FIRST OPPORTUNITY FUND INC
Form N-CSRS
December 02, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2009

Date of reporting period: September 30, 2008

Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

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Letter from the Adviser

Dear Shareholders:

The First Opportunity Fund (the Fund) returned   20.7% on net asset value for the six month period ending September 30, 2008. Financial stocks underperformed the overall market index as measured by the S&P 500, which returned -10.9%.

TOTAL RETURNS *as of September 30, 2008*

	6 mo	**1 YR**	**3 YR**	**5 YR**	**10 YR**
First Opportunity Fund s NAV	-20.7%	-34.6%	-10.1%	1.4%	10.3%
S&P 500 Index	-10.9	-22.0	0.2	5.2	3.1
NASDAQ Composite*	-7.9	-21.9	-0.1	3.9	2.5
NASDAQ Banks*	-4.8	-19.7	-7.1	-1.3	3.4
SNL Thrifts*	-24.1	-50.1	-20.8	-10.6	1.6
SNL Finance REIT*	-16.1	-40.1	-22.0	-11.1	-0.8

Sources: Lipper Analytical Services, Inc. and Wellington Management Company, LLP

** Principal Only*

Periods greater than one year are annualized

This has been one of the most challenging periods since the Fund s inception. While in our last letter we highlighted our expectations for increased volatility and economic softness, the severity and speed with which market events unfolded was unprecedented. Worldwide recession fears and a US financial market shock of historic proportions resulted in an extremely challenging six months for equities. The first half of the period was categorized by record oil and agricultural prices and global inflation fears. These themes reversed rapidly in the later half as the turmoil in the credit markets, corporate earnings disappointments, and precipitous home price declines that have been economic headwinds for financial services companies, came to a head. US equity markets fell sharply in September and declined further in October as credit markets continued to deteriorate and market volatility reached record levels. In the last three months alone, government sponsored Fannie Mae and Freddie Mac were essentially nationalized, Lehman Brothers declared bankruptcy, Merrill Lynch was forced to merge with Bank of America, and Washington Mutual became the largest bank failure in US history.

With this series of government actions, a persistent worry is that re-regulation trumps global capitalism as some of this government intervention has been fairly disrespectful of private capital thus far. The latest actions, with the US government joining several of its European counterparts in acquiring direct equity stakes in our banking system, will take some time to digest. A combination of more rescue packages, unconventional monetary policies by the Federal Reserve Bank, and worldwide rate cuts should help revive the funding-starved credit system, though it will also require the infusion of fresh private capital investment. We will be on the lookout for opportunities to help the cause where the Fund can profit.

Within the Fund, South Financial (+18.2%), a US commercial bank holding company, was the strongest contributor to absolute performance during the six month period ended September 30, 2008. The Fund initiated a position of Convertible Preferred shares in May. The distressed company which had severe credit quality issues and a portfolio of troubled construction loans successfully raised a significant amount of capital in May, leading to a strong rebound in July. Shares of Signature Bank NY (+38.78%) were up sharply as the company benefited from the shake-up that has occurred in financial institutions in New York City. While the industry was pulling back, Signature Bank had been on the offensive, accelerating its recruiting efforts, making loans, and hiring lenders. The Fund also purchased protection in the form of credit default swaps (CDS), which partially offset the decline in financial sector stocks during the period. Our CDS holdings consisted of protection on broad financial sector indexes as well as a basket of select European financial institutions.

Washington Mutual (-98.4%), the consumer and small business US banking company, was the largest detractor from absolute Fund performance. Its mortgage-centric business model caused the share price to fall sharply over the course of the year, and particularly in the third quarter, culminating with the Office of Thrift Supervision (OTS) placing Washington Mutual Bank under receivership and selling the assets, deposits, and certain liabilities to JPMorgan Chase for approximately $1 .9 billion. Our position in Thornburg Mortgage (-43.6%) detracted as a fresh wave of declines in prime residential mortgage-backed securities prices, combined with the most recent turmoil among Wall Street broker/dealers, caused the company to struggle. MF Global (-44.6%), a broker of exchange-listed futures and options, was the third largest absolute detractor to Fund performance, as it provided a disappointing earnings forecast during the period. Negative news, including a management reorganization and rogue trader scandal, has weighed on the share price during the year.

At the end of the period, the Fund remains positioned primarily in Regional Banks (29%) as well as Thrift & Mortgage Finance names (23%). We have marginally decreased our Regional Bank and Property and Casualty Insurance exposure over the last six months, while slightly increasing our exposure to Mortgage REITS. We continue to find select attractive opportunities on a relative valuation outside the US, with approximately 14% of the Fund s equity securities domiciled in non-US securities. This conviction for financial stock valuations outside the US is also reflected in several of the Fund s top ten holdings, AerCap and Banco Industrial, being non-US securities. The Fund s top holdings at the end of the year include South Financial, Thornburg Mortgage, Hatteras, JPMorgan Chase, and ESSA Bancorp. At the end of September, the Fund held a cash position of 13.2%, which we subsequently used in mid-October to pay-off completely the $30 million loan outstanding.

As the financial industry remains under considerable stress, we believe this creates buying opportunities to purchase well-positioned companies at attractive valuations. We will continue to upgrade the Fund by adding solid companies on price weakness and trimming into strength. As mentioned previously, there will be much differentiation ahead between those who have the wherewithal to hold on to their assets long enough to weather the storm, and those who do not. We remain confident in the Fund s current positioning and we continue to see many attractive opportunities for investment.

With this challenging period for investing in the financial sector, we especially appreciate your support of the Fund.

Nicholas C. Adams, CFA

Senior Vice President and Equity Portfolio Manager
Wellington Management Company, LLP

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Financial Data Unaudited

	Per Share of Common Stock		
	Net Asset Value	NYSE Closing Price	Dividend Paid
3/31/08	$ 10.18	$ 9.04	$ 0.00
4/30/08	10.28	9.66	0.00
5/31/08	10.19	9.76	0.00
6/30/08	8.75	8.28	0.00
7/31/08	8.81	8.79	0.00
8/31/08	8.77	7.95	0.00
9/30/08	8.07	7.63	0.00

The First Financial Fund 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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Shares	Description	Value (Note 1)
LONG TERM INVESTMENTS (97.1%)		
DOMESTIC COMMON STOCKS (71.5%)		
Banks & Thrifts (24.8%)		
97,144	1st United Bancorp, Inc.*	$ 631,436
83,490	Alliance Bankshares Corp.*	268,838
541,900	AmeriServ Financial, Inc.*	1,278,884
11,900	Bank of Commerce Holdings	82,705
34,000	Bank of Marin	1,071,000
83,300	Bank of Virginia*	338,198
1,100	BankFinancial Corp.	16,148
57,000	BCB Bancorp, Inc.	755,250
154,300	Benjamin Franklin Bancorp, Inc.	1,738,961
48,552	Beverly Hills Bancorp, Inc.	59,233
64,300	Beverly National Corp.	1,170,260
37,400	Bridge Capital Holdings*	403,172
13,400	Cambridge Bancorp	351,080
47,298	Carolina Trust Bank*	523,589
340,815	CCF Holding Co.(b)	1,124,690
1,820	Central Virginia Bankshares, Inc.	14,924
51,860	Centrue Financial Corp.	723,966
60,000	Community Bank* (a)(c)	4,522,200
66,000	Community Bank of Orange, N.A.*	356,400
75,800	The Connecticut Bank & Trust Co.*	386,580
114,831	Dearborn Bancorp, Inc.*	568,413
105,824	Eastern Virginia Bankshares, Inc.	1,333,382
97,200	FC Holdings, Inc.*(a)(c)	435,456
5,700	First Advantage Bancorp*	56,430
39,700	First American International*(a)(c)	1,250,550
32,450	First Bankshares, Inc.*	154,138
79,578	First California Financial Group, Inc.*	684,371
17,400	First Capital Bancorp, Inc.*	184,788
225,534		