial reporting and income tax purposes. Interest income is recorded on an accrual basis; dividend income is recorded on the ex-dividend date.

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

DISTRIBUTIONS OF INCOME AND GAINS: Effective 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, h t e 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 lo ng-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 has voluntarily agreed to waive its management fees to the Fund to the extent monthly operating expenses exceed 0.10% of average net assets

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calculated monthly. Such undertaking continued through the end of 2002 and Cornerstone has voluntarily agreed to continue the undertaking until December 2003. For the year ended December 31, 2002, Cornerstone earned \$301,557, for investment management services of which it waived \$97,990.

Included in the Statement of Operations, under the caption FEES PAID INDIRECTLY, are expense offsets of \$28,805 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$87,000, 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, a single shareholder and his affiliates owned approximately 60% of the outstanding shares of the Fund based on a Schedule 13G/A filing with the Securities and Exchange Commission filed on February 7, 2003.

13

PROGRESSIVE RETURN FUND, INC.
NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2002, purchases and sales of securities, other than short-term investments, were \$9,051,526 and \$23,034,757, respectively.

NOTE D. SHARE REPURCHASE PROGRAM

On October 21, 1998, the Fund announced that its Board of Directors had authorized the repurchase of up to 15% of the Fund's outstanding common stock, for purposes of enhancing shareholder value. The Fund's Board had authorized management of the Fund to repurchase such shares in open market transactions at prevailing market prices from time to time in a manner consistent with the Fund continuing to seek to achieve its investment objectives. The Board's actions were taken in light of the significant discounts at which the Fund's shares were trading. It is intended both to provide additional liquidity to those shareholders that elect to sell their shares and to enhance the net asset value of the shares held by those shareholders that maintain their investment.

Effective October 22, 1999, the Fund committed to engage in an enhanced and aggressive repurchase program of the Fund's shares whenever those shares trade at more than a nominal discount to net asset value. Shares will be repurchased in open market transactions at prevailing market prices from time to time in a manner consistent with the Fund continuing to seek its investment objective. The repurchase program will be subject to review by the Board of Directors of the Fund.

For the year ended December 31, 2002, the Fund repurchased 17,300 of its shares for a total cost of \$334,483 at a weighted average discount of 11.70% from net asset value. The discount of the individual repurchases ranged from 7.11% - 15.58%. For the year ended December 31, 2001, the Fund repurchased 50,975 of its shares for a total cost of \$1,947,040 at a weighted average discount of 15.67% from net asset value. The discount of the individual repurchases ranged from 8.26% - 20.86%. 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.

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NOTE E. SECURITIES LENDING

To generate additional income, the Fund may lend up to 33 1/3% of its total assets. The Fund receives payments from borrowers equivalent to the dividends and interest that would have been earned on securities lent while simultaneously seeking to earn interest on the investment of cash collateral. Loans are subject to termination by the Fund or the borrower at any time, and are therefore, not considered to be illiquid investments. Loans of securities are required at all times to be secured by collateral equal to at least 100% of the market value of securities on loan. However, in the event of default or bankruptcy of the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. In the event that the borrower fails to return securities, and collateral maintained by 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 \$83,884 and \$86,887, respectively. Any cash collateral received is reinvested into repurchase

14

 PROGRESSIVE RETURN FUND, INC.
 NOTES TO FINANCIAL STATEMENTS

agreements, which in turn is collateralized by various U.S. Government and Agency securities.

During the year ended December 31, 2002, the Fund earned \$644 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 (000'S) | AMOUNT MATURITY | MARKET VALUE |
|--|----------------------|--------------------|-----------------|
| ----- | ----- | ----- | ----- |
| United States Treasury Bond (interest only) | \$1,015 | 2/15/20 | \$ 420,017 |
| | | | ===== |

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

| | |
|---------------------------|----------------|
| Capital loss carryforward | \$(13,146,000) |
| Unrealized depreciation | (9,106,564) |
| | ----- |
| Total loss | \$(22,252,564) |

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

At December 31, 2002, the Fund had a capital loss carryforward for U.S. federal income tax purposes of \$13,146,000 of which \$1,587,989 expires in 2008, \$10,192,955 expires in 2009 and \$1,365,056 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 \$32,867,971, \$34,629, \$(9,141,193) and \$(9,106,564), respectively.

At December 31, 2002, the Fund reclassified \$64,793 from net investment loss to paid-in capital and \$4,221,130 from distributions in excess of net investment income to paid-in capital, to adjust for current period permanent book/tax differences. In addition, the Fund reclassified a gain of \$293,451 from shares repurchased to paid-in capital. Net assets were not affected by these reclassifications. All distributions made in 2002 and 2001 were return of capital for tax purposes.

15

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors Progressive Return Fund,
Inc. New York, New York

We have audited the accompanying statement of assets and liabilities of Progressive Return 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 and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Progressive Return Fund, Inc. as of December 31, 2002, the results of its

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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

16

RESULTS OF SPECIAL MEETING OF STOCKHOLDERS (UNAUDITED)

On October 11, 2002, the Special Meeting of Stockholders of Progressive Return 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 |
|---------|---------|---------|
| 193,069 | 580,718 | 1,707 |

2. In the event that Merger Agreement and Plan or Reorganization is approved, then to amend the Articles of Incorporation to change the name of the Fund from "Progressive Return Fund, Inc." to "Progressive Total Return Fund, Inc."

| FOR | AGAINST | ABSTAIN |
|---------|---------|---------|
| 764,381 | 8,870 | 2,243 |

TAX INFORMATION (UNAUDITED)

Progressive Return Fund, Inc. (the "Fund") is required by Subchapter M of the Internal Revenue Code of 1986, as amended, to advise its shareholders within 60 days of the Fund's year end (December 31, 2002) as to the U.S. federal tax status of distributions received by the Fund's shareholders in respect of such fiscal year. During the year ended December 31, 2002 the following distributions per share were paid by the Fund:

| | | | | |
|--------------------|---------|---------|---------|-----------|
| Payment Date: | 1/11/02 | 3/4/02 | 5/31/02 | 7/31/02 |
| Return-of-Capital: | \$ 4.00 | \$ 8.00 | \$ 2.00 | \$ 0.2675 |

| | | | | | |
|--------------------|-----------|-----------|-----------|-----------|-----------|
| Payment Date: | 8/30/02 | 9/30/02 | 10/31/02 | 11/29/02 | 12/31/02 |
| Return-of-Capital: | \$ 0.2675 | \$ 0.2675 | \$ 0.2675 | \$ 0.2675 | \$ 0.2675 |

These distributions represent a return of your investment and those distributions made prior to May 31, 2002 have been adjusted for the one-for-four reverse stock split that was effective May 6, 2002. 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

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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.

17

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* (52) One West Pack Square Suite 1650 Asheville, NC 28801 | Chairman of the Board of Directors and President | President, Director and Shareholder of Cornerstone Advisors, Inc.; Financial Consultant; Vice President, Deep Discount Advisors, Inc. (1993-1999); Previous Director of The Austria Fund, Inc.; Director of The SMALLCap Fund, Inc., Cornerstone Total Return Fund, Inc., and Cornerstone Strategic Value Fund, Inc. |
| Thomas H. Lenagh (80) 13 Allen's Corner Rd. Flemington, NJ 08822 | Director | Chairman of the Board of Inrad Corp.; Independent Financial Adviser; Director of Cornerstone Strategic Value Fund, Inc., Cornerstone Total 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 Cornerstone Strategic Value Fund, Inc. |

18

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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 (47) 30 Cumberland Ave. Asheville, NC 28801 | Director | Chief Executive Officer, Asheville Buncombe Community Christian Ministry; President, ABCCM 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 Strategic Value Fund, Inc. and Cornerstone Total Return Fund, Inc. |
| Andrew A. Strauss (49) 77 Central Avenue Suite F 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 Strategic Value Fund, Inc., Cornerstone Total Return Fund, Inc., The SMALLCap Fund, Inc., Memorial Mission Hospital Foundation, Deerfield Episcopal Retirement Community and Asheville Symphony. |
| Glenn W. Wilcox, Sr. (71) One West Pack Square Suite 1700 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 Chairman, Appalachian State University; Board Trustee and Director, Mars Hill College; Director of The SMALLCap Fund, Inc., Cornerstone Strategic Value Fund, Inc., and Cornerstone Total Return Fund, Inc. |

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

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| NAME AND ADDRESS (AGE) | POSITION(S) HELD WITH FUND | PRINCIPAL OCCUPATION OVER LAST 5 YEARS |
|--|--|--|
| Gary A. Bentz* (46) One West Pack Square Suite 1650 Asheville, NC 28801 | Director, Vice President 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 Cornerstone Total Return Fund, Inc. and Cornerstone Strategic Value Fund, Inc. |
| Thomas R. Westle (49) 405 Park Avenue New York, NY 10022 | Secretary | Partner, Spitzer & Feldman P.C. (May 1998-present); Secretary of Cornerstone Strategic Value Fund, Inc. and Cornerstone Total Return Fund, Inc. |

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

20

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

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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 handling the reinvestment of Dividends will be paid by the Fund. Each participant's account will be DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PURCHASE PLAN (UNAUDITED) (CONCLUDED) 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.

21

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 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.

SUMMARY OF GENERAL INFORMATION

The Fund - Progressive Return Fund, Inc. is a closed-end, non-diversified management investment company whose shares trade on the American Stock Exchange. Its investment objective is to seek total return, consisting of capital appreciation and current income by investing primarily all of its assets in equity securities of U.S. and non-U.S. issuers whose securities trade on a U.S. securities exchange or over the counter or as American Depositary Receipts or other forms of depositary receipts which trade in the United States. The Fund is managed by Cornerstone Advisors, Inc.

SHAREHOLDER INFORMATION

Effective February 21, 2003, the Fund is listed on the American Stock Exchange (symbol "PGF"). The share price is published in: THE NEW YORK TIMES (daily) under the designation "ProgRetFd" and THE WALL STREET JOURNAL (daily) and BARRON'S (each Monday) under the designation "PrgrssvRetFd." 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 "ProgresvFd ."

NOTICE IS HEREBY GIVEN IN ACCORDANCE WITH SECTION 23(C) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, THAT PROGRESSIVE RETURN 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 Progressive Return Fund, Inc.'s (the "Fund") policies regarding disclosure of nonpublic personal information that you provide to the Fund or that the Fund collects from other sources. In the event that you hold shares of the Fund through a broker-dealer or other financial intermediary, the privacy policy of the financial intermediary would govern how your nonpublic personal information would be shared with unaffiliated third parties.

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

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- 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.

24

PROGRESSIVE RETURN FUND, INC.

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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

STOCK TRANSFER AGENT AND REGISTRAR

| | |
|---|---|
| Cornerstone Advisors, Inc. One West Pack Square Suite 1650 Asheville, NC 28801 | American Stock Transfer & Trust Co. 59 Maiden Lane New York, NY 10038 |
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| ADMINISTRATOR Bear Stearns Funds | INDEPENDENT ACCOUNTANTS Tait, Weller & Baker |
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Management Inc.
383 Madison Avenue
New York, NY 10179

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.

[GRAPHIC OMITTED HERE]

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. PROGRESSIVE RETURN FUND, INC.