

FIRST OPPORTUNITY FUND INC

Form N-CSR

June 07, 2010

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act File Number:

811-04605

First Opportunity Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

Fund Administrative Services

2344 Spruce Street, Suite A

Boulder, CO 80302

(Address of Principal Executive Offices)(Zip Code)

Fund Administrative Services

2344 Spruce Street, Suite A

Boulder, CO 80302

(Name and Address of Agent for Service)

Registrant's Telephone Number, including Area Code:

(303) 444-5483

Date of Fiscal Year End: March 31, 2010

Date of Reporting Period: March 31, 2010

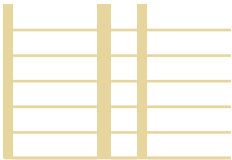
Table of Contents

Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

Table of Contents

Table of Contents

		
<u>Letter from the Adviser</u>	1	
<u>Letter from the Chairman</u>	4	
<u>Financial Data</u>	6	
<u>Portfolio of Investments</u>	8	
<u>Statement of Assets and Liabilities</u>	16	
<u>Statement of Operations</u>	17	
<u>Statements of Changes in Net Assets</u>	18	
<u>Statement of Cash Flows</u>	19	
<u>Financial Highlights</u>	21	
<u>Notes to Financial Statements</u>	23	
<u>Report of Independent Registered</u>		
<u>Public Accounting Firm</u>	36	
<u>Additional Information</u>	37	
<u>Summary of Dividend Reinvestment Plan</u>	39	
<u>Directors & Officers</u>	40	

Annual Report | March 31, 2010

Table of Contents

Dear Shareholders:

The First Opportunity Fund ("the Fund") returned +44.4% on net asset value ("NAV") for the twelve-month period ending March 31, 2010. During the same period Financial stocks, as measured by the NASDAQ Banks Principal Only Index, returned +23.9%, underperforming the overall market return of +49.8%, as measured by the S&P 500 Index.

TOTAL RETURNS as of March 31, 2010

	YTD	6 M	1 YR	3 YRS	5 YRS	10 YRS
First Opportunity Fund NAV	9.0%	7.2%	44.4%	-13.4%	-4.2%	12.2%
S&P 500 Index	5.4%	11.8%	49.8%	-4.2%	1.9%	-0.7%
NASDAQ Composite*	5.9%	13.5%	56.7%	0.6%	4.6%	-5.8%
NASDAQ Banks*	13.2%	10.5%	23.9%	-17.0%	-8.8%	2.0%
SNL All Daily Thrift	6.7%	11.6%	14.4%	-28.4%	-16.2%	1.4%

Source: *Wellington Management Company, LLP*

*Principal Only

Periods greater than one year are annualized

The twelve-month period ended March 31, 2010 was truly an extraordinary time. Starting at the depths of the financial crisis, with many comparing the state of the US economy to the Great Depression, we have experienced a year of record shattering monetary and fiscal stimulus. Although surprising, the results of zero short term interest rates, a bloated Federal Reserve balance sheet, and \$2 trillion of stimulus should not have been hard to predict.

While the Fund's +44.4% growth in NAV comfortably exceeded its benchmark financial services indexes, we lagged the broader equity market as measured by the S&P 500 Index. We had a defensive posture with cash levels above 20% at the beginning of this period and sought those financial companies less levered to a potential meltdown. This positioning was not helpful in the "melt up" that we saw during the year ended March 2010.

During the twelve-month period ended March 31, 2010, Goldman Sachs (+62.3%), a US-based bank holding company and investment bank, was the strongest contributor to the Fund's absolute performance. The company's shares rallied in July 2009 after the firm announced plans to pay back the government TARP loans. Shares strengthened in October 2009 after the company released strong quarterly earnings, but the stock has trended lower ever since as investors assessed potential regulatory

Table of Contents

and government policy changes, as well as concerns about the sustainability of recent, record fixed income results. Property and casualty insurance and reinsurance firm White Mountain Insurance (+106.7%), and diversified bank holding companies Bank of America (+81.1%) and Wells Fargo (+39.7%) were also significant positive contributors to absolute performance during the period.

The top detractor from absolute performance during the period was our position in Thornburg Mortgage Notes. The company defaulted on the Notes as a result of its Chapter 11 bankruptcy filing in May 2009. Due to the significant amount of claims senior to the Notes, our position was valued as worthless. Investments in Privee LLC (0.0%), a closely held Miami-based bank holding company which is also the parent of Republic Federal Bank, and National Bancshares (-55.3%), the holding company for Spartanburg, South Carolina-based First National Bank of the South, were also significant detractors from the Fund's absolute returns during the period.

In terms of industry positioning, the Fund remains primarily invested in Banks & Thrifts, where we favor large banks with strong balance sheets. We also have significant allocations to Capital Markets and Diversified Finance, and Insurance companies. At the end of the period, approximately 25% of the Fund's equity securities were domiciled outside the US, up from 12% a year ago, as our global research efforts led us to attractive financial investment opportunities in other countries, including India, Japan, and Switzerland. The Fund's top holdings at the end of the period included Goldman Sachs, East West Bancorp, Assured Guaranty, White Mountain Insurance, and Ocwen Financial.

We expect the torrid performance of bank stocks to moderate, or even reverse, in the near term as the supply of new capital continues unabated, short covering moderates, and incremental FDIC assisted deals become less attractive. We also think that the markets eagerness to discount normalized earnings two years out may lead to some disappointment as the "new normal" will likely be less than the old and may indeed be three or four years out instead of two. On the other hand, the Federal Reserve's insistence on a zero percent short term interest rate has pushed investors out the risk curve as well as bank treasurers who, if they are willing to take significant interest rate risk, can make a tidy profit off the record breaking steepness of the yield curve. That is another way of saying that we could be very wrong about a "cooling off" for bank stocks. But we don't think so.

Looking ahead, we continue to believe flexibility is critical, and the key to flexibility is liquidity. Our larger investments tend to be liquid stocks, or liquid companies, or both.

Table of Contents

We continue to have a modest bet on the mortgage and bond insurers on the basis of rescission trends and the US government's attempts to forestall foreclosures. In future months, we also hope to get a little help from the Fund's portfolio of private placement securities, some of whose investment thesis have yet to mature.

While we do not dismiss the fiscal difficulties many nations are facing, we have continued to benefit from the wave of liquidity in the markets. We are watching the credit and interest rate markets intently, which we believe will be much more closely intertwined over the next few years than in past cycles.

As always, we thank you for your confidence and appreciate your support of the Fund.

Nicholas C. Adams
Senior Vice President and Equity Portfolio Manager
Wellington Management Company, LLP

3

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Table of Contents

Dear Fellow Stockholders:

On behalf of the Board of Directors, I would like to highlight a number of events that have taken place since the end of the Fund's fiscal year that may be important with regard to some stockholders' continued investment in the Fund.

- ✧ At a meeting held on May 3, 2010, stockholders approved new investment co-advisory agreements with Rocky Mountain Advisers, LLC (RMA) and Stewart Investment Advisers (SIA), as well as a new sub-advisory agreement with Wellington Management Company, LLP. Under this restructuring, with respect to the portion of the portfolio managed by RMA and SIA, the new advisers intend to make a substantial investment in certain private investment funds currently managed by an affiliate of Wellington Management. Separately, Wellington Management will act as sub-adviser with respect to a discrete portion of the portfolio containing positions with respect to which Wellington Management has long-term familiarity in its role as the Fund's previous advisor. The term of Wellington Management's role as sub-adviser will not last more than 2 years and will be limited to liquidating a portion of the Fund's legacy holdings. RMA and SIA will oversee the Fund's investments in private investment funds, supervise and oversee all sub-advisory activities and manage the balance of the Fund's assets in accordance with the stockholder approved changes and the Fund's investment objective and policies.

- ✧ As part of the restructuring proposals, stockholders also approved eliminating the Fund's fundamental concentration policy which previously required that the Fund invest at least 65% of its assets in financial services companies. Since stockholders eliminated this concentration policy altogether, the Fund will be required to reduce its exposure to the financial services industry to less than 25% of its overall assets, although it is expected that some of the private investment funds in which the Fund invests may have significant financial industry exposure. Because the Fund is presently substantially concentrated in financial services companies, it will likely continue to be concentrated in the securities of these companies in excess of the 25% threshold approved by stockholders for a period of time. The new advisers intend to reduce the Fund's holdings in financial services companies to below the 25% threshold in a prudent manner.

- ✧ On May 6, 2010, as a result of the restructuring proposals approved by stockholders, the New York Stock Exchange notified the Fund that it intended to suspend trading of the Fund's shares prior to the market opening on Wednesday, May 12, 2010. As had been discussed in the Fund's recent

Table of Contents

proxy materials, the NYSE did not have a listing standard expressly prohibiting or otherwise regulating the Fund's ability to invest in hedge funds. However, the NYSE indicated that it would exercise its discretionary authority under the NYSE rules and initiate its delisting process based on it being in the public interest. This likelihood that the Fund would be delisted should it pursue the restructuring was discussed in the Fund's recent proxy statement.

- ✦ On May 12, 2010, the Fund was officially delisted from the NYSE at which time it began trading under the ticker symbol FOFI in the over-the-counter market.

The restructuring was a project we worked on for almost two years. The Board is excited to begin the transition process and hope that our fellow stockholders are similarly excited about the new direction. The Board has had a long-held desire to give the Fund increased flexibility and broader access to Wellington Management's talent. Although we understand it will take time to fully transition the Fund to implement the restructuring proposals, including making the new investments, reducing the Fund's exposure to financial services companies and separating the Fund's assets into the separate portfolios to be managed by the new advisers and Wellington Management as sub-adviser, I know everyone has the goal of making this a successful transition.

Very truly yours,

Joel Looney, Chairman

Table of Contents

	Per Share of Common Stock		
	Net Asset	NYSE	Dividend
	Value	Closing Price	Paid
3/31/09	\$ 5.68	\$ 4.32	\$ 0.00
4/30/09	6.17	4.87	0.00
5/31/09	6.50	4.74	0.00
6/30/09	6.66	4.98	0.00
7/31/09	6.97	5.44	0.00
8/31/09	7.51	5.97	0.00
9/30/09	7.65	6.40	0.00
10/31/09	7.33	6.31	0.00
11/30/09	7.37	5.94	0.00
12/31/09	7.49	6.02	0.03
1/31/10	7.54	6.28	0.00
2/28/10	7.72	6.35	0.00
3/31/10	8.16	7.04	0.00

First Opportunity Fund, Inc. (formerly First Financial Fund, Inc.) was ranked #1 in Lipper Closed-End Equity Fund Performance for the 10 years ending:

☒ December 31, 2006

☒ December 31, 2005

☒ December 31, 2004
and the 5 years ending:

☒ December 31, 2004 by Lipper Inc.

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Table of Contents

INVESTMENTS AS A % OF NET ASSETS

REGIONAL BREAKDOWN

U.S.	76.6%
Bermuda	7.0%
India	4.8%
Switzerland	3.9%
Japan	2.0%
Netherlands	1.5%
Turkey	1.0%
Cayman Islands	0.9%
United Kingdom	0.8%
Brazil	0.7%
Denmark	0.6%
Canada	0.5%
Australia	0.4%
Puerto Rico	0.4%
Luxembourg	0.3%

Singapore

0.1%

Other assets less liabilities

-1.5%

7

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Table of Contents

Shares	Description	Value (Note 1)
LONG TERM INVESTMENTS (98.6%)		
DOMESTIC COMMON STOCKS (72.0%)		
Banks & Thrifts (37.9%)		
163,844	1st United Bancorp, Inc.*	\$ 1,318,944
73,090	Alliance Bankshares Corp.*	182,725
64,000	American River Bankshares	505,600
541,900	AmeriServ Financial, Inc.*	921,230
78,300	Bancorp Rhode Island, Inc.	2,141,505
133,900	Bancorp, Inc.*	1,191,710
202,400	Bank of America Corp.	3,612,840
69,789	Bank of Commerce Holdings	330,102
34,200	Bank of Marin	1,131,336
83,300	Bank of Virginia*	262,395
109,800	BB&T Corp.	3,556,422
57,000	BCB Bancorp, Inc.	506,730
37,400	Bridge Capital Holdings*	342,210
13,400	Cambridge Bancorp	402,000
47,298	Carolina Trust Bank*	231,760
340,815	CCF Holding Co. *(a)	34,081
29,600	Central Valley Community Bancorp* ^{(b)(c)(g)}	145,188
20,544	Central Valley Community Bancorp*	111,965
51,860	Centrue Financial Corp.	178,917
49,600	Citizens & Northern Corp.	622,480
60,000	Community Bank ^{(b)(c)(g)}	3,622,200
75,800	The Connecticut Bank & Trust Co.*	341,100
490,270	East West Bancorp* ^{(b)(c)(g)}	7,686,453
87,366	Eastern Virginia Bankshares, Inc.	659,613
97,200	FC Holdings, Inc. ^{(b)(c)(g)}	49,572
5,700	First Advantage Bancorp	60,990
39,700	First American International Bank* ^{(b)(c)(g)}	601,852
142,278	First California Financial Group, Inc.*	375,614
17,400	First Capital Bancorp, Inc.*	134,328
16,255	First Citizens BancShares, Inc.	3,230,844
66,500	First Community Bancshares, Inc.	822,605
48,400	First Interstate Bancsystem, Inc.	786,500
56,900	First Merchants Corp.	396,024
192,300	First Security Group, Inc.	415,368
66,726	First Southern Bancorp, Inc. - Class B* ^(b)	1,167,705
28,200	First State Bank* ^{(b)(c)(g)}	42,300
2,880	First Trust Bank*	16,560
193,261	Florida Capital Group, Inc. ^{(b)(c)(g)}	193,261
17,248	FNB Bancorp	142,296
60,600	The Goldman Sachs Group, Inc.	10,340,178
207,700	Great Florida Bank - Class A*	143,313
15,300	Great Florida Bank - Class B*	9,180
66,000	Greater Hudson Bank N.A.*	277,860
228,000	Hampshire First Bank* ^{(c)(g)}	1,653,000

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34,400	Heritage Financial Corp.*	519,096
35,203	Heritage Oaks Bancorp*	138,700
49,200	ICB Financial*	118,080

See accompanying notes to financial statements.

Table of Contents

Shares	Description	Value (Note 1)
Banks & Thrifts (continued)		
19,000	Katahdin Bankshares Corp.	\$ 290,700
168,100	Metro Bancorp, Inc.*	2,314,737
18,140	Nara Bancorp, Inc.*	158,906
905,600	National Bancshares, Inc.* ^{(b)(c)(g)}	606,752
39,900	New England Bancshares, Inc.	302,841
5,400	North Dallas Bank & Trust Co.	208,440
361,622	Northfield Bancorp, Inc.	5,236,286
40,500	Oak Ridge Financial Services, Inc.*	210,600
2,500	Old Point Financial Corp.	36,900
103,200	OmniAmerican Bancorp, Inc.*	1,189,896
55,400	Pacific Continental Corp.	581,700
39,600	Parkway Bank*	31,680
12,500	Peoples Bancorp, Inc.	206,000
162,590	Pilot Bancshares, Inc.* ^(b)	199,986
61,000	PNC Financial Services Group, Inc.	3,641,700
236,100	PrivateBancorp, Inc.	3,234,570
190,540	Republic First Bancorp, Inc.*	737,390
46,900	Sandy Spring Bancorp, Inc.	703,500
	Sequoia Acquisition Corp. ^{(b)(f)}	
4,218	Sierra Bancorp	54,370
92,369	Southern First Bancshares, Inc.*	739,876
106,600	Southern National Bancorp of Virginia, Inc.*	829,348
302,900	Square 1 Financial, Inc.* ^{(b)(c)(g)}	2,020,343
97,500	State Bancorp, Inc.*	767,325
88,300	Sterling Bancorp	887,415
84,158	Sterling Banks, Inc.*	196,930
128,300	Susquehanna Bancshares, Inc.	1,258,623
22,860	Tower Bancorp, Inc.	611,962
8,500	Union Bankshares Corp.	128,350
90,600	U.S. Bancorp	2,344,728
52,164	Valley Commerce Bancorp*	310,376
43,787	Wainwright Bank & Trust Co.	425,610
106,200	Washington Banking Co.	1,337,058
117,200	Wells Fargo & Co.	3,647,264
238,000	Western Liberty Bancorp*	1,666,000
16,604	Xenith Bankshares, Inc.*	87,171
		88,880,065
Diversified Financial Services (4.9%)		
16,241	Affinity Financial Corp.* ^{(b)(c)(g)}	
86,700	Altisource Portfolio Solutions S.A.*	1,942,080
133,333	Center Financial Corp.* ^{(b)(c)(g)}	581,999
25,000	CMET Finance Holdings, Inc.* ^{(b)(d)}	949,250
276,300	Highland Financial Partners LP* ^{(b)(d)}	
60,000	Independence Financial Group, Inc.* ^{(b)(c)(g)}	235,800
93,615	Mackinac Financial Corp.*	421,268
431,640	Muni Funding Co. of America, LLC* ^{(b)(d)}	1,040,252
260,100	Ocwen Financial Corp.* ^{(b)(c)(g)}	2,596,058
272,849	Ocwen Financial Corp.*	3,025,895

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See accompanying notes to financial statements.

Table of Contents

Shares	Description	Value (Note 1)
Diversified Financial Services (continued)		
455,100	Ocwen Structured Investments, LLC ^{*(b)(c)(g)}	\$ 506,299
466,667	Terra Nova Financial Group, Inc.*	224,000
		11,522,901
Insurance (6.3%)		
241,100	Amtrust Financial Services, Inc.	3,363,345
11,400	Forethought Financial Group, Inc. - Class A ^{*(b)(c)(g)}	2,280,000
1,719	Forethought Financial Group, Inc. - Class B ^{*(b)(c)(g)}	343,800
284,500	Genworth Financial, Inc.*	5,217,730
202,403	Penn Millers Holding Corp.*	2,459,196
172,500	The PMI Group, Inc.*	934,950
7,600	Primerica, Inc*	114,000
		14,713,021
Mining (0.5%)		
30,100	Barrick Gold Corp.	1,154,034
Mortgages & REITs (1.9%)		
60,643	Cypress Sharpridge Investments, Inc., REIT	811,403
56,000	Dynex Capital, Inc., REIT	504,000
55,000	Embarcadero Bank ^{*(b)(c)(g)}	536,800
155,504	Newcastle Investment Holdings Corp., REIT ^{*(b)}	247,252
19,100	Omega Healthcare Investors, Inc.	372,259
87,900	Verde Realty ^{*(b)(c)(g)}	1,949,622
		4,421,336
Savings & Loans (19.7%)		
129,101	Abington Bancorp, Inc.	1,019,898
34,100	Appalachian Bancshares, Inc.*	1,534
10,000	Auburn Bancorp, Inc. ^{*(b)}	84,900
151,500	Beacon Federal Bancorp, Inc.	1,305,930
335,235	Beneficial Mutual Bancorp, Inc.*	3,178,028
33,400	BofI Holding, Inc.*	465,262
80,600	Boston Private Financial Holdings, Inc.	594,022
129,280	Broadway Financial Corp. ^(a)	743,360
60,100	Carver Bancorp, Inc.	525,875
81,700	Central Federal Corp.*	93,955
72,446	CFS Bancorp, Inc.	320,936
33,000	Citizens Community Bank*	150,150
36,000	Citizens South Banking Corp. ^{*(b)(c)(g)}	199,584
200	Colonial Bankshares*	1,908
106,738	Danvers Bancorp, Inc.	1,476,187
33,500	Eagle Bancorp*	335,000
26,900	ECB Bancorp, Inc.	330,601
40,691	ESSA Bancorp, Inc.	510,265
32,500	Fidelity Federal Bancorp ^{*(b)}	295,425
25,638	First Community Bank Corp. of America*	57,685
87,300	First Financial Holdings, Inc.	1,314,738
87,700	Flushing Financial Corp.	1,110,282

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22,555	Fox Chase Bancorp, Inc.*	243,820
43,400	Georgetown Bancorp, Inc.*	203,112
222,900	Hampden Bancorp, Inc.	2,229,000

See accompanying notes to financial statements.

Table of Contents

Shares	Description	Value (Note 1)
Savings & Loans (continued)		
29,430	HF Financial Corp.	\$ 297,243
62,916	Home Bancorp, Inc.*	880,824
204,948	Home Federal Bancorp, Inc.	2,973,795
11,500	Investors Bancorp, Inc.*	151,800
77,500	Jefferson Bancshares, Inc.	354,175
81,700	Legacy Bancorp, Inc.	775,333
56,000	Liberty Bancorp, Inc.	406,560
130,712	LSB Corp.	1,620,829
30,200	Malvern Federal Bancorp, Inc.	291,430
158,200	Meridian Interstate Bancorp, Inc.*	1,645,280
310,300	MidCountry Financial Corp.* ^{(b)(c)(g)}	1,300,157
600	Naugatuck Valley Financial Corp.	3,870
113,200	Newport Bancorp, Inc.*	1,330,100
48,200	Northwest Bancshares, Inc.	565,868
93,400	Ocean Shore Holding Co.	999,380
89,900	OceanFirst Financial Corp.	1,021,264
67,100	Old Line Bancshares, Inc.	496,540
2,300	Oritani Financial Corp.	36,961
110,400	Osage Bancshares, Inc.	1,021,200
255,210	Pacific Premier Bancorp, Inc.*	1,250,529
165,930	Perpetual Federal Savings Bank ^(a)	2,074,125
17,500	Privee, LLC ^{(b)(c)(g)}	
121,500	Provident Financial Holdings, Inc.	422,820
40,650	Redwood Financial, Inc.* ^(a)	447,150
89,993	River Valley Bancorp ^(a)	1,248,203
28,600	Rockville Financial, Inc.	348,634
38,700	Rome Bancorp, Inc.	319,662
6,300	Royal Financial, Inc.*	11,718
308,740	SI Financial Group, Inc.*	1,975,936
17,600	Sound Financial, Inc.	79,200
100,000	Sterling Eagle ^(b)	
90,700	Territorial Bancorp, Inc.	1,726,021
110,500	Third Century Bancorp ^(a)	552,500
156,400	ViewPoint Financial Group	2,535,244
1,451,428	Washington Mutual Unit Split ^{(c)(g)}	224,681
		46,180,489
Trucking & Leasing (0.8%)		
121,082	Willis Lease Finance Corp.*	1,910,674
TOTAL DOMESTIC COMMON STOCKS		
(Cost \$209,983,467)		168,782,520
FOREIGN COMMON STOCKS (24.9%)		
Australia (0.4%)		
321,916	CGA Mining, Ltd.* ^{(b)(c)(g)}	596,065
191,726	CGA Mining, Ltd.*	375,666

See accompanying notes to financial statements.

Table of Contents

Shares	Description	Value (Note 1)
Bermuda (7.0%)		
284,830	Assured Guaranty, Ltd.	\$ 6,257,715
112,000	CRM Holdings, Ltd.*	37,520
555,900	Maiden Holdings, Ltd.	4,108,101
36,500	RAM Holdings, Ltd.*	24,090
17,200	White Mountains Insurance Group, Ltd.	6,106,000
		16,533,426
Brazil (0.7%)		
75,300	BR Properties S.A.*	544,526
122,600	PDG Realty S.A. Empreendimentos e Participacoes	1,025,832
		1,570,358
Canada (0.5%)		
10,100	Genworth MI Canada, Inc.	272,973
49,800	Sino-Forest Corp.*	975,750
		1,248,723
Cayman Islands (0.9%)		
1,885,500	Fantasia Holdings Group Co., Ltd.*	424,976
162,457	Phoenix Group Holdings*	1,656,650
		2,081,626
Denmark (0.6%)		
12,690	Gronlandsbanken*	990,003
2,695	Spar Nord Bank A/S*	28,359
12,177	Sydbank A/S*	326,529
		1,344,891
India (4.8%)		
45,582	Axis Bank, Ltd.	1,186,127
16,714	Bajaj Auto, Ltd.	750,092
43,173	Educomp Solutions, Ltd.	719,069
14,934	Financial Technologies India, Ltd.	521,784
13,393	Housing Development Finance Corp.	810,590
193,066	Indiabulls Financial Services, Ltd.	451,971
132,495	Jindal Saw, Ltd.	626,839
221,163	Karnataka Bank, Ltd.	591,147
80,902	Kotak Mahindra Bank, Ltd.	1,348,186
20,659	Maruti Suzuki India, Ltd.	652,488
53,608	Reliance Infrastructure, Ltd.	1,192,941
200,259	Shriram Transport Finance Co., Ltd.	2,349,179
		11,200,413
Japan (2.0%)		
85,000	Mitsui O.S.K. Lines Ltd.	610,065
147,000	Nippon Yusen Kabushiki Kaisha	580,201
457	Osaka Securities Exchange Co., Ltd.	2,390,341
20,100	T&D Holdings, Inc.	475,787
72,600	Zuken, Inc.	535,822

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Luxembourg (0.3%)		4,592,216
17,069	Evraz Group S.A.* ^(e)	678,151
Netherlands (1.5%)		
313,630	AerCap Holdings N.V.*	3,613,018
<i>See accompanying notes to financial statements.</i>		

Table of Contents

Shares	Description	Value (Note 1)
Puerto Rico (0.4%)		
70,300	Oriental Financial Group, Inc.	\$ 949,050
Singapore (0.1%)		
214,000	ARA Asset Management, Ltd.	174,388
Switzerland (3.9%)		
56,957	Bank Sarasin & Cie AG*	2,363,305
316,450	UBS AG*	5,144,113
8,447	Valiant Holding AG	1,646,300
		9,153,718
Turkey (1.0%)		
529,587	Turkiye Garanti Bankasi A.S.	2,477,396
United Kingdom (0.8%)		
134,600	African Barrick Gold, Ltd.*	1,191,828
71,564	Prudential PLC	594,575
		1,786,403
TOTAL FOREIGN COMMON STOCKS		
(Cost \$61,224,782)		58,375,498
DOMESTIC PREFERRED STOCKS (1.2%)		
200	Citizens South Bank, 5.00%*(b)(c)(g)	273,775
600	Heritage Oaks Banc., 5.00%*(b)(c)(g)	727,385
1,600	Maiden Holdings, Ltd., Series C, 14.00%*(b)(d)	1,736,000
TOTAL DOMESTIC PREFERRED STOCKS		
(Cost \$2,400,000:)		2,737,160
DOMESTIC WARRANTS (0.1%)		
195,000	Dime Bancorp, Inc., Litigation Tracking Warrant, strike price \$0.00, Expires 12/26/50*	30,225
423,058	Flagstar Bancorp, Warrant, strike price \$0.62, Expires 1/30/19*(b)	169,948
5,700	Forethought Financial Group, Inc., Warrant, strike price \$220.00, Expires 5/13/10*(b)(c)(g)	
859	Forethought Financial Group, Inc., Warrant, strike price \$220.00, Expires 6/30/10*(b)(c)(g)	
5,700	Forethought Financial Group, Inc., Warrant, strike price \$220.00, Expires 11/13/10*(b)(c)(g)	
860	Forethought Financial Group, Inc., Warrant, strike price \$220.00, Expires 12/30/10*(b)(c)(g)	
233,333	Terra Nova Financial Group, Inc., Warrant, strike price \$3.00, Expires 3/17/11*(b)(c)(g)	

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181,429	Washington Mutual, Inc., Warrant, strike price \$10.06, Expires 4/11/13 ^{(b)(c)(g)}	29
		200,202
TOTAL DOMESTIC WARRANTS		
(Cost \$)		200,202

See accompanying notes to financial statements.

Table of Contents

Par Value	Description	Value (Note 1)
DOMESTIC CORPORATE BONDS & NOTES (0.4%)		
Banks (0.4%)		
\$1,010,000	Susquehanna Capital II, 11.00%, due 3/23/40	\$ 1,055,450
TOTAL DOMESTIC CORPORATE BONDS & NOTES		1,055,450
(Cost \$1,010,000)		
TOTAL LONG TERM INVESTMENTS		231,150,830
(Cost \$274,618,249)		
SHORT TERM INVESTMENTS (2.9%)		
Repurchase Agreement (2.9%)		
6,900,000	Deutsche Bank Tri-Party Repo, 0.03% dated 3/31/10, to be repurchased at \$6,900,006 on 4/1/10 collateralized by U.S. Government Agency Securities with an aggregate market value plus interest of \$7,038,000.	6,900,000
TOTAL REPURCHASE AGREEMENT		6,900,000
(Cost \$6,900,000)		
TOTAL SHORT TERM INVESTMENTS		6,900,000
(Cost \$6,900,000)		
TOTAL INVESTMENTS (101.5%)		238,050,830
(Cost \$281,518,249)		
TOTAL OTHER ASSETS LESS LIABILITIES (-1.5%)		(3,478,992)
TOTAL NET ASSETS (100.0%)		\$ 234,571,838

* *Non-income producing security.*

^(a) *Affiliated Company. See Notes to Financial Statements.*

^(b) *Indicates a fair valued security. Total market value for fair value securities is \$32,986,012 representing 14.1% of total net assets.*

^(c)

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Private Placement; these securities may only be resold in transactions exempt from registration under the Securities Act of 1933. As of March 31, 2010, these exemptions had a total value of \$28,972,975 or 12.4% of net assets.

^(d) Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended. See accompanying notes to financial statements.

Table of Contents

^(e) Securities were purchased pursuant to Regulation S under the Securities Act of 1933, which exempts securities offered and sold outside of the United States from registration. Such securities cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act 1933, or pursuant to an exemption from registration. These securities have been deemed liquid under guidelines approved by the Fund's Board of Directors. At period end, the aggregate market value of those securities was \$678,151, representing 0.3% of net assets.

^(f) The Fund holds less than 0.50 shares of this security, which represents less than \$0.50 in total market value. The fractional share represents the Fund's participation in a contingent deal, expected to close in the second calendar quarter of 2010. As of the date of this report the deal had not yet closed.

^(g) Indicates a security which is considered illiquid. Also see Note 9.

Common Abbreviations:

AG - Aktiengesellschaft is a German term that refers to a corporation that is limited by shares, i.e., owned by shareholders.

A.S. - Anonim Sirketi is a Turkish term for joint stock company

A/S - Aktieselskab is a Danish term for joint stock company

LLC - Limited Liability Company

LP - Limited Partnership

Ltd. - Limited

N.A. - National Association

N.V. - Naamloze Vennootschap is the Dutch term for a public limited liability corporation

PLC - Public Limited Company

REIT - Real Estate Investment Trust

S.A. - Generally designates corporations in various countries, mostly those employing the civil law.

This translates literally in all languages mentioned as anonymous company.

See accompanying notes to financial statements.

Table of Contents**ASSETS**

Investments:

Investments (including repurchase agreement of \$6,900,000), at value of Unaffiliated Securities (Cost \$277,307,735) (Note 1)	\$ 232,951,411
Investments, at value of Affiliated Securities (Cost \$4,210,514)(Note 1 and 8)	5,099,419
Total Investments, at value	238,050,830
Receivable for investments sold	675,890
Appreciated credit default swap contracts, at value	489,003
Deposit with broker as collateral for credit default swaps ^(a)	460,000
Dividends and interest receivable	167,985
Foreign currency, at value (Cost \$126,232)	127,371
Dividends reclaim receivable	96,456
Prepaid expenses and other assets	70,422
Total Assets	240,137,957

LIABILITIES

Payable for investment securities purchased	3,638,375
Depreciated credit default swap contracts, at value (net upfront payments received \$175,517)	853,490
Investment advisory fees payable (Note 2)	586,109
Due to custodian	316,368
Legal and audit fees payable	67,432
Administration and co-administration fees payable (Note 2)	47,919
Directors fees and expenses payable (Note 2)	21,500
Accrued expenses and other payables	34,926
Total Liabilities	5,566,119

NET ASSETS	\$ 234,571,838
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NET ASSETS CONSIST OF:

Par value of common stock (Note 4)	\$ 28,739
Paid-in capital in excess of par value of Common stock	342,334,391
Undistributed net investment income	240,894
Accumulated net realized loss on investments sold	(64,029,513)
Net unrealized depreciation on investments, swaps and foreign currency translation	(44,002,673)

NET ASSETS	\$ 234,571,838
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Net Asset Value, \$234,571,838/28,739,389 Shares Outstanding	\$ 8.16
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^(a) Represents restricted cash on deposit with the counterparties as collateral for swaps.
See accompanying notes to financial statements.

Table of Contents**NET INVESTMENT INCOME**

Investment Income:

Dividends from Unaffiliated Securities (net of foreign withholding taxes \$10,083)	\$ 3,485,166
Dividends from Affiliated Securities	209,307
Interest	304,647
Interest Income Reversed on Defaulted Securities	(1,185,626)

Total Investment Income 2,813,494

Expenses:

Investment advisory fee (Note 2)	2,230,269
Administration and co-administration fees (Note 2)	548,754
Legal and audit fees	269,797
Directors' fees and expenses (Note 2)	91,793
Custody fees	66,332
Insurance expense	53,663
Printing fees	20,022
Transfer agency fees	19,660
Other	70,642

Total Expenses 3,370,932

Net Investment Loss (557,438)

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized gain/(loss) on:

Unaffiliated securities	50,930
Credit default swap contracts	(864,394)
Foreign currency related transactions	(634,921)
	(1,448,385)

Net change in unrealized appreciation/(depreciation) of:

Investment securities	76,931,110
Credit default swap contracts	(2,790,427)
Translation of assets and liabilities denominated in foreign currencies	8,230
	74,148,913

**NET REALIZED AND UNREALIZED GAIN
ON INVESTMENTS**

72,700,528

**NET INCREASE IN NET ASSETS RESULTING
FROM OPERATIONS**

\$ 72,143,090

See accompanying notes to financial statements.

Table of Contents

	For the Year Ended March 31, 2010	For the Year Ended March 31, 2009
OPERATIONS		
Net investment income/(loss)	\$ (557,438)	\$ 5,862,414
Net realized loss on investments sold	(1,448,385)	(59,372,908)
Net change in unrealized appreciation/ (depreciation) on investments, swap contracts and foreign currency translation	74,148,913	(74,611,766)
Net Increase/(Decrease) in Net Assets Resulting from Operations	72,143,090	(128,122,260)
DISTRIBUTIONS TO COMMON STOCKHOLDERS		
From net investment income	(862,182)	(3,598,491)
From net realized capital gains		(171,273)
Net Decrease in Net Assets from Distributions	(862,182)	(3,769,764)
CAPITAL SHARE TRANSACTIONS		
Repurchase of Shares (Note 4)		(1,949,879)
Net Decrease in Net Assets from Capital Share Transactions		(1,949,879)
Net Increase/(Decrease) in Net Assets	71,280,908	(133,841,903)
NET ASSETS		
Beginning of year	163,290,930	297,132,833
End of year (including undistributed net investment income of \$240,894 and \$752,569, respectively)	\$ 234,571,838	\$ 163,290,930

See accompanying notes to financial statements.

Table of Contents

CASH FLOWS FROM OPERATING ACTIVITIES

Net increase in net assets resulting from operations	\$ 72,143,090
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:	
Purchase of investment securities	(352,850,562)
Proceeds from disposition of investment securities	324,509,565
Net proceeds from short-term investment securities	30,000,000
Premium amortization	(80,976)
Increase in deposits with broker as collateral for credit default swaps	(460,000)
Increase in receivable for investments sold	(628,721)
Decrease in dividends and interest receivable	28,681
Increase in upfront payments on swap contracts	(175,517)
Decrease in prepaid expenses and other assets	2,303
Increase in payable for investment securities purchased	773,345
Increase in accounts payable and accrued expenses	154,092
Net change in unrealized appreciation on investments	(76,931,110)
Net change in unrealized depreciation on swap contracts	2,790,427
Net realized gain from investments	(50,930)
Net realized loss on foreign currency transactions	634,921

NET CASH USED IN OPERATING ACTIVITIES (141,392)

CASH FLOWS FROM FINANCING ACTIVITIES

Cash distributions paid to shareholders	(862,182)
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NET CASH USED IN FINANCING ACTIVITIES (862,182)

NET DECREASE IN CASH AND FOREIGN CURRENCY (1,003,574)

CASH AT BEGINNING OF YEAR \$ 814,577

CASH AND FOREIGN CURRENCY AT END OF YEAR \$ (188,997)

See accompanying notes to financial statements.

Table of Contents

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Table of Contents

Contained below is selected data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for the period indicated. This information has been determined based upon information provided in the financial statements a