

PROGRESSIVE RETURN FUND INC  
Form N-30D  
March 06, 2002

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PROGRESSIVE RETURN FUND, INC.

ANNUAL REPORT  
DECEMBER 31, 2001

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LETTER TO SHAREHOLDERS  
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January 31, 2002

Dear Fellow Shareholder:

Our annual report for Progressive Return Fund, Inc. (the "Fund") covering the year ended December 31, 2001 follows. At the end of the year, the Fund's net assets were \$41.8 million and the Net Asset Value ("NAV") per share was \$9.90. The discount from NAV at which the Fund's shares traded improved markedly to 9.60% at the end of the year from 23.20% at the beginning of the year. Investment focus changed to a much broader diversification in U.S. and non-U.S. equities. Early in the year, officers of the Fund managed the portfolio internally. Shareholders confirmed the choice of Cornerstone Advisors, Inc. as investment manager at the Fund's annual meeting in April 2001.

ECONOMIC AND MARKET SUMMARY

Investors in 2001 faced a very difficult year as the market continued the decline that started in 2000. As the economy stalled into recession in March and earnings disappointments flooded the news, even aggressive support by the Federal Reserve in lowering short-term interest rates had limited effect. The tragic events of September 11th finally pushed markets into a tumultuous, but brief, free-fall.

The negative momentum accelerated in the third quarter with the S&P 500 Index posting a decline of 14.9%, its biggest quarterly drop since the crash of 1987, and leaving this U.S. equity index down 21.2% for the first nine months of 2001. The sorry state of the economy was confirmed by a 1.3% quarterly decline in the U.S. Gross Domestic Product (GDP), the broadest gauge of economic health. Even an encouraging rebound in the fourth quarter still left the index down 13.0% for all of 2001. Most sectors returned double-digit losses with telecommunications, information technology, and utilities hit particularly hard. With recession dampening exports, and currencies weakening against the dollar, most international markets fared even worse. The Morgan Stanley Capital International Europe Australasia Far East Index, representing developed global markets, tumbled 22.6% for the year.

However, as economic data comes in for the fourth quarter, the outlook for economic recovery looks increasingly positive. The GDP increased 0.2% in this final quarter of 2001, defying economists' previous expectations for a decline of 1.0%. Nevertheless, this still left GDP up only 1.1% for the year, a weak performance not seen since the 0.5% decline in 1991, in the midst of the last recession. Fourth quarter economic activity was aided by rising government spending, as the war on terrorism continued, as well as by continuing strong consumer spending on items such as automobiles. Government spending grew 9.2%, the biggest rise in fifteen years. Total consumer spending jumped 5.4%, with durable goods purchases rising a sizzling 38.4%, the largest increase since

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1986. As a result, companies saw their inventories drop by an amazing \$120.6 billion in the quarter, the largest decline ever recorded. Unlike households, businesses continued to keep a tight rein on spending. Plant and equipment expenditures dove 12.8% in the fourth quarter, which followed a drop of 8.5% in the third quarter.

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LETTER TO SHAREHOLDERS (CONTINUED)  
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### PORTFOLIO PERFORMANCE

In this challenging climate, the Fund posted a -11.62% total return on NAV for the year. By comparison, the S&P 500 Index fell 13.0% during the same period. Moving the portfolio from the beginning of the year focus in international equities to more broadly diversified U.S. equities proved to be beneficial. This reduction in international exposure allowed the Fund to avoid much of the adverse currency impact from the strong dollar and to concentrate on domestic equities.

In spite of the generally disappointing performance in information technology, several of our largest positions in this sector proved to be strong performers and finished the year with solid gains. As in the first half of the year, the Fund benefited from the positive performance of several investments in financial services. Investments in consumer sectors, including retail and healthcare products, also produced positive returns for both the second half and for the full year.

### OUTLOOK

The Federal Reserve was impressed enough by positive signs in the economy that it brought an end to the year-long campaign of interest rate cuts. At their just completed meeting on January 30, 2002, policymakers left their benchmark rate unchanged at 1.75%, a 40-year low. The Fed did, however, reiterate its long-standing warning that economic weakness, not possible future inflation, remains the main concern for the U.S. economy.

Going forward, we believe there is increasing evidence that the economy may have bottomed out and will begin to recover in the first half of 2002. Last quarter's unprecedented depletion of business inventories bodes well for a rebound. Companies will need to ramp up production significantly to replace these depleted goods, helping to fuel GDP growth for future quarters. Unemployment is likely to edge up slightly in the first quarter of 2002, possibly to 5.9%, the highest level in almost seven years, even as the rate of job losses slows and the economic outlook continues to brighten. This expected bottoming out of job losses should be a firm signal that the recession has ended and economic recovery is firmly at hand.

We see that the stock market record of the past few years supports time-tested principles of equity investing and are confident that our strategies, which are consistent and conservative, will prove their worth. We continue to maintain that our approach involving a long-term perspective, with an emphasis on broad diversification, balanced asset allocation and liquidity, and our current U.S.

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equity focus, are appropriate for the shareholders of our Fund. The Board continues to emphasize using the Fund's unique advantages to enhance long-term capital appreciation. Under the Board's leadership:

- The investment manager was able to use the investment flexibility given by the stockholders to broadly diversify the Fund's holdings.

- The program of repurchasing the Fund's shares has continued. Through December 31, 2001, a total of 1,126,900 shares had been bought by the Fund, representing 21.04% of the shares outstanding at the start of the program. In effect, this repurchasing of shares at a discount allows the Fund to purchase its portfolio at below market prices. It has provided a direct benefit to those remaining as shareholders by increasing the Fund's NAV. It has also provided additional liquidity for those shareholders desiring to sell their Fund shares.

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LETTER TO SHAREHOLDERS (CONCLUDED)

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- The level of expenses has been substantially reduced. Even with the lower level of assets, the expense ratio has dropped. An emphasis on cost control, changes in service providers, and fee waivers by the investment manager all helped to keep costs lower than in the past.
- The Fund made a distribution in excess of net investment income of \$1.00 per share which was declared on December 14, 2001 with an ex-date of December 29, 2001. Tax treatment of such distribution will be determined at the end of the Fund's December 31, 2002 fiscal year upon which time the Fund will furnish tax documentation, as necessary. The Fund's dividend reinvestment plan gives shareholders the choice between receiving their distributions in cash or reinvesting in shares issued from the Fund's treasury share balance.

We believe that our highly diversified portfolio will enable Progressive Return Fund, Inc. to produce excellent returns for the long-term investor. We know you have a choice, we thank you for your support, and we look forward to continuing to serve you in the future.

Sincerely,

/s/ RALPH W. BRADSHAW

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Ralph W. Bradshaw  
Chairman

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 PROGRESSIVE RETURN FUND, INC.  
 PORTFOLIO SUMMARY - AS OF DECEMBER 31, 2001 (UNAUDITED)  
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## TOP TEN, BY SECTOR

|     | Sector                          | Percent of<br>Net Assets |
|-----|---------------------------------|--------------------------|
| 1.  | Drugs (Major Pharmaceuticals)   | 11.5                     |
| 2.  | Manufacturing (Diversified)     | 7.5                      |
| 3.  | Computers (Software & Services) | 7.3                      |
| 4.  | Computers (Hardware)            | 5.8                      |
| 5.  | Insurance (Property-Casualty)   | 4.9                      |
| 6.  | Banks (Money Center)            | 4.2                      |
| 7.  | Oil (International Integrated)  | 3.9                      |
| 8.  | Telephone                       | 3.6                      |
| 9.  | Retail (Discounters)            | 3.4                      |
| 10. | Electronics (Semiconductors)    | 3.4                      |

## TOP TEN HOLDINGS, BY ISSUER

| Holding   | Sector                         | Percent of<br>Net Assets |
|---|--------------------------------|--------------------------|
| 1. Microsoft Corp. Computers                      | (Software & Services)          | 5.4                      |
| 2. General Electric Co.                           | Manufacturing (Diversified)    | 4.3                      |
| 3. International Business<br>Machines Corp.       | Computers (Hardware)           | 4.2                      |
| 4. Pfizer Inc.                                    | Drugs (Major Pharmaceuticals)  | 2.8                      |
| 5. Citigroup Inc.                                 | Insurance (Property-Casualty)  | 2.8                      |
| 6. Wal-Mart Stores, Inc.                          | Retail (Discounters)           | 2.8                      |
| 7. Intel Corp.                                    | Electronics (Semiconductors)   | 2.3                      |
| 8. Royal Dutch Petroleum Co.                      | Oil (International Integrated) | 2.2                      |
| 9. John Hancock Bank & Thrift<br>Opportunity Fund | Closed-End Domestic Funds      | 2.0                      |



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|  |        |           |
|--|--------|-----------|
| (cost - \$285,275) .....                     | 3,600  | 235,728   |
| -----  |        |           |
| NETHERLANDS - 3.21%                          |        |           |
| CONSUMER STAPLES - 0.62%                     |        |           |
| FOODS - 0.62%                                |        |           |
| Unilever NV, NY Shares .....                 | 4,500  | 259,245   |
| -----  |        |           |
| ENERGY - 2.59%                               |        |           |
| OIL (INTERNATIONAL INTEGRATED) - 2.25%       |        |           |
| Royal Dutch Petroleum Co., NY Shares .....   | 19,200 | 941,184   |
| -----  |        |           |
| OIL & GAS (EXPLORATION & PRODUCTION) - 0.34% |        |           |
| Schlumberger Ltd. ....                       | 2,600  | 142,870   |
| -----  |        |           |
| Total Energy .....                           |        | 1,084,054 |
| -----  |        |           |
| Total Netherlands                            |        |           |
| (cost - \$1,532,738) .....                   |        | 1,343,299 |
| -----  |        |           |

| Description                            | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| -----                                  |                  |                   |
| PANAMA - 0.18%                         |                  |                   |
| CONSUMER STAPLES - 0.18%               |                  |                   |
| ENTERTAINMENT - 0.18%                  |                  |                   |
| Carnival Corp. (cost - \$80,421) ..... | 2,700            | \$ 75,816         |
| -----                                  |                  |                   |
| UNITED STATES - 102.70%                |                  |                   |
| BASIC MATERIALS - 2.35%                |                  |                   |
| ALUMINUM - 0.35%                       |                  |                   |
| Alcoa Inc. ....                        | 4,200            | 149,310           |
| -----                                  |                  |                   |
| CHEMICALS (DIVERSIFIED) - 1.27%        |                  |                   |
| Air Products & Chemicals, Inc. ....    | 1,100            | 51,601            |
| Dow Chemical Co. (The) .....           | 4,100            | 138,498           |
| E.I. Du Pont de Nemours & Co. ....     | 7,200            | 306,072           |
| Rohm & Hass Co. ....                   | 1,000            | 34,630            |
| -----                                  |                  |                   |
|  |                  | 530,801           |
| -----                                  |                  |                   |
| PAPER & FOREST PRODUCTS - 0.73%        |                  |                   |
| International Paper Co. ....           | 2,500            | 100,875           |
| Kimberly-Clark Corp. ....              | 2,500            | 149,500           |
| Weyerhaeuser Co. ....                  | 1,000            | 54,080            |
| -----                                  |                  |                   |
|  |                  | 304,455           |
| -----                                  |                  |                   |
| Total Basic Materials .....            |                  | 984,566           |
| -----                                  |                  |                   |

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|                                 |        |         |
|---------------------------------|--------|---------|
| CAPITAL GOODS - 7.92%           |        |         |
| AEROSPACE/DEFENSE - 0.90%       |        |         |
| General Dynamics Corp. ....     | 2,600  | 207,064 |
| Lockheed Martin Corp. ....      | 2,500  | 116,675 |
| Raytheon Co. ....               | 1,600  | 51,952  |
|                                 |        | -----   |
|                                 |        | 375,691 |
|                                 |        | -----   |
| ELECTRICAL EQUIPMENT - 0.46%    |        |         |
| Motorola, Inc. ....             | 10,000 | 150,200 |
| Solectron Corp.+ ....           | 3,700  | 41,736  |
|                                 |        | -----   |
|                                 |        | 191,936 |
|                                 |        | -----   |
| MACHINERY (DIVERSIFIED) - 0.54% |        |         |
| Caterpillar Inc. ....           | 1,600  | 83,600  |
| Deere & Co. ....                | 1,100  | 48,026  |
| Illinois Tool Works Inc. ....   | 1,400  | 94,808  |
|                                 |        | -----   |
|                                 |        | 226,434 |
|                                 |        | -----   |

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See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
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| Description                                    | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| -----  |                  |                   |
| MANUFACTURING (DIVERSIFIED) - 5.71%            |                  |                   |
| General Electric Co. ....                      | 45,400           | \$1,819,632       |
| Honeywell International Inc. ....              | 3,600            | 121,752           |
| Masco Corp. ....                               | 2,500            | 61,250            |
| Minnesota Mining & Manufacturing Co. (3M) .... | 1,900            | 224,599           |
| United Technologies Corp. ....                 | 2,500            | 161,575           |
|  |                  | -----             |
|  |                  | 2,388,808         |
|  |                  | -----             |
| OFFICE EQUIPMENT & SUPPLIES - 0.10%            |                  |                   |
| Imagistics International Inc.+ ....            | 88               | 1,087             |
| Pitney Bowes Inc. ....                         | 1,100            | 41,371            |
|  |                  | -----             |
|  |                  | 42,458            |
|  |                  | -----             |



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|   |                  |                   |
|---|------------------|-------------------|
| WASTE MANAGEMENT - 0.21%                          |                  |                   |
| Waste Management, Inc. ....                       | 2,800            | 89,348            |
|   |                  | -----             |
| Total Capital Goods .....                         |                  | 3,314,675         |
|   |                  | -----             |
| CLOSED-END FUNDS - 2.03%                          |                  |                   |
| CLOSED-END DOMESTIC FUNDS - 2.03%                 |                  |                   |
| John Hancock Bank & Thrift Opportunity Fund ..... | 103,000          | 850,780           |
|   |                  | -----             |
| COMMUNICATION SERVICES - 6.05%                    |                  |                   |
| TELECOMMUNICATIONS (CELLULAR) - 0.66%             |                  |                   |
| ALLTEL Corp. ....                                 | 1,500            | 92,595            |
| AT&T Wireless Services Inc.+ .....                | 5,534            | 79,524            |
| Sprint Corp. (PCS Group)+ .....                   | 4,300            | 104,963           |
|   |                  | -----             |
|   |                  | 277,082           |
|   |                  | -----             |
| TELECOMMUNICATIONS (LONG DISTANCE) - 1.76%        |                  |                   |
| AT&T Corp. ....                                   | 21,200           | 384,568           |
| Sprint Corp. ....                                 | 4,000            | 80,320            |
| WorldCom, Inc. (WorldCom Group)+ .....            | 19,200           | 270,336           |
|   |                  | -----             |
|   |                  | 735,224           |
|   |                  | -----             |
| TELEPHONE - 3.63%                                 |                  |                   |
| BellSouth Corp. ....                              | 8,500            | 324,275           |
| SBC Communications Inc. ....                      | 15,500           | 607,135           |
| Verizon Communications Inc. ....                  | 12,400           | 588,504           |
|   |                  | -----             |
|   |                  | 1,519,914         |
|   |                  | -----             |
| Total Communication Services .....                |                  | 2,532,220         |
|   |                  | -----             |
| Description                                       | No. of<br>Shares | Value<br>(Note A) |
| -----   |                  |                   |
| CONSUMER CYCLICALS - 10.23%                       |                  |                   |
| AUTO PARTS & Equipment - 0.28%                    |                  |                   |
| Delphi Automotive Systems Corp. ....              | 2,600            | \$ 35,516         |
| Johnson Controls, Inc. ....                       | 1,000            | 80,750            |
|   |                  | -----             |
|   |                  | 116,266           |
|   |                  | -----             |
| AUTOMOBILES - 0.81%                               |                  |                   |
| Ford Motor Co. ....                               | 8,600            | 135,192           |
| General Motors Corp. ....                         | 2,600            | 126,360           |
| Harley-Davidson, Inc. ....                        | 1,400            | 76,034            |
|   |                  | -----             |
|   |                  | 337,586           |
|   |                  | -----             |

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|   |       |         |
|---|-------|---------|
| BUILDING MATERIALS - 0.07%                  |       |         |
| Georgia-Pacific Corp. ....                  | 1,000 | 27,610  |
|   |       | -----   |
| CONSUMER (JEWELRY, NOVELTIES) - 0.10%       |       |         |
| Mattel, Inc. ....                           | 2,500 | 43,000  |
|   |       | -----   |
| HOUSEHOLD FURNISHINGS & APPAREL - 0.19%     |       |         |
| Bed Bath & Beyond Inc.+ ....                | 1,300 | 44,070  |
| Newell Rubbermaid Inc. ....                 | 1,300 | 35,841  |
|   |       | -----   |
|   |       | 79,911  |
|   |       | -----   |
| LODGING & HOTELS - 0.15%                    |       |         |
| Hilton Hotels Corp. ....                    | 1,700 | 18,564  |
| Marriott International, Inc., Class A ....  | 1,100 | 44,715  |
|   |       | -----   |
|   |       | 63,279  |
|   |       | -----   |
| PUBLISHING (NEWSPAPERS) - 0.32%             |       |         |
| Gannett Co., Inc. ....                      | 1,200 | 80,676  |
| Tribune Co. ....                            | 1,400 | 52,402  |
|   |       | -----   |
|   |       | 133,078 |
|   |       | -----   |
| RETAIL (BUILDING SUPPLIES) - 0.80%          |       |         |
| Lowe's Companies, Inc. ....                 | 7,200 | 334,152 |
|   |       | -----   |
| RETAIL (COMPUTERS & ELECTRONICS) - 0.51%    |       |         |
| Best Buy Co., Inc. ....                     | 2,500 | 186,200 |
| Circuit City Stores-Circuit City Group .... | 1,000 | 25,950  |
|   |       | -----   |
|   |       | 212,150 |
|   |       | -----   |

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 See accompanying notes to financial statements.  
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 PROGRESSIVE RETURN FUND, INC.  
 SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
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| Description                             | No. of<br>Shares | Value<br>(Note A) |
|---|------------------|-------------------|
| -----                                   |                  |                   |
| RETAIL (DEPARTMENT STORES) - 0.81%      |                  |                   |
| Federated Department Stores, Inc.+ .... | 1,000            | \$ 40,900         |
| J.C. Penney Co., Inc. ....              | 1,300            | 34,970            |

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|  |        |           |
|--|--------|-----------|
| Kohl's Corp.+ .....                      | 3,000  | 211,320   |
| May Department Stores Co. (The) .....    | 1,400  | 51,772    |
|  |        | -----     |
|  |        | 338,962   |
|  |        | -----     |
| RETAIL (DISCOUNTERS) - 3.36%             |        |           |
| Dollar General Corp. ....                | 1,500  | 22,350    |
| Kmart Corp.+ .....                       | 2,500  | 13,650    |
| Target Corp. ....                        | 4,100  | 168,305   |
| TJX Companies, Inc. (The) .....          | 1,300  | 51,818    |
| Wal-Mart Stores, Inc. ....               | 20,000 | 1,151,000 |
|  |        | -----     |
|  |        | 1,407,123 |
|  |        | -----     |
| RETAIL (GENERAL MERCHANDISE) - 0.18%     |        |           |
| Sears, Roebuck & Co. ....                | 1,600  | 76,224    |
|  |        | -----     |
| RETAIL (HOME SHOPPING) - 1.26%           |        |           |
| Home Depot, Inc. (The) .....             | 10,300 | 525,403   |
|  |        | -----     |
| RETAIL (SPECIALTY) - 0.22%               |        |           |
| Office Depot, Inc.+ .....                | 1,400  | 25,956    |
| Staples, Inc.+ .....                     | 2,500  | 46,750    |
| Toys "R" Us, Inc.+ .....                 | 1,000  | 20,740    |
|  |        | -----     |
|  |        | 93,446    |
|  |        | -----     |
| SERVICES (ADVERTISING/MARKETING) - 0.34% |        |           |
| Omnicom Group Inc. ....                  | 1,600  | 142,960   |
|  |        | -----     |
| SERVICES (COMMERCIAL & CONSUMER) - 0.66% |        |           |
| Cendant Corp.+ .....                     | 3,300  | 64,713    |
| Concord EFS, Inc. ....                   | 2,500  | 81,950    |
| H&R Block, Inc. ....                     | 1,000  | 44,700    |
| IMS Health Inc. ....                     | 1,400  | 27,314    |
| Paychex, Inc. ....                       | 1,700  | 59,568    |
|  |        | -----     |
|  |        | 278,245   |
|  |        | -----     |
| TEXTILES (APPAREL) - 0.17%               |        |           |
| Nike, Inc., Class B .....                | 1,300  | 73,112    |
|  |        | -----     |
| Total Consumer Cyclicals .....           |        | 4,282,507 |
|  |        | -----     |
|  | No. of | Value     |
| Description                              | Shares | (Note A)  |
| -----                                    |        |           |
| CONSUMER STAPLES - 12.66%                |        |           |
| BEVERAGES (ALCOHOLIC) - 0.44%            |        |           |

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|   |        |            |
|---|--------|------------|
| Anheuser-Busch<br>Companies, Inc. ....    | 4,100  | \$ 185,361 |
|   |        | -----      |
| BEVERAGES (NON-ALCOHOLIC) - 2.15%         |        |            |
| Coca-Cola Co. (The) .....                 | 11,300 | 532,795    |
| Coca-Cola Enterprises Inc. ....           | 2,500  | 47,350     |
| PepsiCo, Inc. ....                        | 6,600  | 321,354    |
|   |        | -----      |
|   |        | 901,499    |
|   |        | -----      |
| BROADCASTING (TV, CABLE, RADIO) - 2.20%   |        |            |
| AOL Time Warner Inc.+ .....               | 19,850 | 637,185    |
| Clear Channel Communications, Inc.+ ..... | 2,700  | 137,457    |
| Comcast Corp., Special Class A+ .....     | 4,100  | 147,600    |
|   |        | -----      |
|   |        | 922,242    |
|   |        | -----      |
| DISTRIBUTORS (FOOD & HEALTH) - 0.27%      |        |            |
| Costco Wholesale Corp.+ .....             | 2,500  | 110,950    |
|   |        | -----      |
| ENTERTAINMENT - 1.45%                     |        |            |
| Viacom Inc., non-voting Class B+ .....    | 6,900  | 304,635    |
| Walt Disney Co. (The) .....               | 14,500 | 300,440    |
|   |        | -----      |
|   |        | 605,075    |
|   |        | -----      |
| FOODS - 1.38%                             |        |            |
| Archer-Daniels-Midland Co. ....           | 3,045  | 43,696     |
| Campbell Soup Co. ....                    | 2,000  | 59,740     |
| ConAgra Foods, Inc. ....                  | 2,500  | 59,425     |
| General Mills, Inc. ....                  | 1,300  | 67,613     |
| H.J. Heinz Co. ....                       | 1,600  | 65,792     |
| Kellogg Co. ....                          | 1,900  | 57,190     |
| Sara Lee Corp. ....                       | 3,800  | 84,474     |
| SYSCO Corp. ....                          | 3,100  | 81,282     |
| Wrigley (William) Jr. Co. ....            | 1,100  | 56,507     |
|   |        | -----      |
|   |        | 575,719    |
|   |        | -----      |
| HOUSEHOLD PRODUCTS (NON-DURABLES) - 0.10% |        |            |
| Clorox Co. (The) .....                    | 1,100  | 43,505     |
|   |        | -----      |

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See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
-----

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

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|  |                  |                   |
|--|------------------|-------------------|
| PERSONAL CARE - 2.06%                        |                  |                   |
| Avon Products, Inc. ....                     | 1,200            | \$ 55,800         |
| Colgate-Palmolive Co. ....                   | 2,600            | 150,150           |
| Gillette Co. (The) ....                      | 5,500            | 183,700           |
| Procter & Gamble Co. (The) ....              | 6,000            | 474,780           |
|  |                  | -----             |
|  |                  | 864,430           |
|  |                  | -----             |
| RESTAURANTS - 0.49%                          |                  |                   |
| McDonald's Corp. ....                        | 6,500            | 172,055           |
| Starbucks Corp.+ ....                        | 1,700            | 32,385            |
|  |                  | -----             |
|  |                  | 204,440           |
|  |                  | -----             |
| RETAIL (DRUG STORES) - 0.37%                 |                  |                   |
| Walgreen Co. ....                            | 4,600            | 154,836           |
|  |                  | -----             |
| RETAIL (FOOD CHAINS) - 0.63%                 |                  |                   |
| Albertson's, Inc. ....                       | 2,500            | 78,725            |
| Kroger Co. (The)+ ....                       | 3,800            | 79,306            |
| Safeway Inc.+ ....                           | 2,500            | 104,375           |
|  |                  | -----             |
|  |                  | 262,406           |
|  |                  | -----             |
| TOBACCO - 1.12%                              |                  |                   |
| Philip Morris Companies Inc. ....            | 10,200           | 467,670           |
|  |                  | -----             |
| Total Consumer Staples ....                  |                  | 5,298,133         |
|  |                  | -----             |
| ENERGY - 4.63%                               |                  |                   |
| OIL (DOMESTIC INTEGRATED) - 1.86%            |                  |                   |
| Exxon Mobil Corp. ....                       | 19,800           | 778,140           |
|  |                  | -----             |
| OIL (INTERNATIONAL INTEGRATED) - 1.67%       |                  |                   |
| ChevronTexaco Corp. ....                     | 6,925            | 620,549           |
| Conoco Inc. ....                             | 2,800            | 79,240            |
|  |                  | -----             |
|  |                  | 699,789           |
|  |                  | -----             |
| OIL & GAS (DRILLING & EXPLORATION) - 0.36%   |                  |                   |
| Baker Hughes Inc. ....                       | 4,100            | 149,527           |
|  |                  | -----             |
| OIL & GAS (EXPLORATION & PRODUCTION) - 0.25% |                  |                   |
| Anadarko Petroleum Corp. ....                | 1,200            | 68,220            |
| Burlington Resources Inc. ....               | 1,000            | 37,540            |
|  |                  | -----             |
|  |                  | 105,760           |
|  |                  | -----             |
| Description                                  | No. of<br>Shares | Value<br>(Note A) |

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|  |       |           |
|--|-------|-----------|
| OIL & GAS (REFINING & MINING) - 0.49%  |       |           |
| Occidental Petroleum Corp. ....        | 1,700 | \$ 45,101 |
| Phillips Petroleum Co. ....            | 1,200 | 72,312    |
| Unocal Corp. ....                      | 1,200 | 43,284    |
| USX-Marathon Group ....                | 1,500 | 45,000    |
|  |       | -----     |
|  |       | 205,697   |
|  |       | -----     |
| Total Energy .....                     |       | 1,938,913 |
|  |       | -----     |
| FINANCIAL - 17.61%                     |       |           |
| BANKS (MAJOR REGIONAL) - 2.58%         |       |           |
| AmSouth Bancorp .....                  | 1,800 | 34,020    |
| Bank One Corp. ....                    | 5,300 | 206,965   |
| BB&T Corp. ....                        | 1,900 | 68,609    |
| Fifth Third Bancorp .....              | 2,500 | 153,950   |
| Huntington Bancshares Inc. ....        | 1,200 | 20,628    |
| Mellon Financial Corp. ....            | 2,500 | 94,050    |
| National City Corp. ....               | 2,800 | 81,872    |
| Northern Trust Corp. ....              | 1,000 | 60,220    |
| PNC Financial Services Group .....     | 1,400 | 78,680    |
| Regions Financial Corp. ....           | 1,000 | 30,040    |
| SouthTrust Corp. ....                  | 1,500 | 37,005    |
| Synovus Financial Corp. ....           | 1,300 | 32,565    |
| U.S. Bancorp .....                     | 8,701 | 182,112   |
|  |       | -----     |
|  |       | 1,080,716 |
|  |       | -----     |
| BANKS (MONEY CENTER) - 4.22%           |       |           |
| Bank of America Corp. ....             | 7,400 | 465,830   |
| Bank of New York Co., Inc. (The) ..... | 3,400 | 138,720   |
| FleetBoston Financial Corp. ....       | 4,100 | 149,650   |
| J.P. Morgan Chase & Co. ....           | 8,700 | 316,245   |
| KeyCorp .....                          | 2,000 | 48,680    |
| SunTrust Banks, Inc. ....              | 1,400 | 87,780    |
| Wachovia Corp. ....                    | 6,500 | 203,840   |
| Wells Fargo & Co. ....                 | 8,100 | 351,945   |
|  |       | -----     |
|  |       | 1,762,690 |
|  |       | -----     |
| CONSUMER FINANCE - 1.19%               |       |           |
| American Express Co. ....              | 6,100 | 217,709   |
| Household International, Inc. ....     | 2,500 | 144,850   |
| MBNA Corp. ....                        | 3,900 | 137,280   |
|  |       | -----     |
|  |       | 499,839   |
|  |       | -----     |

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

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 PROGRESSIVE RETURN FUND, INC.  
 SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
 -----

| Description                                       | No. of<br>Shares | Value<br>(Note A) |
|---|------------------|-------------------|
| -----   |                  |                   |
| DIVERSIFIED - 1.91%                               |                  |                   |
| Fannie Mae .....                                  | 4,000            | \$ 318,000        |
| Freddie Mac .....                                 | 3,100            | 202,740           |
| Morgan Stanley Dean Witter & Co. ....             | 5,000            | 279,700           |
|   |                  | -----             |
|   |                  | 800,440           |
|   |                  | -----             |
| INSURANCE (BROKERS) - 0.95%                       |                  |                   |
| Hartford Financial Services Group, Inc. (The) ... | 4,100            | 257,603           |
| Marsh & McLennan Companies, Inc. ....             | 1,300            | 139,685           |
|   |                  | -----             |
|   |                  | 397,288           |
|   |                  | -----             |
| INSURANCE (LIFE & HEALTH) - 0.59%                 |                  |                   |
| AFLAC Inc. ....                                   | 2,600            | 63,856            |
| Aon Corp. ....                                    | 1,200            | 42,624            |
| MetLife, Inc. ....                                | 3,500            | 110,880           |
| UnumProvident Corp. ....                          | 1,100            | 29,161            |
|   |                  | -----             |
|   |                  | 246,521           |
|   |                  | -----             |
| INSURANCE (PROPERTY-CASUALTY) - 4.85%             |                  |                   |
| Allstate Corp. (The) .....                        | 3,300            | 111,210           |
| American International Group, Inc. ....           | 8,989            | 713,727           |
| Citigroup Inc. ....                               | 23,000           | 1,161,040         |
| St. Paul Companies, Inc. (The) .....              | 1,000            | 43,970            |
|   |                  | -----             |
|   |                  | 2,029,947         |
|   |                  | -----             |
| INVESTMENT BANKING & BROKERAGE - 0.86%            |                  |                   |
| Charles Schwab Corp. (The) .....                  | 6,000            | 92,820            |
| Lehman Brothers Holdings Inc. ....                | 1,100            | 73,480            |
| Merrill Lynch & Co., Inc. ....                    | 3,700            | 192,844           |
|   |                  | -----             |
|   |                  | 359,144           |
|   |                  | -----             |
| INVESTMENT MANAGEMENT - 0.10%                     |                  |                   |
| Franklin Resources, Inc. ....                     | 1,200            | 42,324            |
|   |                  | -----             |
| SAVINGS & LOANS - 0.36%                           |                  |                   |
| Charter One Financial, Inc. ....                  | 1,050            | 28,506            |
| Washington Mutual, Inc. ....                      | 3,750            | 122,625           |
|   |                  | -----             |
|   |                  | 151,131           |
|   |                  | -----             |
| Total Financial .....                             |                  | 7,370,040         |
|   |                  | -----             |

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| Description                            | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| -----                                  |                  |                   |
| HEALTHCARE - 14.95%                    |                  |                   |
| BIOTECHNOLOGY - 0.75%                  |                  |                   |
| Amgen Inc.+ .....                      | 4,700            | \$ 265,268        |
| MedImmune, Inc.+ .....                 | 1,000            | 46,350            |
|  |                  | -----             |
|  |                  | 311,618           |
|  |                  | -----             |
| DRUGS (GENERIC) - 0.42%                |                  |                   |
| Cardinal Health, Inc. ....             | 1,950            | 126,087           |
| McKesson Corp. ....                    | 1,300            | 48,620            |
|  |                  | -----             |
|  |                  | 174,707           |
|  |                  | -----             |
| DRUGS (MAJOR PHARMACEUTICALS) - 11.52% |                  |                   |
| Abbott Laboratories .....              | 7,100            | 395,825           |
| Allergan, Inc. ....                    | 1,000            | 75,050            |
| American Home Products Corp. ....      | 6,000            | 368,160           |
| Bristol-Myers Squibb Co. ....          | 8,900            | 453,900           |
| Eli Lilly & Co. ....                   | 5,300            | 416,262           |
| Johnson & Johnson .....                | 13,878           | 820,190           |
| Merck & Co., Inc. ....                 | 10,500           | 617,400           |
| Pfizer Inc. ....                       | 29,700           | 1,183,545         |
| Pharmacia Corp. ....                   | 5,900            | 251,635           |
| Schering-Plough Corp. ....             | 6,700            | 239,927           |
|  |                  | -----             |
|  |                  | 4,821,894         |
|  |                  | -----             |
| HOSPITAL MANAGEMENT - 0.44%            |                  |                   |
| HCA Inc. ....                          | 2,500            | 96,350            |
| Tenet Healthcare Corp.+ .....          | 1,500            | 88,080            |
|  |                  | -----             |
|  |                  | 184,430           |
|  |                  | -----             |
| MANAGED CARE - 0.26%                   |                  |                   |
| UnitedHealth Group Inc. ....           | 1,500            | 106,155           |
|  |                  | -----             |
| MEDICAL PRODUCTS - 1.50%               |                  |                   |
| Baxter International Inc. ....         | 2,800            | 150,164           |
| Becton, Dickinson & Co. ....           | 1,200            | 39,780            |
| Boston Scientific Corp.+ .....         | 2,500            | 60,300            |
| Guidant Corp.+ .....                   | 1,400            | 69,720            |
| Medtronic, Inc. ....                   | 5,500            | 281,655           |
| Zimmer Holdings, Inc.+ .....           | 890              | 27,181            |
|  |                  | -----             |
|  |                  | 628,800           |
|  |                  | -----             |



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|                              |       |           |
|------------------------------|-------|-----------|
| SPECIALIZED SERVICES - 0.06% |       |           |
| Healthsouth Corp.+ .....     | 1,800 | 26,676    |
|                              |       | -----     |
| Total Healthcare .....       |       | 6,254,280 |
|                              |       | -----     |

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

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 PROGRESSIVE RETURN FUND, INC.  
 SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)  
 -----

| Description                                  | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| -----  |                  |                   |
| TECHNOLOGY - 20.34%                          |                  |                   |
| Communication Equipment - 0.66%              |                  |                   |
| Lucent Technologies Inc. ....                | 11,600           | \$ 72,964         |
| QUALCOMM Inc.+ .....                         | 4,000            | 202,000           |
|  |                  | -----             |
|  |                  | 274,964           |
|  |                  | -----             |
| COMPUTERS (HARDWARE) - 5.78%                 |                  |                   |
| Apple Computer, Inc.+ .....                  | 1,500            | 32,850            |
| Dell Computer Corp.+ .....                   | 11,800           | 320,724           |
| Hewlett-Packard Co. ....                     | 9,100            | 186,914           |
| International Business Machines Corp. ....   | 14,500           | 1,753,920         |
| Sun Microsystems, Inc.+ .....                | 10,000           | 123,400           |
|  |                  | -----             |
|  |                  | 2,417,808         |
|  |                  | -----             |
| COMPUTERS (NETWORKING) - 1.30%               |                  |                   |
| Cisco Systems, Inc.+ .....                   | 30,000           | 543,300           |
|  |                  | -----             |
| COMPUTERS (SOFTWARE & SERVICES) - 7.25%      |                  |                   |
| Adobe Systems Inc. ....                      | 1,100            | 34,155            |
| BMC Software, Inc.+ .....                    | 1,100            | 18,007            |
| Computer Associates International, Inc. .... | 2,700            | 93,123            |
| Compuware Corp.+ .....                       | 1,700            | 20,043            |
| First Data Corp. ....                        | 1,900            | 149,055           |
| Intuit Inc.+ .....                           | 2,000            | 85,520            |
| Microsoft Corp.+ .....                       | 33,800           | 2,239,926         |
| Oracle Corp.+ .....                          | 25,200           | 348,012           |
| Yahoo! Inc.+ .....                           | 2,500            | 44,350            |
|  |                  | -----             |
|  |                  | 3,032,191         |
|  |                  | -----             |
| ELECTRONICS (COMPONENT DISTRIBUTION) - 0.41% |                  |                   |

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|                           |       |         |
|---------------------------|-------|---------|
| Emerson Electric Co. .... | 2,000 | 114,200 |
| Sanmina-SCI Corp.+ .....  | 3,000 | 59,700  |
|                           |       | -----   |
|                           |       | 173,900 |
|                           |       | -----   |

|                                      |        |           |
|--------------------------------------|--------|-----------|
| ELECTRONICS (SEMICONDUCTORS) - 3.36% |        |           |
| Altera Corp.+ .....                  | 1,900  | 40,318    |
| Analog Devices, Inc.+ .....          | 1,700  | 75,463    |
| Conexant Systems, Inc.+ .....        | 1,100  | 15,796    |
| Intel Corp. ....                     | 30,200 | 949,790   |
| LSI Logic Corp.+ .....               | 1,500  | 23,670    |
| Micron Technology, Inc.+ .....       | 2,600  | 80,600    |
| Texas Instruments Inc. ....          | 7,900  | 221,200   |
|                                      |        | -----     |
|                                      |        | 1,406,837 |
|                                      |        | -----     |

| Description | Shares | (Note A) |
|-------------|--------|----------|
|-------------|--------|----------|

|  |       |            |
|--|-------|------------|
| EQUIPMENT (SEMICONDUCTORS) - 0.66%     |       |            |
| Applied Materials, Inc.+ .....         | 3,700 | \$ 148,370 |
| Linear Technology Corp. ....           | 1,500 | 58,560     |
| Maxim Integrated Products, Inc.+ ..... | 1,300 | 68,263     |
|  |       | -----      |
|  |       | 275,193    |
|  |       | -----      |

|                             |       |        |
|-----------------------------|-------|--------|
| PHOTOGRAPHY/IMAGING - 0.10% |       |        |
| Eastman Kodak Co. ....      | 1,400 | 41,202 |
|                             |       | -----  |

|                                      |       |           |
|--------------------------------------|-------|-----------|
| SERVICES (DATA PROCESSING) - 0.82%   |       |           |
| Automatic Data Processing, Inc. .... | 2,900 | 170,810   |
| Electronic Data Systems Corp. ....   | 2,500 | 171,375   |
|                                      |       | 342,185   |
|                                      |       | -----     |
| Total Technology .....               |       | 8,507,580 |
|                                      |       | -----     |

|                        |       |        |
|------------------------|-------|--------|
| TRANSPORTATION - 0.77% |       |        |
| AIR FREIGHT - 0.16%    |       |        |
| FedEx Corp.+ .....     | 1,300 | 67,444 |
|                        |       | -----  |

|                             |       |        |
|-----------------------------|-------|--------|
| AIRLINES - 0.17%            |       |        |
| Southwest Airlines Co. .... | 3,750 | 69,300 |
|                             |       | -----  |

|                             |       |         |
|-----------------------------|-------|---------|
| RAILROADS - 0.44%           |       |         |
| Burlington Northern         |       |         |
| Santa Fe Corp. ....         | 1,900 | 54,207  |
| CSX Corp. ....              | 1,000 | 35,050  |
| Norfolk Southern Corp. .... | 1,800 | 32,994  |
| Union Pacific Corp. ....    | 1,100 | 62,700  |
|                             |       | -----   |
|                             |       | 184,951 |
|                             |       | -----   |

|                            |  |         |
|----------------------------|--|---------|
| Total Transportation ..... |  | 321,695 |
|                            |  | -----   |

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See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 2001 (CONTINUED)

| Description                                | No. of<br>Shares | Value<br>(Note A) |
|--|------------------|-------------------|
| UTILITIES - 3.16%                          |                  |                   |
| ELECTRIC COMPANIES - 2.42%                 |                  |                   |
| American Electric Power Co., Inc. ....     | 1,500            | \$ 65,295         |
| Consolidated Edison, Inc. ....             | 1,000            | 40,360            |
| Dominion Resources, Inc. ....              | 1,100            | 66,110            |
| Duke Energy Corp. ....                     | 9,000            | 353,340           |
| Edison International+ ....                 | 1,500            | 22,650            |
| Entergy Corp. ....                         | 1,100            | 43,021            |
| Exelon Corp. ....                          | 1,500            | 71,820            |
| FirstEnergy Corp. ....                     | 1,100            | 38,478            |
| NiSource Inc. ....                         | 1,000            | 23,060            |
| Progress Energy, Inc. ....                 | 1,000            | 45,030            |
| Reliant Energy, Inc. ....                  | 1,400            | 37,128            |
| Sempra Energy ....                         | 1,000            | 24,550            |
| Southern Co. (The) ....                    | 3,100            | 78,585            |
| TXU Corp. ....                             | 1,200            | 56,580            |
| Xcel Energy, Inc. ....                     | 1,600            | 44,384            |
|  |                  | -----             |
|  |                  | 1,010,391         |
|  |                  | -----             |
| NATURAL GAS - 0.69%                        |                  |                   |
| Dynegy Inc., Class A ....                  | 1,500            | 38,250            |
| El Paso Corp. ....                         | 2,500            | 111,525           |
| PG&E Corp.+ ....                           | 1,800            | 34,632            |
| Public Service Enterprises Group Inc. .... | 1,000            | 42,190            |
| Williams Companies, Inc. (The) ....        | 2,500            | 63,800            |
|  |                  | -----             |
|  |                  | 290,397           |
|  |                  | -----             |
| POWER PRODUCTS (INDEPENDENT) - 0.05%       |                  |                   |
| Mirant Corp+ ....                          | 1,232            | 19,736            |
|  |                  | -----             |
| Total Utilities ....                       |                  | 1,320,524         |
|  |                  | -----             |
| Total United States                        |                  |                   |
| (cost - \$44,698,690) ....                 |                  | 42,975,913        |
|  |                  | -----             |
| Total Equity Securities                    |                  |                   |
| (cost - \$47,483,640) ....                 |                  | 45,564,244        |
|  |                  | =====             |

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| Description                        | Principal<br>Amount<br>(000's) | Value<br>(Note A) |
|------------------------------------|--------------------------------|-------------------|
| -----                              |                                |                   |
| SHORT-TERM INVESTMENT - 1.45%      |                                |                   |
| REPURCHASE AGREEMENT - 1.45%       |                                |                   |
| Bear, Stearns & Co. Inc.           |                                |                   |
| (Agreement dated 12/31/01 to       |                                |                   |
| be repurchased at \$606,080),      |                                |                   |
| 1.65%, 01/02/02 (cost - \$606,024) |                                |                   |
| (Note F) .....                     | \$606                          | \$ 606,024        |
|                                    |                                | -----             |
| TOTAL INVESTMENTS - 110.33%        |                                |                   |
| (cost - \$48,089,664)              |                                |                   |
| (Notes A, C) .....                 |                                | 46,170,268        |
|                                    |                                | -----             |
| LIABILITIES IN EXCESS OF CASH      |                                |                   |
| AND OTHER ASSETS - (10.33)% .....  |                                | (4,322,826)       |
| NET ASSETS - 100.00% .....         |                                | \$41,847,442      |

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

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-----  
PROGRESSIVE RETURN FUND, INC.  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 2001  
-----

ASSETS

|   |               |
|---|---------------|
| Investments, at value (Cost \$48,089,664) (Note A) .....      | \$ 46,170,268 |
| Cash collateral received for securities loaned (Note E) ..... | 755,986       |
| Receivables:  |               |
| Dividends .....   | 44,217        |
| Interest .....  | 778           |
| Prepaid expenses .....  | 1,211         |
|   | -----         |
| Total Assets .....  | 46,972,460    |
|   | -----         |

LIABILITIES

|   |           |
|---|-----------|
| Payables:                                       |           |
| Distribution to shareholders (Note A) .....     | 4,228,516 |
| Upon return of securities loaned (Note E) ..... | 755,986   |
| Investment management fees (Note B) .....       | 48,601    |
| Other accrued expenses .....                    | 91,915    |

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|   |               |
|---|---------------|
| Total Liabilities .....   | 5,125,018     |
| NET ASSETS (applicable to 4,228,516 shares of common stock outstanding)                                 | \$ 41,847,442 |
| NET ASSET VALUE PER SHARE (\$41,847,442 / 4,228,516) .....  | \$ 9.90       |
| NET ASSETS CONSISTS OF  |               |
| Capital stock, \$0.001 par value; 4,228,516 shares outstanding<br>(100,000,000 shares authorized) ..... | \$ 4,229      |
| Paid-in capital .....   | 62,101,955    |
| Cost of 203,900 shares repurchased .....  | (1,947,040)   |
| Distributions in excess of net investment income .....  | (4,221,130)   |
| Accumulated net realized loss on investments and<br>foreign currency related transactions .....         | (12,171,176)  |
| Net unrealized depreciation in value of investments .....   | (1,919,396)   |
| Net assets applicable to shares outstanding .....   | \$ 41,847,442 |

See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
STATEMENT OF OPERATIONS - FOR THE YEAR ENDED DECEMBER 31, 2001

INVESTMENT INCOME

Income (Note A):

|                                    |            |
|------------------------------------|------------|
| Dividends .....                    | \$ 642,453 |
| Interest .....                     | 132,919    |
| Less: Foreign taxes withheld ..... | (3,483)    |
| Total Investment Income .....      | 771,889    |

Expenses:

|   |         |
|---|---------|
| Investment management fees (Note B) ..... | 331,733 |
| Audit and legal fees (Note B) .....       | 122,560 |
| Directors' fees .....                     | 86,809  |
| Administration fees .....                 | 58,976  |
| Printing .....                            | 54,029  |
| Accounting fees .....                     | 43,425  |
| Custodian fees .....                      | 30,124  |
| Transfer agent fees .....                 | 25,015  |
| NYSE listing fees .....                   | 23,873  |
| Insurance .....                           | 15,558  |
| Other .....                               | 17,061  |

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|  |                |
|--|----------------|
| Total Expenses .....   | 809,163        |
| Less: Fees paid indirectly (Note B) .....  | (42,694)       |
| Less: Management fee waivers (Note B) .....  | (1,966)        |
|  | -----          |
| Net Expenses .....   | 764,503        |
|  | -----          |
| Net Investment Income .....  | 7,386          |
|  | -----          |
| NET REALIZED AND UNREALIZED LOSS ON<br>INVESTMENTS AND FOREIGN CURRENCY RELATED<br>TRANSACTIONS  |                |
| Net realized gain/(loss) from:   |                |
| Investments .....  | (4,384,962)    |
| Foreign currency related transactions .....  | 234            |
| Net change in unrealized appreciation in value<br>of investments and translation of other<br>assets and liabilities denominated in<br>foreign currency ..... | (2,439,912)    |
|  | -----          |
| Net realized and unrealized loss on investments<br>and foreign currency related transactions .....   | (6,824,640)    |
|  | -----          |
| NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS .....   | \$ (6,817,254) |
|  | =====          |

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

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

|  | For the Years Ended<br>December 31, |              |
|--|-------------------------------------|--------------|
|  | 2001                                | 2000         |
|  | -----                               |              |
| DECREASE IN NET ASSETS   |                                     |              |
| Operations:  |                                     |              |
| Net investment income/(loss) .....   | \$ 7,386                            | \$ (38,625)  |
| Net realized loss on investments and<br>foreign currency related transactions .....  | (4,384,728)                         | (7,140,430)  |
| Reimbursement from adviser .....   | --                                  | 86,640       |
| Net change in unrealized appreciation in<br>value of investments and translation of<br>other assets and liabilities denominated<br>in foreign currency ..... | (2,439,912)                         | (7,125,666)  |
|  | -----                               | -----        |
| Net decrease in net assets resulting<br>from operations .....  | (6,817,254)                         | (14,218,081) |

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|   |               |               |
|---|---------------|---------------|
|   | -----         | -----         |
| Dividends and distributions to shareholders (Note A):                               |               |               |
| Net investment income .....   | --            | (3,607)       |
| Net realized gain on investments and<br>foreign currency related transactions ..... | --            | (1,168,685)   |
| In excess of net investment income .....  | (4,228,516)   | --            |
|   | -----         | -----         |
| Total dividends and distributions to shareholders                                   | (4,228,516)   | (1,172,292)   |
|   | -----         | -----         |
| Capital stock transactions (Note D):  |               |               |
| Cost of 203,900 and 651,800 shares repurchased,<br>respectively .....               | (1,947,040)   | (8,378,956)   |
|   | -----         | -----         |
| Total decrease in net assets .....  | (12,992,810)  | (23,769,329)  |
|   | -----         | -----         |
| NET ASSETS  |               |               |
| Beginning of year .....   | 54,840,252    | 78,609,581    |
|   | -----         | -----         |
| End of year .....   | \$ 41,847,442 | \$ 54,840,252 |
|   | =====         | =====         |

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See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
FINANCIAL HIGHLIGHTS

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Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each period indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.  
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|  |          |                                |          |
|--|----------|--------------------------------|----------|
|  | 2001     | For the Years Ended De<br>2000 | 1999     |
|  | -----    | -----                          | -----    |
| PER SHARE OPERATING<br>PERFORMANCE       |          |                                |          |
| Net asset value, beginning of year ..... | \$ 12.37 | \$ 15.46                       | \$ 18.31 |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Net investment income/(loss) .....   | -- #*     | (0.01)#   | 0.09#     |
| Net realized and unrealized gain/(loss) on<br>investments and foreign currency<br>related transactions .....       | (1.55)    | (3.17)    | (0.90)    |
| Net increase/(decrease) in net assets<br>from operations .....   | (1.55)    | (3.18)    | (0.81)    |
| Dividends and distributions to shareholders:   |           |           |           |
| Net investment income .....  | --        | --*       | (0.08)    |
| Net realized gain on investments and foreign<br>currency related transactions .....                                | --        | (0.26)    | (2.08)    |
| In excess of net investment income .....   | (1.00)    | --        | --        |
| Total dividends and distributions to shareholders ..   | (1.00)    | (0.26)    | (2.16)    |
| Anti-dilutive effect due to capital<br>stock repurchased .....   | 0.08      | 0.35      | 0.12      |
| Net asset value, end of year .....   | \$ 9.90   | \$ 12.37  | \$ 15.46  |
| Market value, end of year .....  | \$ 8.950  | \$ 9.500  | \$ 13.063 |
| Total investment return (a) .....  | 4.04%     | (27.27)%  | (1.84)    |
| RATIOS/SUPPLEMENTAL DATA   |           |           |           |
| Net assets, end of year (000 omitted) .....  | \$ 41,847 | \$ 54,840 | \$ 78,609 |
| Ratio of expenses to average net assets,<br>net of fee waivers .....   | 1.63%(b)  | 2.46%     | 2.10%     |
| Ratio of expenses to average net assets,<br>excluding fee waivers, if any .....                                    | 1.73%(c)  | 2.65%     | 2.28%     |
| Ratio of expenses to average net assets,<br>net of fee waivers but excluding fees paid<br>indirectly, if any ..... | 1.72%     | --        | --        |
| Ratio of net investment income/(loss) to<br>average net assets .....   | 0.02%     | (0.06)%   | 0.59%     |
| Portfolio turnover rate .....  | 36.17%    | 38.13%    | 39.60%    |

|  | 1996     | 1995     | 1994     |
|--|----------|----------|----------|
| PER SHARE OPERATING<br>PERFORMANCE   |          |          |          |
| Net asset value, beginning of year .....   | \$ 13.29 | \$ 14.33 | \$ 12.52 |
| Net investment income/(loss) .....   | 0.11     | 0.17     | 0.06     |
| Net realized and unrealized gain/(loss) on<br>investments and foreign currency<br>related transactions ..... | 4.11     | (1.03)   | 1.81     |
| Net increase/(decrease) in net assets<br>from operations .....   | 4.22     | (0.86)   | 1.87     |
| Dividends and distributions to shareholders:   |          |          |          |
| Net investment income .....  | (0.08)   | (0.15)   | (0.06)   |
| Net realized gain on investments and foreign   |          |          |          |



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|  |           |           |           |
|--|-----------|-----------|-----------|
| currency related transactions .....  | --        | (0.03)    | --        |
| In excess of net investment income .....   | --        | --        | --        |
| Total dividends and distributions to shareholders ..   | (0.08)    | (0.18)    | (0.06)    |
| Anti-dilutive effect due to capital<br>stock repurchased .....   | --        | --        | --        |
| Net asset value, end of year .....   | \$ 17.43  | \$ 13.29  | \$ 14.33  |
| Market value, end of year .....  | \$ 13.750 | \$ 11.125 | \$ 13.875 |
| Total investment return (a) .....  | 24.28%    | (18.65)%  | (1.35)    |
| RATIOS/SUPPLEMENTAL DATA   |           |           |           |
| Net assets, end of year (000 omitted) .....  | \$ 92,399 | \$ 70,431 | \$ 75,908 |
| Ratio of expenses to average net assets,<br>net of fee waivers .....   | 1.62%     | 1.58%     | 1.41%     |
| Ratio of expenses to average net assets,<br>excluding fee waivers, if any .....                                    | 1.81%     | 1.76%     | 1.59%     |
| Ratio of expenses to average net assets,<br>net of fee waivers but excluding fees paid<br>indirectly, if any ..... | --        | --        | --        |
| Ratio of net investment income/(loss) to<br>average net assets .....   | 0.75%     | 1.18%     | 0.43%     |
| Portfolio turnover rate .....  | 35.94%    | 35.73%    | 15.47%    |

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See accompanying notes to financial statements.

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS  
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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 the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

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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 December 31, 2001, 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 relieve it from all or substantially all U.S. federal income and excise taxes. For U.S. federal income tax purposes, realized capital losses incurred after

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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October 31, 2001 within the current fiscal year are deemed to arise on the first

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day of the next fiscal year. The Fund elected to defer such losses of \$263,892. The Fund has 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 gains for U.S. federal income tax purposes. There is no undistributable ordinary income on a tax basis.

**DISTRIBUTIONS OF INCOME AND GAINS:** The Fund distributes 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 carryforwards, 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 Board of Directors of the Fund may, if it is determined to be in the best interest of the Fund and its shareholders, from time to time authorize and declare distributions that may be substantially characterized as a return of capital.

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

At the Annual Meeting of Stockholders of the Fund held on April 19, 2001, stockholders approved a new investment management agreement by and between Cornerstone and the Fund. As a result, Cornerstone commenced its performance of the investment management services with respect to the Fund's portfolio securities, and the temporary internal management of the Fund's portfolio securities automatically ceased.

Effective April 19, 2001, Cornerstone serves as the Fund's investment manager with respect to all investments. As compensation for its investment management services, Cornerstone receives from the Fund an annual fee, calculated weekly and paid monthly, equal to 1.00% of the Fund's average weekly net assets. Cornerstone has voluntarily agreed to limit the Fund's annual operating expenses (excluding interest, taxes, brokerage commissions, expenditures which are capitalized in accordance with generally accepted accounting principles, and other extraordinary expenses not incurred in the ordinary course of such Fund's business) to 1.65% (on an annualized basis) of the Fund's average net assets for the fiscal period from April 19, 2001 through December 31, 2001. For the period April 19, 2001 through December 31, 2001, Cornerstone earned \$331,733 for investment management services, of which Cornerstone waived \$1,966.

For the period January 1, 2001 through April 18, 2001, portfolio securities were managed by Messrs. Ralph W. Bradshaw and William A. Clark, a current and former director of the Fund, respectively. Internal management fees for this period of \$30,466 are included in Directors' fees on the Statement of Operations. During such period the Fund assumed all of its own operating expenses.

Included in the Statement of Operations, under the caption Fees paid indirectly, are expense offsets of \$42,694 arising from credits earned on portfolio transactions executed with a broker pursuant to a directed brokerage arrangement.

The Fund paid or accrued approximately \$86,000 for the year ended December 31, 2001 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.

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PROGRESSIVE RETURN FUND, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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At December 31, 2001, pursuant to regulatory filings, a single shareholder and his affiliates owned approximately 59% of the outstanding shares of the Fund based on a Schedule 13G/A filing with the Securities and Exchange Commission on February 15, 2002.

NOTE C. INVESTMENT IN SECURITIES

For U.S. federal income tax purposes, the cost of securities owned at December 31, 2001 was \$48,216,238. Accordingly, the net unrealized depreciation of investments of \$2,045,970 was composed of gross appreciation of \$2,530,835 for those investments having an excess of value over cost and gross depreciation of \$4,576,805 for those investments having an excess of cost over value.

For the year ended December 31, 2001, purchases and sales of securities, other than short-term investments, were \$52,474,173 and \$16,327,346, 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, 2001, the Fund repurchased 203,900 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%. For the year ended December 31, 2000, the Fund repurchased 651,800 of its shares for a total cost of \$8,378,956 at a weighted average discount of 16.86% from net asset value. The discount of the individual repurchases ranged from 13.30% - 24.20%. 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

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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 33 1/3% of its portfolio's 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, 2001 was \$717,864 and \$755,986,

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 PROGRESSIVE RETURN FUND, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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respectively. Any cash collateral received is reinvested into repurchase agreements, which in turn are collateralized by various U.S. Government and Agency securities. During the year ended December 31, 2001, the Fund earned \$1,630 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, 2001.

| Issuer        | Principal<br>Amount<br>(000's) | Interest<br>Rate | Maturity | Accrued<br>Interest | Market<br>Value |
|---------------|--------------------------------|------------------|----------|---------------------|-----------------|
| -----         | -----                          | -----            | -----    | -----               | -----           |
| United States |                                |                  |          |                     |                 |
| Treasury Bond | \$605                          | 3.625%           | 4/15/28  | \$4,630             | \$617,475       |

NOTE G. SETTLEMENT OF LEGAL ACTION

In December 2000, the Fund reached a settlement which was approved by the court in the class action lawsuit in which it was a defendant along with its former investment adviser, Credit Suisse Asset Management Inc. ("CSAM") and the Fund's former directors (Brautigam v. Priest et al.). As a result, the Fund paid to the plaintiff's attorney \$100,000 in fees and expenses and agreed to engage in certain business practices under the agreed settlement. The complaint, initially

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filed on June 10, 1999 in the United States District Court for the District of Delaware and thereafter transferred to the United States District Court for the Southern District of New York, alleged that the defendants breached their fiduciary duties to the Fund in violation of Sections 36 and 48 of the 1940 Act and Maryland law, by, inter alia, failing to put the interests of the Fund's shareholders before those of others, failing to take steps to reduce or eliminate the discount to net asset value at which shares of the Fund trade, and postponing the annual meeting of the Fund. In addition to plaintiff's attorney's fees mentioned above, the Fund incurred approximately \$200,000 in legal expenses as a result of the lawsuit, of which approximately \$145,000 was reimbursed to CSAM. Such amounts were accrued and paid by the Fund during the fiscal year ended December 31, 2000.

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### REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the Progressive Return Fund, Inc. (the "Fund") at December 31, 2001, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the ten years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2001 by correspondence with the custodian, provided a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania  
February 18, 2002

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DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PURCHASE PLAN (UNAUDITED)  
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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 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

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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 small amounts of shares for individual accounts through the Plan

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DESCRIPTION OF DIVIDEND REINVESTMENT & CASH PURCHASE PLAN (UNAUDITED)  
(CONCLUDED)  
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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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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* (51)<br>One West Pack Square<br>Suite 1650<br>Asheville, NC 28801 | Chairman of the Board of Directors and President | President, Director and Shareholder of 199<br>Cornerstone Advisors, Inc.; Financial<br>Consultant; Vice President, Deep<br>Discount Advisors, Inc. (1993-1999); |
|--|--|---|



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|   |  |
|---|--|
| <p>Thomas H. Lenagh (79)      Director<br/>         13 Allen's Corner Rd.<br/>         Flemington, NJ 08822</p>   | <p>Director of The Austria Fund, Inc.,<br/>         The SmallCap Fund, EIS Fund, Inc.,<br/>         The Cornerstone Strategic Return Fund, Inc.<br/>         and Cornerstone Strategic Value Fund, Inc.</p> <p>Chairman of the Board of Inrad Corp.;<br/>         Independent Financial Adviser; Director of<br/>         The Cornerstone Strategic Return Fund, Inc.<br/>         Cornerstone Strategic Value Fund, Inc.,<br/>         Gintel Fund, The Adams Express Company<br/>         and Petroleum and Resources Corporation,<br/>         ICN Pharmaceuticals International.</p> |
| <p>Edwin Meese III (70)      Director<br/>         The Heritage Foundation<br/>         214 Massachusetts Ave NE<br/>         Washington D.C. 20002</p> | <p>Distinguished Fellow, The Heritage<br/>         Foundation, Washington D.C.; Distinguished<br/>         Visiting Fellow at the Hoover Institution,<br/>         Stanford University; Distinguished Senior<br/>         Fellow at the Institute of United States<br/>         Studies, University of London; Formerly U.<br/>         Attorney General under President Ronald Re<br/>         Director of The Cornerstone Strategic Retu<br/>         Fund, Inc., Cornerstone Strategic Value Fu<br/>         Inc. and Perregrine Corporation (2001).</p>                              |

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

| Name and<br>Address (Age)  | Position(s)<br>Held with Fund | Principal Occupation<br>Over Last 5 Years  |
|--|-------------------------------|--|
| <p>Scott B. Rogers (46)<br/>           30 Cumberland Ave.<br/>           Asheville, NC 28801</p>                         | <p>Director</p>               | <p>Chief Executive Officer, Asheville Buncomb<br/>           Community Christian Ministry; President,<br/>           ABCCM Doctor's Medical Clinic; Director,<br/>           Southeastern Jurisdiction Urban Networkers<br/>           Director, A-B Vision Board, Appointee, NC<br/>           Governor's Commission on Welfare to Work;<br/>           Chairman and Director, Recycling Unlimited<br/>           Director, Interdenominational Ministerial<br/>           Alliance; Director of The Cornerstone Stra<br/>           Return Fund, Inc., Cornerstone Strategic<br/>           Value Fund, Inc., and EIS Fund, Inc.</p> |
| <p>Andrew A. Strauss (48)<br/>           77 Central Avenue<br/>           Suite F<br/>           Asheville, NC 28801</p> | <p>Director</p>               | <p>Attorney and senior member of Strauss &amp;<br/>           Associates, P.A., Attorneys, Asheville and<br/>           Hendersonville, NC; previous President of<br/>           White Knight Healthcare, Inc. and LMV<br/>           Leasing, Inc., a wholly owned subsidiary o<br/>           Xerox Credit Corporation; Director of<br/>           The Cornerstone Strategic Return Fund, Inc<br/>           Cornerstone Strategic Value Fund, Inc.,<br/>           EIS Fund, Inc., Memorial Mission Hospital<br/>           Foundation and Deerfield Episcopal<br/>           Retirement Community.</p>                             |

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Glenn W. Wilcox, Sr. (70) Director  
 One West Pack Square  
 Suite 1700  
 Asheville, NC 28801

Chairman of the Board and Chief Executive Officer of Wilcox Travel Agency; Director, Champion Industries, Inc.; Chairman of Tower Associates, Inc. (a real estate venture); Member of the Board of Wachovia Corp.; Board Trustee and Chairman, Appalachian State University; Board Trustee and Director, Mars Hill College; Director of The Corners Strategic Return Fund, Inc., Cornerstone Strategic Value Fund, Inc., and EIS Fund, Inc.

Gary A. Bentz (45) Vice President  
 One West Pack Square and Treasurer  
 Suite 1650  
 Asheville, NC 28801

Director and Shareholder of Cornerstone Advisors, Inc.; Independent Financial, Accounting, Investment Consultant and Certified Public Accountant; Vice President, Deep Discount Advisors, Inc. (1993-2000); Director of The Austria Fund, Inc.; Director, Vice President and Treasurer of EIS Fund, Vice President and Treasurer of The Corners Strategic Return Fund, Inc. and Cornerstone Strategic Value Fund, Inc.

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 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   |
|---|----------------------------|--|
| Thomas R. Westle (48)<br>405 Park Avenue present)<br>New York, NY 10022 | Secretary                  | Partner, Spitzer & Feldman P.C. (May 1998 prior thereto; a Partner at Battle Fowler LLP. |

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 SUMMARY OF GENERAL INFORMATION  
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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.

On February 13, 2002, the Board of Directors of the Fund adopted certain amendments to the Fund's Bylaws. The amendments reduce the quorum requirement for shareholders' meetings from a majority to one-third, and require a

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shareholder to provide written notice to the Secretary of the Fund of any proposal which the shareholder wishes to raise at an annual meeting of shareholders which was not included in the Fund's proxy materials at least 90 calendar days in advance of the date of the mailing of the notice for the preceding year's annual meeting. The amendments also impose a 90 calendar day advance written notice requirement on shareholders who wish to introduce at any meeting of shareholders a nominee for election as a director. The notice provisions were adopted to afford shareholders a fair opportunity to present matters for consideration at annual meetings while ensuring that the Fund and its directors will have a reasonable opportunity to thoughtfully consider the matters proposed. Please contact the Secretary of the Fund for additional information about the advance notice requirements if you are considering presenting a proposal at an annual meeting.

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SHAREHOLDER INFORMATION  
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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 "PrograssvFd."

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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  
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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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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.

May 2001

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DIRECTORS AND CORPORATE OFFICERS

Ralph W. Bradshaw

Thomas H. Lenagh

Edwin Meese III

Scott B. Rogers

Andrew A. Strauss

Glenn W. Wilcox, Sr.

Gary A. Bentz

Thomas R. Westle

Chairman of the Board of  
Directors and President

Director

Director

Director

Director

Director

Vice President and Treasurer

Secretary

INVESTMENT MANAGER

Cornerstone Advisors, Inc.

One West Pack Square

Suite 1650

Asheville, NC 28801

SHAREHOLDER SERVICING AGENT

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

PricewaterhouseCoopers LLP

Two Commerce Square

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. 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.

