

PROGRESSIVE RETURN FUND INC  
Form N-30D  
August 26, 2002

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PROGRESSIVE RETURN FUND, INC.

SEMI-ANNUAL REPORT  
JUNE 30, 2002

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LETTER TO SHAREHOLDERS

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July 26, 2002

Dear Fellow Shareholder:

Our semi-annual report for Progressive Return Fund, Inc. (the "Fund"), covering the six months ended June 30, 2002 follows. At the end of the period, the Fund's net assets were \$28.5 million and the Net Asset Value ("NAV") per share was \$24.80. The share price on the New York Stock Exchange closed at \$23.40, representing a discount to NAV of 5.65%. The Fund's total return investment approach added several fixed-income positions to the broadly diversified equity holdings in the portfolio.

## ECONOMIC AND MARKET SUMMARY

The first half of 2002 was marked by a continued retreat from the highs of 2000. Stocks finished flat for the first quarter, only to resume the decline through the second quarter and retest the lows set in the near panic selling immediately following the September 11th tragedy. With concerns surrounding the war on terrorism, earnings disappointments, loss of stock analyst credibility, and reports of corporate malfeasance, investors' increasing pessimism was reflected in the market slide.

Not surprisingly, global investors reacted by shifting their emphasis away from the falling U.S. market. The U.S. dollar also staged a substantial retreat against the euro and the yen. In dollar terms, this strengthened the generally flat performance of equities in Japan and dampened the broad market declines in Europe. The relative benefit for these markets may be short-lived, however, as the export components of these same economies face more competitive U.S. suppliers at home and abroad.

Short-term interest rates remained steady throughout the period as the Federal Reserve held their benchmark rate at a low 1.75%, in contrast to the multiple rate cuts in 2001. Weak expectations for bonds were overcome by the negative sentiment in the equity markets that drove many to seek safer investments.

## PORTFOLIO PERFORMANCE

For the first half of 2002, the Fund posted a (13.31)% total return on NAV as compared with the S&P 500 Index return of (13.15)%.

While there was some variation among sectors, stocks finished the first quarter essentially flat. They maintained some balance as the positives in energy, consumer staples and materials offset declines in technology and telecommunications.

During the second quarter, however, most sectors bowed to overwhelming market pressures. Energy and materials finished the half holding slight gains for the year, but technology and telecommunications suffered additional declines of more than 20% for the quarter. This left them with substantial negatives for the period as scandal complicated a difficult quarter for business.

## OUTLOOK

Cautious optimism describes our view for the remainder of the year. The economy shows signs of a modest recovery even as terrorism concerns continue and consumer confidence remains weak. Retail sales have increased. Earnings comparisons are beginning to look better. Encouraging data for manufacturers shows that the sharp declines in the rate of capital spending for 2001 are turning favorably for 2002. Letter to Shareholders (concluded)

LETTER TO SHAREHOLDERS (concluded)

U.S. exporters look forward to opportunities for growth as the falling dollar makes their products increasingly competitive. Low mortgage rates have helped keep the U.S. housing market strong and personal income growth compares favorably to the rate of inflation.

Our economy is still strong and growing, despite the interruption of a mild recession. The Federal Reserve (the "Fed") and others in the government aim to keep the fragile recovery going until the economy can stand on its own. Time has proven that betting against the Fed is unprofitable.

Market uncertainty creates investment opportunity as thankfully few of the most-feared scenarios actually occur. In the short-term, larger companies often benefit most from a falling dollar as their competitive positions improve. They also benefit as safety concerns lead investors to the relative stability of size. We expect large-cap U.S. stocks, which have been under pressure since 2000, to provide attractive returns on a risk/reward basis over the longer-term.

SEEKING TO PRODUCE VALUE

We are working to provide value to our shareholders. Recently, additional steps have been taken to benefit the owners of our Fund.

On June 25, 2002, the Board approved a monthly distribution policy with a 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.

Over the past year, diligent attention to Fund expenses has reduced them substantially. In addition, Cornerstone Advisors, Inc., the Fund's investment manager, has voluntarily agreed to waive a substantial portion of its management fees to the extent that monthly operating expenses exceed 0.10%. This effort demonstrates how seriously the investment manager views keeping expenses under control and will result in a lower expense ratio than would otherwise be the case. In pursuing the goal of lowering costs, the Board is also studying the possibility of merger among other closed-end funds affiliated with the investment manager to further reduce expenses. We believe that these steps will 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,

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/s/ RALPH W. BRADSHAW

Ralph W. Bradshaw  
Chairman

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PROGRESSIVE RETURN FUND, INC.  
PORTFOLIO SUMMARY - AS OF JUNE 30, 2002 (UNAUDITED)

TOP TEN SECTORS

|    | Sector                      | Percent of<br>Net Assets |
|----|-----------------------------|--------------------------|
| 1  | Financials                  | 15.7                     |
| 2  | Healthcare                  | 13.3                     |
| 3  | Consumer Discretionary      | 13.3                     |
| 4  | Information Technology      | 12.2                     |
| 5  | Industrials                 | 10.6                     |
| 6  | Consumer Staples            | 8.5                      |
| 7  | Energy                      | 7.5                      |
| 8  | U.S. Government Obligations | 5.1                      |
| 9  | Telecommunication Services  | 4.2                      |
| 10 | Materials                   | 3.0                      |

TOP TEN HOLDINGS, BY ISSUER

|    | Holding              | Sector                      | Percent of<br>Net Assets |
|----|----------------------|-----------------------------|--------------------------|
| 1. | U.S. Treasury Notes  | U.S. Government Obligations | 5.1                      |
| 2. | Microsoft Corp.      | Information Technology      | 3.3                      |
| 3. | General Electric Co. | Industrials                 | 2.9                      |

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|   |                           |     |
|---|---------------------------|-----|
| 4. Exxon Mobil Corp.                              | Energy                    | 2.8 |
| 5. John Hancock Bank & Thrift<br>Opportunity Fund | Closed-End Domestic Funds | 2.8 |
| 6. Wal-Mart Stores, Inc.                          | Consumer Discretionary    | 2.6 |
| 7. Citigroup Inc.                                 | Financials                | 2.2 |
| 8. Merck & Co., Inc.                              | Healthcare                | 1.9 |
| 9. Pfizer Inc.                                    | Healthcare                | 1.9 |
| 10. Johnson & Johnson                             | Healthcare                | 1.8 |

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PROGRESSIVE RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS - JUNE 30, 2002 (UNAUDITED)

| Description                                       | No. of<br>Shares | Value<br>(Note A) |
|---|------------------|-------------------|
| EQUITY SECURITIES - 93.98%                        |                  |                   |
| CLOSED-END DOMESTIC FUNDS - 2.77%                 |                  |                   |
| John Hancock Bank & Thrift Opportunity Fund ..... | 92,600           | \$ 788,026        |
| CONSUMER DISCRETIONARY - 13.34%                   |                  |                   |
| AOL Time Warner Inc.+ .....                       | 14,250           | 209,618           |
| Bed, Bath & Beyond Inc.+ .....                    | 1,300            | 49,062            |
| Best Buy Co., Inc.+ .....                         | 1,250            | 45,375            |
| Carnival Corp. ....                               | 2,700            | 74,763            |
| Circuit City Stores-Circuit City Group .....      | 1,000            | 18,750            |
| Clear Channel Communications, Inc.+ .....         | 2,700            | 86,454            |
| Comcast Corp., Special Class A+ .....             | 4,100            | 96,063            |
| Delphi Corp. ....                                 | 2,600            | 34,320            |
| Dollar General Corp. ....                         | 1,500            | 28,545            |
| Eastman Kodak Co. ....                            | 1,400            | 40,838            |
| Federated Department Stores, Inc.+ .....          | 1,000            | 39,700            |
| Ford Motor Co. ....                               | 5,800            | 92,800            |
| Gannett Co., Inc. ....                            | 1,200            | 91,080            |
| General Motors Corp. ....                         | 2,600            | 138,970           |
| Harley-Davidson, Inc. ....                        | 1,400            | 71,778            |
| Hilton Hotels Corp. ....                          | 1,700            | 23,630            |
| Home Depot, Inc. (The) .....                      | 7,500            | 275,475           |
| J.C. Penney Co., Inc. ....                        | 1,300            | 28,626            |
| Johnson Controls, Inc. ....                       | 1,000            | 81,610            |
| Limited Brands .....                              | 2,500            | 53,250            |

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|   |       |         |
|---|-------|---------|
| Lowe's Companies, Inc. ....                 | 2,600 | 118,040 |
| Marriott International, Inc., Class A ..... | 1,100 | 41,855  |
| Mattel, Inc. ....                           | 2,500 | 52,525  |
| May Department Stores Co. (The) .....       | 1,400 | 46,102  |
| McDonald's Corp. ....                       | 4,000 | 113,800 |
| Newell Rubbermaid Inc. ....                 | 1,300 | 45,578  |
| Nike, Inc., Class B .....                   | 1,300 | 69,745  |
| Office Depot, Inc.+ .....                   | 1,400 | 23,520  |
| Omnicom Group Inc. ....                     | 1,600 | 73,280  |

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

CONSUMER DISCRETIONARY (CONTINUED)

|  |        |           |
|--|--------|-----------|
| Sears, Roebuck & Co. ....              | 1,600  | \$ 86,880 |
| Staples, Inc.+ .....                   | 2,500  | 49,250    |
| Starbucks Corp.+ .....                 | 1,700  | 42,245    |
| Target Corp. ....                      | 4,100  | 152,274   |
| TJX Companies, Inc. ....               | 2,600  | 50,986    |
| Toys "R" Us, Inc.+ .....               | 1,000  | 17,470    |
| Tribune Co. ....                       | 1,400  | 60,900    |
| Viacom Inc., non-voting Class B+ ..... | 6,900  | 306,153   |
| Wal-Mart Stores, Inc. ....             | 13,500 | 742,635   |
| Walt Disney Co. (The) .....            | 6,500  | 122,850   |

-----  
3,796,795  
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CONSUMER STAPLES - 8.47%

|                                     |       |         |
|-------------------------------------|-------|---------|
| Anheuser-Busch Companies, Inc. .... | 1,600 | 80,000  |
| Archer-Daniels-Midland Co. ....     | 3,045 | 38,946  |
| Avon Products, Inc. ....            | 1,200 | 62,688  |
| Campbell Soup Co. ....              | 2,000 | 55,320  |
| Clorox Co. (The) .....              | 1,100 | 45,485  |
| Coca-Cola Co. (The) .....           | 8,800 | 492,800 |
| Coca-Cola Enterprises Inc. ....     | 2,500 | 55,200  |
| Colgate-Palmolive Co. ....          | 2,600 | 130,130 |
| ConAgra Foods, Inc. ....            | 2,500 | 69,125  |
| General Mills, Inc. ....            | 1,300 | 57,304  |
| Gillette Co. (The) .....            | 3,000 | 101,610 |
| H.J. Heinz Co. ....                 | 1,600 | 65,760  |
| J.M. Smucker Co. (The) .....        | 70    | 2,389   |
| Kellogg Co. ....                    | 1,900 | 68,134  |
| Kimberly-Clark Corp. ....           | 2,500 | 155,000 |
| Kroger Co. (The)+ .....             | 1,300 | 25,870  |
| Philip Morris Companies Inc. ....   | 6,900 | 301,392 |
| Safeway Inc.+ .....                 | 2,500 | 72,975  |
| Sara Lee Corp. ....                 | 3,800 | 78,432  |
| Sysco Corp. ....                    | 3,100 | 84,382  |
| Unilever NV, NY Shares .....        | 2,000 | 129,600 |
| Walgreen Co. ....                   | 4,600 | 177,698 |
| Wm. Wrigley Jr. Co. ....            | 1,100 | 60,885  |

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2,411,125  
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See accompanying notes to financial statements.

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 PROGRESSIVE RETURN FUND, INC.

SCHEDULE OF INVESTMENTS - JUNE 30, 2002 (UNAUDITED) (CONTINUED)

| Description  | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| ENERGY - 7.49%                                     |                  |                   |
| Andarko Petroleum Corp. ....                       | 1,200            | \$ 59,160         |
| Baker Hughes Inc. ....                             | 1,100            | 36,619            |
| Burlington Resources Inc. ....                     | 1,000            | 38,000            |
| ChevronTexaco Corp. ....                           | 4,325            | 382,762           |
| Conoco Inc. ....                                   | 2,800            | 77,840            |
| El Paso Corp. ....                                 | 2,500            | 51,525            |
| Exxon Mobil Corp. ....                             | 19,800           | 810,216           |
| Marathon Oil Corp. ....                            | 1,500            | 40,680            |
| Occidental Petroleum Corp. ....                    | 1,700            | 50,983            |
| Phillips Petroleum Co. ....                        | 1,200            | 70,656            |
| Royal Dutch Petroleum Co., NY Shares ....          | 6,300            | 348,201           |
| Schlumberger Ltd. ....                             | 2,600            | 120,900           |
| Unocal Corp. ....                                  | 1,200            | 44,328            |
|  |                  | 2,131,870         |
| FINANCIALS - 15.66%                                |                  |                   |
| AFLAC Inc. ....                                    | 2,600            | 83,200            |
| Allstate Corp. (The) ....                          | 3,300            | 122,034           |
| American Express Co. ....                          | 4,100            | 148,912           |
| American International Group, Inc. ....            | 5,989            | 408,629           |
| AmSouth Bancorp ....                               | 1,800            | 40,284            |
| Aon Corp. ....                                     | 1,200            | 35,376            |
| Bank of New York Co., Inc. (The) ....              | 3,400            | 114,750           |
| Bank One Corp. ....                                | 2,800            | 107,744           |
| Charles Schwab Corp. (The) ....                    | 3,500            | 39,200            |
| Charter One Financial, Inc. ....                   | 1,050            | 36,099            |
| Citigroup Inc. ....                                | 16,500           | 639,375           |
| Fannie Mae ....                                    | 1,500            | 110,625           |
| Fifth Third Bancorp ....                           | 2,500            | 166,625           |
| FleetBoston Financial Corp. ....                   | 4,100            | 132,635           |
| Franklin Resources, Inc. ....                      | 1,200            | 51,168            |
| Freddie Mac ....                                   | 3,100            | 189,720           |
| H&R Block Inc. ....                                | 1,000            | 46,150            |
| Hartford Financial Services Group, Inc. (The) .... | 1,000            | 59,470            |
| Household International, Inc. ....                 | 2,500            | 124,250           |
| Huntington Bancshares Inc. ....                    | 1,200            | 23,304            |
| J.P. Morgan Chase & Co. ....                       | 6,200            | 210,304           |
| Lehman Brothers Holdings Inc. ....                 | 1,100            | 68,772            |
| Marsh & McLennan Companies, Inc. ....              | 1,300            | 125,580           |

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

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FINANCIALS (CONTINUED)

|                                     |       |           |
|-------------------------------------|-------|-----------|
| MBNA Corp. ....                     | 1,400 | \$ 46,298 |
| Mellon Financial Corp. ....         | 2,500 | 78,575    |
| Merrill Lynch & Co., Inc. ....      | 3,700 | 149,850   |
| MetLife, Inc. ....                  | 3,500 | 100,800   |
| Morgan Stanley ....                 | 2,500 | 107,700   |
| Northern Trust Corp. ....           | 1,000 | 44,060    |
| Regions Financial Corp. ....        | 1,000 | 35,150    |
| St. Paul Companies, Inc. (The) .... | 1,000 | 38,920    |
| Synovus Financial Corp. ....        | 1,300 | 35,776    |
| UnumProvident Corp. ....            | 1,100 | 27,995    |
| U.S. Bancorp ....                   | 6,201 | 144,793   |
| Wachovia Corp. ....                 | 4,000 | 152,720   |
| Washington Mutual, Inc. ....        | 3,750 | 139,163   |
| Wells Fargo & Co. ....              | 5,400 | 270,324   |
|                                     |       | -----     |
|                                     |       | 4,456,330 |
|                                     |       | -----     |

HEALTHCARE - 13.34%

|                                |        |           |
|--------------------------------|--------|-----------|
| Abbott Laboratories ....       | 5,000  | 188,250   |
| Allergan, Inc. ....            | 1,000  | 66,750    |
| Amgen Inc.+ ....               | 3,300  | 138,204   |
| Baxter International Inc. .... | 2,800  | 124,432   |
| Becton, Dickinson & Co. ....   | 1,200  | 41,340    |
| Boston Scientific Corp.+ ....  | 2,500  | 73,300    |
| Bristol-Myers Squibb Co. ....  | 6,400  | 164,480   |
| Cardinal Health, Inc. ....     | 1,950  | 119,750   |
| Eli Lilly & Co. ....           | 2,800  | 157,920   |
| Genzyme Corp.+ ....            | 2,500  | 48,100    |
| Guidant Corp.+ ....            | 1,400  | 42,322    |
| HCA Inc. ....                  | 2,500  | 118,750   |
| Healthsouth Corp.+ ....        | 1,800  | 23,022    |
| Johnson & Johnson ....         | 9,778  | 510,998   |
| McKesson Corp. ....            | 1,300  | 42,510    |
| MedImmune, Inc.+ ....          | 1,000  | 26,400    |
| Medtronic, Inc. ....           | 3,000  | 128,550   |
| Merck & Co. Inc. ....          | 10,500 | 531,720   |
| Pfizer Inc. ....               | 15,100 | 528,500   |
| Pharmacia Corp. ....           | 3,400  | 127,330   |
| Schering-Plough Corp. ....     | 4,200  | 103,320   |
| Tenet Healthcare Corp.+ ....   | 1,500  | 107,325   |
| UnitedHealth Group Inc. ....   | 1,500  | 137,325   |
| Wyeth ....                     | 4,200  | 215,040   |
| Zimmer Holdings, Inc.+ ....    | 890    | 31,737    |
|                                |        | -----     |
|                                |        | 3,797,375 |
|                                |        | -----     |

See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS - JUNE 30, 2002 (UNAUDITED) (CONTINUED)

No. of Value



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| Description                             | Shares | (Note A)   |
|---|--------|------------|
| INDUSTRIALS - 10.57%                    |        |            |
| 3M Co. ....                             | 1,900  | \$ 233,700 |
| Automatic Data Processing, Inc. ....    | 2,900  | 126,295    |
| Burlington Northern Santa Fe Corp. .... | 1,900  | 57,000     |
| Caterpillar Inc. ....                   | 1,600  | 78,320     |
| Cendant Corp.+ ....                     | 3,300  | 52,404     |
| Concord EFS, Inc.+ ....                 | 2,500  | 75,350     |
| CSX Corp. ....                          | 1,000  | 34,810     |
| Deere & Co. ....                        | 1,100  | 52,690     |
| Emerson Electric Co. ....               | 2,000  | 107,020    |
| FedEx Corp. ....                        | 1,300  | 69,420     |
| First Data Corp. ....                   | 3,800  | 143,108    |
| General Dynamics Corp. ....             | 600    | 63,810     |
| General Electric Co. ....               | 28,700 | 833,735    |
| Honeywell International Inc. ....       | 3,600  | 126,828    |
| Illinois Tool Works Inc. ....           | 1,400  | 96,488     |
| Imagistics International Inc.+ ....     | 88     | 1,889      |
| IMS Health Inc. ....                    | 1,400  | 25,130     |
| Ingersoll-Rand Co., Class A ....        | 1,000  | 45,660     |
| Masco Corp. ....                        | 2,500  | 67,775     |
| Norfolk Southern Corp. ....             | 1,800  | 42,084     |
| Paychex, Inc. ....                      | 1,700  | 53,193     |
| Pitney Bowes Inc. ....                  | 1,100  | 43,692     |
| Raytheon Co. ....                       | 1,600  | 65,200     |
| Southwest Airlines Co. ....             | 3,750  | 60,600     |
| Tyco International Ltd. ....            | 6,397  | 86,423     |
| Union Pacific Corp. ....                | 1,100  | 69,608     |
| United Technologies Corp. ....          | 2,500  | 169,750    |
| Vivendi Universal SA, ADR ....          | 2,500  | 53,750     |
| Waste Management, Inc. ....             | 2,800  | 72,940     |
|   |        | -----      |
|   |        | 3,008,672  |
|   |        | -----      |

|  |        |         |
|--|--------|---------|
| INFORMATION TECHNOLOGY - 12.25%              |        |         |
| Adobe Systems Inc. ....                      | 1,100  | 31,350  |
| Agere Systems Inc., Class B + ....           | 3,069  | 4,604   |
| Altera Corp.+ ....                           | 1,900  | 25,840  |
| Analog Devices, Inc.+ ....                   | 1,700  | 50,490  |
| Apple Computer, Inc.+ ....                   | 1,500  | 26,580  |
| Applied Materials, Inc.+ ....                | 7,400  | 140,748 |
| Cisco Systems, Inc.+ ....                    | 23,500 | 327,825 |
| Computer Associates International, Inc. .... | 2,700  | 42,903  |

| Description                                | No. of Shares | Value (Note A) |
|--|---------------|----------------|
| INFORMATION TECHNOLOGY (CONTINUED)         |               |                |
| Compuware Corp.+ ....                      | 1,700         | \$ 10,319      |
| Conexant Systems, Inc.+ ....               | 1,100         | 1,782          |
| Electronic Data Systems Corp. ....         | 2,500         | 92,875         |
| Hewlett-Packard Co. ....                   | 8,100         | 123,768        |
| Intel Corp. ....                           | 21,600        | 394,632        |
| International Business Machines Corp. .... | 5,500         | 396,000        |
| Intuit Inc.+ ....                          | 2,000         | 99,440         |
| Linear Technology Corp. ....               | 1,500         | 47,145         |
| LSI Logic Corp.+ ....                      | 1,500         | 13,125         |

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|  |        |           |
|--|--------|-----------|
| Lucent Technologies Inc.+ .....        | 11,600 | 19,256    |
| Maxim Integrated Products, Inc.+ ..... | 1,300  | 49,829    |
| Micron Technology, Inc.+ .....         | 2,600  | 52,572    |
| Microsoft Corp.+ .....                 | 17,300 | 936,276   |
| Motorola, Inc. ....                    | 7,100  | 102,382   |
| NVIDIA Corp.+ .....                    | 1,000  | 17,180    |
| Oracle Corp.+ .....                    | 17,800 | 168,566   |
| PerkinElmer, Inc. ....                 | 1,000  | 11,050    |
| QUALCOMM Inc.+ .....                   | 1,500  | 41,235    |
| Sanmina-SCI Corp.+ .....               | 3,000  | 18,930    |
| Skyworks Solutions, Inc.+ .....        | 386    | 2,143     |
| Solectron Corp.+ .....                 | 3,700  | 22,755    |
| Sun Microsystems, Inc.+ .....          | 10,000 | 50,100    |
| Texas Instruments Inc. ....            | 5,400  | 127,980   |
| Yahoo! Inc.+ .....                     | 2,500  | 36,900    |
|  |        | 3,486,580 |
| MATERIALS - 2.96%                      |        |           |
| Air Products & Chemicals, Inc. ....    | 1,100  | 55,517    |
| Alcan Inc. ....                        | 1,500  | 56,280    |
| Alcoa Inc. ....                        | 4,200  | 139,230   |
| Barrick Gold Corp. ....                | 2,589  | 49,165    |
| Dow Chemical Co. (The) .....           | 4,100  | 140,958   |
| E.I. du Pont de Nemours & Co. ....     | 3,300  | 146,520   |
| Georgia-Pacific Corp. ....             | 1,000  | 24,580    |
| International Paper Co. ....           | 2,500  | 108,950   |
| Placer Dome Inc. ....                  | 1,500  | 16,815    |
| Rohm & Haas Co. ....                   | 1,000  | 40,490    |
| Weyerhaeuser Co. ....                  | 1,000  | 63,850    |
|  |        | 842,355   |

See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.

SCHEDULE OF INVESTMENTS - JUNE 30, 2002 (UNAUDITED) (CONTINUED)

| Description                        | No. of<br>Shares | Value<br>(Note A) |
|------------------------------------|------------------|-------------------|
| TELECOMMUNICATION SERVICES - 4.21% |                  |                   |
| Alcatel SA, ADR .....              | 8,400            | \$ 59,724         |
| ALLTEL Corp. ....                  | 1,500            | 70,500            |
| AT&T Corp. ....                    | 11,300           | 120,910           |
| AT&T Wireless Services Inc.+ ..... | 5,534            | 32,374            |
| BellSouth Corp. ....               | 6,000            | 189,000           |
| SBC Communications Inc. ....       | 10,700           | 326,350           |
| Sprint Corp. (FON Group) .....     | 4,000            | 42,440            |
| Sprint Corp. (PCS Group)+ .....    | 1,800            | 8,046             |
| Verizon Communications Inc. ....   | 8,700            | 349,305           |
|                                    |                  | 1,198,649         |

UTILITIES - 2.92%

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|  |       |            |
|--|-------|------------|
| American Electric Power Co., Inc. ....     | 1,500 | 60,030     |
| Consolidated Edison, Inc. ....             | 1,000 | 41,750     |
| Dominion Resources, Inc. ....              | 1,100 | 72,578     |
| Duke Energy Corp. ....                     | 2,500 | 77,750     |
| Edison International+ .....                | 1,500 | 25,500     |
| Entergy Corp. ....                         | 1,100 | 46,684     |
| Exelon Corp. ....                          | 1,500 | 78,450     |
| FirstEnergy Corp. ....                     | 1,100 | 36,718     |
| Mirant Corp.+ .....                        | 1,232 | 8,994      |
| NiSource Inc. ....                         | 1,000 | 21,830     |
| PG&E Corp.+ .....                          | 1,800 | 32,202     |
| Progress Energy, Inc. ....                 | 1,000 | 52,010     |
| Public Service Enterprises Group Inc. .... | 1,000 | 43,300     |
| Reliant Energy, Inc. ....                  | 1,400 | 23,660     |
| Sempra Energy .....                        | 1,000 | 22,130     |
| Southern Co. (The) .....                   | 3,100 | 84,940     |
| TXU Corp. ....                             | 1,200 | 61,680     |
| Williams Companies, Inc. (The) .....       | 2,500 | 14,975     |
| Xcel Energy, Inc. ....                     | 1,600 | 26,832     |
|  |       | -----      |
|  |       | 832,013    |
|  |       | -----      |
| TOTAL EQUITY SECURITIES                    |       |            |
| (cost - \$32,698,482) .....                |       | 26,749,790 |
|  |       | -----      |

| Description  | Principal Amount | Value (Note A) |
|--|------------------|----------------|
| -----  |                  |                |
| FIXED INCOME SECURITIES - 5.05%                            |                  |                |
| U.S. GOVERNMENT OBLIGATIONS - 5.05%                        |                  |                |
| U.S. TREASURY NOTES - 5.05%                                |                  |                |
| 3.00%, 01/31/04 .....                                      | \$500            | \$ 503,260     |
| 4.75%, 02/15/04 .....                                      | 500              | 517,244        |
| 5.25%, 05/15/04 .....                                      | 400              | 418,074        |
|  |                  | -----          |
| TOTAL FIXED INCOME SECURITIES                              |                  |                |
| (cost - \$1,439,859)                                       |                  | 1,438,578      |
|  |                  | -----          |
| SHORT-TERM INVESTMENT -1.01%                               |                  |                |
| REPURCHASE AGREEMENT - 1.01%                               |                  |                |
| Bear, Stearns & Co. Inc.                                   |                  |                |
| (Agreement dated 06/28/02 to be repurchased at \$287,616), |                  |                |
| 1.92%, 07/01/02  |                  |                |
| (cost - \$287,570) (Note F)                                | 288              | 287,570        |
|  |                  | -----          |
| TOTAL INVESTMENTS - 100.04%                                |                  |                |
| (cost - \$34,425,911)                                      |                  |                |
| (Notes A,C) .....  |                  | 28,475,938     |
|  |                  | -----          |
| LIABILITIES IN EXCESS OF CASH                              |                  |                |
| & other assets - (0.04%) .....                             |                  | (10,942)       |
|  |                  | -----          |
| NET ASSETS - 100.00% .....                                 |                  | \$28,464,996   |
|  |                  | =====          |

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=====  
See accompanying notes to financial statements.

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Progressive Return Fund, Inc.  
Statement of Assets and Liabilities - June 30, 2002 (unaudited)  
-----

ASSETS

|   |               |
|---|---------------|
| Investments, at value (Cost \$34,425,911) (Note A) .....      | \$ 28,475,938 |
| Cash collateral received for securities loaned (Note E) ..... | 167,478       |
| Receivables:  |               |
| Dividends .....   | 35,183        |
| Interest .....  | 18,624        |
| Prepaid expenses .....  | 17,395        |
|   | -----         |
| Total Assets .....  | 28,714,618    |
|   | -----         |

LIABILITIES

|   |         |
|---|---------|
| Payables:                                       |         |
| Upon return of securities loaned (Note E) ..... | 167,478 |
| Investment management fees (Note B) .....       | 24,230  |
| Other accrued expenses .....                    | 57,914  |
|   | -----   |
| Total Liabilities .....                         | 249,622 |
|   | -----   |

|  |               |
|--|---------------|
| NET ASSETS (applicable to 1,147,786 shares of<br>common stock outstanding) ..... | \$ 28,464,996 |
|  | =====         |

|   |          |
|---|----------|
| NET ASSET VALUE PER SHARE (\$28,464,996 ./ 1,147,786) ..... | \$ 24.80 |
|   | =====    |

NET ASSETS CONSISTS OF

|  |               |
|--|---------------|
| Capital stock, \$0.004 par value; 1,147,786<br>shares outstanding (100,000,000<br>shares authorized) ..... | \$ 4,591      |
| Paid-in capital .....  | 62,788,936    |
| Distributions in excess of net investment income .....   | (15,149,979)  |
| Accumulated net realized loss on investments .....   | (13,228,579)  |
| Net unrealized depreciation in value of investments .....  | (5,949,973)   |
|  | -----         |
| Net assets applicable to shares outstanding .....  | \$ 28,464,996 |
|  | =====         |

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=====  
See accompanying notes to financial statements.

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Progressive Return Fund, Inc. Statement of Operations -  
for the Six Months Ended June 30, 2002 (unaudited)  
-----

INVESTMENT LOSS

Income (Note A):

|                                    |            |
|------------------------------------|------------|
| Dividends .....                    | \$ 255,396 |
| Interest .....                     | 6,045      |
| Less: Foreign taxes withheld ..... | (1,254)    |
|                                    | -----      |
| Total Investment Income .....      | 260,187    |
|                                    | -----      |

Expenses:

|   |          |
|---|----------|
| Investment management fees (Note B) ..... | 175,390  |
| Audit and legal fees (Note B) .....       | 52,809   |
| Directors' fees .....                     | 31,891   |
| Administration fees .....                 | 24,795   |
| Printing .....                            | 18,348   |
| Accounting fees .....                     | 15,048   |
| Transfer agent fees .....                 | 14,760   |
| NYSE listing fees .....                   | 13,986   |
| Custodian fees .....                      | 5,439    |
| Insurance .....                           | 4,240    |
| Other .....                               | 8,944    |
|   | -----    |
| Total Expenses .....                      | 365,650  |
| Less: Fees paid indirectly (Note B) ..... | (18,365) |
|   | -----    |
| Net Expenses .....                        | 347,285  |
|   | -----    |
| Net Investment Loss .....                 | (87,098) |
|   | -----    |

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS

|  |             |
|--|-------------|
| Net realized loss from investments .....                               | (1,057,403) |
| Net change in unrealized depreciation<br>in value of investments ..... | (4,030,577) |
|  | -----       |
| Net realized and unrealized loss on investments .....                  | (5,087,980) |
|  | -----       |

NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS ..... \$ (5,175,078)

=====

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 See accompanying notes to financial statements.

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 PROGRESSIVE RETURN FUND, INC.  
 STATEMENT OF CHANGES IN NET ASSETS  
 -----

|  | For the<br>Six Months<br>Ended<br>June 30, 2002<br>(unaudited) | For the<br>Year Ended<br>December 31,<br>2001 |
|--|--|---|
|  | -----  | -----   |
| DECREASE IN NET ASSETS   |  |   |
| Operations:  |  |   |
| Net investment income/(loss) .....   | \$ (87,098)  | \$ 7,386                                      |
| Net realized loss on investments .....   | (1,057,403)  | (4,384,728)                                   |
| Net change in unrealized appreciation/<br>(depreciation) in value of investments .....   | (4,030,577)  | (2,439,912)                                   |
|  | -----  | -----   |
| Net decrease in net assets resulting<br>from operations .....                            | (5,175,078)  | (6,817,254)                                   |
|  | -----  | -----   |
| Distributions to shareholders (Note A):  |  |   |
| In excess of net investment income .....   | (10,841,751)   | (4,228,516)                                   |
|  | -----  | -----   |
| Capital stock transactions* (Note D):  |  |   |
| Proceeds from 51,575 shares issued from<br>treasury in reinvestment of distributions ... | 1,963,915  | --  |
| Proceeds from 39,718 shares newly issued in<br>reinvestment of distributions .....       | 688,343  | --  |
| Cash paid in-lieu of an aggregate of 36<br>fractional shares .....                       | (1,000)  | --  |
| Cost of 600 and 50,975 shares repurchased,<br>respectively .....                         | (16,875)   | (1,947,040)                                   |
|  | -----  | -----   |
| Net increase/(decrease) in net assets resulting<br>from capital stock transactions ..... | 2,634,383  | (1,947,040)                                   |
|  | -----  | -----   |
| Total decrease in net assets .....   | (13,382,446)   | (12,992,810)                                  |
|  | -----  | -----   |

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|                           |               |               |
|---------------------------|---------------|---------------|
| NET ASSETS                |               |               |
| Beginning of period ..... | 41,847,442    | 54,840,252    |
|                           | -----         | -----         |
| End of period .....       | \$ 28,464,996 | \$ 41,847,442 |
|                           | =====         | =====         |

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See accompanying notes to financial statements.

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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 period indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.  
-----

|  | For the<br>Six Months<br>Ended<br>June 30, 2002 | For the Years Ende |          |
|--|---|--------------------|----------|
|  | (unaudited)                                     | 2001               | 2000     |
|  | -----   | ----               | ----     |
| PER SHARE OPERATING PERFORMANCE  |   |                    |          |
| Net asset value, beginning of period .....   | \$ 39.60  | \$ 49.48           | \$ 61.84 |
| Net investment income/(loss) .....   | (0.08) #  | - #*               | (0.04) # |
| Net realized and unrealized gain/(loss)<br>on investments and foreign currency<br>related transactions ..... | (4.52)  | (6.20)             | (12.68)  |
| Net increase/(decrease) in net assets<br>resulting from operations .....                                     | (4.60)  | (6.20)             | (12.72)  |
| Dividends and distributions to shareholders:   |   |                    |          |
| Net investment income .....  | --  | --                 | --*      |
| Net realized gain on investments<br>and foreign currency related<br>transactions .....                       |   | --                 | --       |
| In excess of net investment income .   | (10.00)   | (4.00)             | --       |

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|  |               |           |           |
|--|---------------|-----------|-----------|
| Total dividends and distributions to shareholders .....  | (10.00)       | (4.00)    | (1.04)    |
| Capital stock transactions:  |               |           |           |
| Anti-dilutive effect due to capital stock repurchased .....  | --*           | 0.32      | 1.40      |
| Dilutive effect due to shares issued in reinvestment of dividends .....                                      | (0.20)        | --        | --        |
| Total capital stock transactions .....   | (0.20)        | 0.32      | 1.40      |
| Net asset value, end of period .....   | \$ 24.80      | \$ 39.60  | \$ 49.48  |
| Market value, end of period .....  | \$ 23.400     | \$ 35.800 | \$ 38.000 |
| Total investment return (a) .....  | (9.53)%       | 4.04%     | (27.27)%  |
| RATIOS/SUPPLEMENTAL DATA   |               |           |           |
| Net assets, end of period (000 omitted) ....   | \$ 28,465     | \$ 41,847 | \$ 54,840 |
| Ratio of expenses to average net assets, net of fee waivers, if any .....                                    | 1.98% (b) (d) | 1.63% (b) | 2.46%     |
| Ratio of expenses to average net assets, excluding fee waivers, if any .....                                 | 2.09% (c) (d) | 1.73% (c) | 2.65%     |
| Ratio of expenses to average net assets, net of fee waivers but excluding fees paid indirectly, if any ..... | 2.09% (d)     | 1.72%     | --        |
| Ratio of net investment income/(loss) to average net assets .....  | (0.50)% (d)   | 0.02%     | (0.06)%   |
| Portfolio turnover rate .....  | 6.35%         | 36.17%    | 38.13%    |
|  | 1997          | 1996      | 1995      |
|  | ----          | ----      | ----      |
| Net asset value, beginning of period .....   | \$ 69.72      | \$ 53.16  | \$ 57.32  |
| Net investment income/(loss) .....   | 0.20          | 0.44      | 0.68      |
| Net realized and unrealized gain/(loss) on investments and foreign currency related transactions .....       | 24.48         | 16.44     | (4.12)    |
| Net increase/(decrease) in net assets resulting from operations .....  | 24.68         | 16.88     | (3.44)    |
| Dividends and distributions to shareholders:   |               |           |           |
| Net investment income .....  | (0.04)        | (0.32)    | (0.60)    |
| Net realized gain on investments and foreign currency related transactions .....                             | (16.52)       | --        | (0.12)    |
| In excess of net investment income .   | --            | --        | --        |
| Total dividends and distributions to shareholders .....  | (16.56)       | (0.32)    | (0.72)    |
| Capital stock transactions:  |               |           |           |
| Anti-dilutive effect due to capital  |               |           |           |



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|  |            |           |           |
|--|------------|-----------|-----------|
| stock repurchased .....  | --         | --        | --        |
| Dilutive effect due to shares issued<br>in reinvestment of dividends   | (0.04)     | --        | --        |
| Total capital stock transactions .....   | (0.04)     | --        | --        |
| Net asset value, end of period .....   | \$ 77.80   | \$ 69.72  | \$ 53.16  |
| Market value, end of period .....  | \$ 63.252  | \$ 55.000 | \$ 44.500 |
| Total investment return (a) .....  | 43.21%     | 24.28%    | (18.65)%  |
| RATIOS/SUPPLEMENTAL DATA   |            |           |           |
| Net assets, end of period (000 omitted) ....   | \$ 103,444 | \$ 92,399 | \$ 70,431 |
| Ratio of expenses to average net assets,<br>net of fee waivers, if any .....                                       | 1.56%      | 1.62%     | 1.58%     |
| Ratio of expenses to average net assets,<br>excluding fee waivers, if any .....                                    | 1.73%      | 1.81%     | 1.76%     |
| Ratio of expenses to average net assets,<br>net of fee waivers but excluding<br>fees paid indirectly, if any ..... | --         | --        | --        |
| Ratio of net investment income/(loss)<br>to average net assets .....   | 0.23%      | 0.75%     | 1.18%     |
| Portfolio turnover rate .....  | 72.25%     | 35.94%    | 35.73%    |

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See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
-----

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. As a result of a Special Meeting of Stockholders held on December 15, 2000, the Fund, formerly known as The Portugal Fund, Inc., changed its name and investment objective. 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

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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 are 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 June 30, 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 the daily mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Fund to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.

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

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

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)  
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relieve it from all or substantially all U.S. federal income and excise taxes. For U.S. federal income tax purposes, realized capital or foreign exchange

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losses incurred after October 31, 2001 within the prior fiscal year are deemed to arise on the first day of the current fiscal year. The Fund elected to defer such losses of \$263,892. At December 31, 2001, the Fund had a capital loss carryforward of \$11,780,944, of which \$1,587,989 expires in 2008 and \$10,192,955 expires in 2009. Differences between capital loss carryforwards on a book and tax basis primarily relate to timing of the recognition of losses for U.S. federal income tax purposes. There is no undistributable ordinary income on a tax basis.

**DISTRIBUTIONS OF INCOME AND GAINS:** Effective June 25, 2002, the Fund initiated a fixed, monthly distribution to shareholders. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, which will either be short-term or long-term capital gains or a tax-free return of capital. Prior thereto, the Fund distributed at least annually to shareholders, substantially all of its net investment income and net realized short-term capital gains, if any. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. An additional distribution may be made to the extent necessary to avoid the payment of a 4% U.S. federal excise tax. Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

The character of 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. For the six months ended, Cornerstone earned \$175,390 for investment management services.

Included in the Statement of Operations, under the caption Fees paid indirectly, are expense offsets of \$18,365 arising from credits earned on portfolio transactions executed with a broker, pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$41,460 for the six months ended June 30, 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 June 30, 2002, pursuant to regulatory filings, a single shareholder owned approximately 33% of the outstanding shares of the Fund based on a Schedule 13D/A filing with the Securities and Exchange Commission on July 9, 2002.

### NOTE C. INVESTMENT IN SECURITIES

For U.S. federal income tax purposes, the cost of securities owned at June 30, 2002 was \$34,425,911. Accordingly, the net unrealized depreciation of investments of \$5,949,973 was composed of gross appreciation of \$1,104,245 for those investments having an excess of value over cost and gross depreciation of \$7,054,218 for those investments having an excess of cost over value.

For the six months ended June 30, 2002, purchases and sales of securities, other than short-term investments, were \$2,214,983 and \$14,502,879, respectively.

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)  
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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 six months ended June 30, 2002, the Fund repurchased 600 of its shares for a total cost of \$16,875 at a weighted average discount of 9.61% from net asset value. The discount of the individual repurchases ranged from 7.98% - 12.77%. 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 8.62% - 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 will be made in accordance with federal securities laws, with shares repurchased held in treasury, effective January 1, 2001.

NOTE E. SECURITIES LENDING

To generate additional income, the Fund may lend up to 331/3% 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 June 30, 2002 was \$159,201 and \$167,478, respectively. Any cash collateral received is reinvested into repurchase agreements, which in turn are collateralized by various U.S. Government and

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Agency securities.

During the six months ended June 30, 2002, the Fund earned \$463 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 June 30, 2002.

| ISSUER   | PRINCIPAL<br>AMOUNT<br>(000'S) | MATURITY | TOTAL<br>MARKET<br>VALUE |
|--|--------------------------------|----------|--------------------------|
| -----  | -----                          | -----    | -----                    |
| United States Treasury Bond<br>(interest only) ..... | \$1,185                        | 02/15/26 | \$294,354<br>=====       |

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)  
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NOTE G. SUBSEQUENT EVENTS

Effective July 1, 2002, Cornerstone has voluntarily agreed to waive its management fees to the Fund to the extent that monthly operating expenses exceed 0.1% of net assets, calculated monthly.

On August 2, 2002, the Fund's Board of Directors approved the merger (the "Merger") of Cornerstone Strategic Value Fund, Inc. ("CLM") with and into the Fund. If the Merger receives shareholder approval, CLM will cease to exist, and the Fund will be the surviving legal corporation and each share of common stock of CLM will be converted into an equivalent dollar amount of full shares of common stock of the Fund based on the relative net asset values of the Fund and CLM. The Fund will not issue any fractional shares to CLM shareholders that do not participate in its dividend reinvestment plan. The Fund's transfer agent will aggregate the fractional shares, sell the resulting full shares on the New York Stock Exchange at the current market price for the shares and remit the cash proceeds to CLM's shareholders in proportion to their fractional shares. Consummation of the Merger is subject to a number of conditions, including shareholder approval and certain regulatory approvals. Upon consummation of the Merger, the Fund expects to change its name to "Progressive Total Return Fund, Inc."

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RESULTS OF ANNUAL MEETING OF STOCKHOLDERS (UNAUDITED)

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On April 18, 2002, the Annual Meeting of Stockholders of Progressive Return Fund, Inc. (the "Fund") was held and the following matters were voted upon:

(1) To elect two Class II Directors until the year 2005 Annual Meeting.

| NAME OF CLASS II DIRECTORS | FOR       | AGAINST |
|----------------------------|-----------|---------|
| -----                      | ---       | -----   |
| Edwin Meese III            | 3,924,941 | 105,495 |
| Ralph W. Bradshaw          | 3,925,816 | 104,620 |

(2) To ratify the selection of Tait, Weller & Baker as the Fund's independent accountants for the year ending December 31, 2002.

| FOR       | AGAINST | ABSTAIN |
|-----------|---------|---------|
| ---       | -----   | -----   |
| 3,927,496 | 98,791  | 4,146   |

(3) To approve a one-for-four reverse stock split of the Fund's issued and outstanding shares of common stock and the amendment to the Articles of Incorporation.

| FOR       | AGAINST | ABSTAIN |
|-----------|---------|---------|
| ---       | -----   | -----   |
| 3,898,774 | 129,255 | 2,404   |

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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 NYSE 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

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reinvesting shareholders based on the average cost of such Open Market Purchases. Alternatively, the Agent will allocate Newly Issued Shares to the reinvesting shareholders at a price equal to the average closing price of the Fund over the five trading days preceding the payment date of such dividend.

Registered shareholders who acquire their shares through Open Market Purchases and who do not wish to have their Dividends automatically reinvested should so notify the Fund in writing. If a Shareholder has not elected to receive cash Dividends and the Agent does not receive notice of an election to receive cash Dividends prior to the record date of any Dividend, the shareholder will automatically receive such Dividends in additional Shares.

Participants in the Plan may withdraw from the Plan by providing written notice to the Agent at least 30 days prior to the applicable Dividend payment date. When a participant withdraws from the Plan, or upon termination of the Plan as provided below, certificates for whole shares credited to his/her account under the Plan will, upon request, be issued. Whether or not a participant requests that certificates for whole shares be issued, a cash payment will be made for any fraction of a Share credited to such account.

The Agent will maintain all shareholder accounts in the Plan and furnish written confirmations of all transactions in the accounts, including information needed by shareholders for personal and tax records. The Agent will hold shares in the account of each Plan participant in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan. Each participant, nevertheless, has the right to receive certificates for whole shares owned. The Agent will distribute all proxy solicitation materials to participating shareholders.

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

There will be no charge to participants for reinvesting Dividends other than their share of brokerage commissions as discussed below. The Agent's fees for administering the Plan and 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

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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.

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SUMMARY OF GENERAL INFORMATION

The Fund - Progressive Return Fund, Inc. is a closed-end, non-diversified management investment company whose shares trade on the New York Stock Exchange. 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 managed by Cornerstone Advisors, Inc.

SHAREHOLDER INFORMATION

The Fund is listed on the New York 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 "ProgressvFd."

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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.  
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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
2. Information about the Consumer's transactions: this category includes information about your transactions with the Fund, its affiliates, or others (such as your account number and balance, payment history, parties to transactions, cost basis information, and other financial information).

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

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

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DIRECTORS AND CORPORATE OFFICERS

|                      |   |
|----------------------|---|
| Ralph W. Bradshaw    | Chairman of the Board of<br>Directors and President |
| Thomas H. Lenagh     | Director  |
| Edwin Meese III      | Director  |
| Scott B. Rogers      | Director  |
| Andrew A. Strauss    | Director  |
| Glenn W. Wilcox, Sr. | Director  |
| Gary A. Bentz        | Vice President and Treasurer                        |
| 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  
8 Penn Center  
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.

PGF  
LISTED  
NYSE (R)

This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. The financial information herein is taken from the records of the Fund without examination by independent accountants who do not express an opinion thereon. 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.