

FIRST OPPORTUNITY FUND INC

Form N-CSRS

December 08, 2010

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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: September 30, 2010

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Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

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First Opportunity Fund, Inc.

Letter from the Adviser
September 30, 2010

Dear Fellow Stockholder:

The First Opportunity Fund has undergone significant change in the last 6 months. Earlier this year, stockholders approved a restructuring of the Fund to allow it to, among other things, invest significantly in hedge funds. The restructuring contemplated the Fund having two co-advisers, Rocky Mountain Advisers (RMA) and Stewart Investment Advisers (SIA), as well as a sub-adviser, Wellington Management. Prior to the restructuring, Wellington Management served as the Fund's sole investment adviser. Over the next 18 months or so, Wellington Management will continue to manage and, if appropriate, opportunistically liquidate the securities held in the Fund prior to the May 2010 stockholder meeting, what we call the "legacy portfolio."

Since June 1, 2010, the new advisers, RMA and SIA, have been implementing the strategy of investing a substantial portion of the Fund's assets in hedge funds managed by Wellington Hedge Management (WHM), an affiliate of Wellington Management. To date, we've invested \$118.5 million in these hedge funds, or about 50% of the Fund's assets. We view these as long-term investments. Our current investment in the WHM hedge funds is approaching the upper limit of the Fund's assets we expect to invest in hedge funds. We are not considering hedge funds managed outside of Wellington Management. Why? Well, we've had a working relationship with Wellington Management as the adviser to the Fund going back to 2003 (Wellington Management was the original adviser to the Fund when it launched in 1986). Investing a large portion of Fund's assets in hedge funds run by another manager requires a high degree of trust in and understanding of the manager. Although we didn't know it at the time, we started doing our due diligence on Wellington Management and its investment abilities over 7 years ago. We've taken a hard look at the organization, including its infrastructure, personnel, compliance program and internal controls, investment acumen and, most importantly, its integrity. We're happy to report that, from our point of view, Wellington Management excels in all categories. We have a great deal of confidence in Wellington Management and its capabilities. Since hedge funds are unregistered private investment pools and are not subject to the same disclosure requirements as registered investment companies, it is essential that we have a high degree of confidence and trust in the underlying manager. After working with the Wellington Management team for seven years, we have developed confidence and respect for the Wellington Management personnel and culture.

Here's a brief run-down on each of the hedge funds in which the Fund has invested as of September 30, 2010:

Bay Pond Partners and Wolf Creek Partners. Bay Pond is a financial services sector hedge funds run by Nick Adams and his team who have managed the Fund's portfolio since 1986. Wolf Creek is also a financial services sector hedge fund, run by a team of four portfolio managers. The Fund invested 17.0% of its assets in each of these funds for a total of 34%. From purchase date on June 1, 2010 through September 30, 2010, the Fund's investment in Bay Pond is up a net 4.2% while its investment in Wolf Creek is up a net 6.3%. The S&P 500 Index was up 7.3% over the same time period.

J. Caird Partners. This is an equity hedge fund focusing on value stocks, taking opportunistic and contrarian positions. The Fund invested approximately 8% of its assets in this hedge fund. The manager, Greg Pool, and his team use a fundamental intensive research process. From purchase date on July 1, 2010 through September 30, 2010, the Fund's investment in J. Caird is up a net 7.05%. The S&P 500 Index was up 11.6% over the same time period.

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First Opportunity Fund, Inc.

North River Partners. This is a health care sector hedge fund. The manager, Ed Owens, and his team have extensive experience in this sector. They too use a contrarian, value-oriented investment style. The Fund invested about 7% of its assets in this fund. From purchase date on August 1, 2010 through September 30, 2010, the Fund's investment in North River is up 0.06%, essentially flat. The S&P 500 Index was up 4.0% over the same time period.

As Wellington Management continues to liquidate the legacy portfolio, RMA and SIA will be responsible for investing these proceeds. As of September 30, 2010, we've invested approximately \$13.6 million, or 6% of the Fund's assets, into a handful of mostly domestic (U.S.) securities.

It is worth discussing the Fund's investment objective and the new advisers' strategies. First of all, the objective of the Fund is Total Return. At the May meeting, stockholders also approved the proposals to eliminate the Fund's concentration policies (i.e., to invest at least 65% of the Fund's assets in financial services companies). Even though some of our recent hedge fund investments are heavily concentrated in financial services companies, we do not look through to the underlying securities in calculating the Fund's industry concentration.

RMA and SIA are value investors. Our primary goal is to not lose what we already have. With this in mind, we look for investments, both domestic and foreign, which have certain characteristics including a high return on assets, a reasonable expectation of growth (the more, the better), competent and honest managers, an industry or company moat (i.e., significant entry barriers or protections against competition), a rational balance sheet (i.e., if the company uses debt, it needs to be able to withstand downturns in the economy without the threat of bankruptcy) and a rational allocation of profits (e.g., dividends or stock repurchases—the former is better). And, when we buy a company, we want to buy it at a reasonable price. There are many companies we admire and would love to own, but the prices are too high.

Once we buy a company, we'd like to hold on to it for a long time. In this day and age, it probably makes sense for us to explain what we mean by a long time. We don't mean a week or a month or even a year. We're talking decades here. Is that the case every time? No. Obviously, where changes or circumstances in a company or industry we own warrant it, we will sell. But for the most part, we prefer the buy and hold method of investing, but watch carefully to see if anything changes for the worse.

Why Did the Fund Stop Trading on the NYSE under its Old Symbol FF?

When stockholders approved the Fund's restructuring, which contemplated investing a substantial portion of assets in hedge funds, at the urging of the SEC, the NYSE concluded that the Fund would be engaging in operations which, in the NYSE's opinion, are contrary to the public interest. Consequently, immediately after the May 2010 meeting, the NYSE summarily delisted the Fund. We knew the SEC had strong reservations about any exchange-traded fund that provided retail investors access to significant hedge fund exposure. This was pointed out in the Fund's March 31, 2010 proxy statement. We believe that much of the SEC and NYSE's opposition was a reaction to the whole Bernie Madoff hedge fund scandal. In some ways this is understandable. The SEC wants only certain financially qualified investors to have access to hedge funds. While many of our stockholders may not be qualified investors, the Fund is a qualified investor under applicable law, and it is the responsibility of the new advisers to conduct appropriate due diligence to make sure that each hedge fund is suitable for the Fund. We don't take this responsibility lightly, and

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First Opportunity Fund, Inc.

Letter from the Adviser
September 30, 2010

while we recognize that like all investments, hedge funds carry some degree of risk, our least desirable investment would be one of high risk that is passed on to our stockholders. Affiliates of the new advisers, the Horejsi family trusts, own about 36.4% of the Fund. As such, we necessarily eat our own cooking. As advisers to the Fund, one of our primary investing tenets is to not lose what we already have.

With such a significant investment in the WHM hedge funds, we will typically use each hedge fund's most recently available pricing data in order to calculate the Fund's weekly and month-end net asset value (NAV). Pursuant to the Fund's valuation procedures, the Fund uses the hedge fund manager's estimate of the respective fund's value to periodically calculate NAV. Presently, this information is provided to the Fund weekly and at the end of each month. When reflected in the Fund's NAV, the hedge fund pricing will be, at best, one day old. For example, under the Fund's current pricing procedure, when the Fund's NAV is calculated at market close on Fridays, the Friday closing price of the Fund's exchange-traded securities is used. However, in most cases, the values used for the Fund's hedge fund investments are estimates provided by the respective hedge fund managers as of Thursday's market close. They're one day old. These hedge fund values are not audited and may or may not reflect exact values. Any change in value in our hedge funds on the day we publish the Fund's NAV typically will not be reflected in the NAV. However, our current valuation approach will reflect a much better estimate of the Fund's NAV than using only monthly hedge fund valuations. It should be noted here that, subject to applicable law, the Fund may from time to time change its procedures for calculating the Fund's NAV valuation, which may include changing the frequency and timing of gathering pricing information from our hedge fund managers.

Below is a table showing the Fund's performance.

TOTAL RETURNS AS OF SEPTEMBER 30, 2010

	3 M	6 M	1 YR	3 YRS*	5 YRS*	10 YRS*
First Opportunity Fund NAV	5.6%	1.2%	8.8%	-11.6%	-5.2%	10.4%
S&P 500 Index	11.3%	-1.4%	10.2%	-7.2%	0.6%	-0.4%
Dow Jones Industrial Average	11.1%	0.7%	14.1%	-5.4%	3.1%	2.5%
NASDAQ Composite	12.6%	-0.7%	12.7%	-3.4%	2.9%	-3.6%

* Annualized

The Fund has a website with up-to-date information at www.firstopportunityfund.com. We'd like to welcome new stockholders. We hope you all become long-term stockholders and partners with us in the First Opportunity Fund.

Sincerely,

Carl D. Johns
November 15, 2010

Stewart R. Horejsi

Semi-Annual Report (Unaudited) | September 30, 2010

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Letter from the Sub-Adviser
September 30, 2010

First Opportunity Fund, Inc.

Wellington Management Review

The First Opportunity Fund (the Fund) returned -0.9% on net asset value over the first two months of the period when Wellington Management served as advisor for the Fund. The overall market, as measured by the S&P 500, returned -6.5% during the same period.

The Legacy Portfolio (the Portfolio) of the First Opportunity Fund, for which Wellington Management served as a sub-advisor to the Fund post-restructuring, returned 1.2% over the four-month period ending September 30, 2010. Much like the broader markets, the Portfolio's performance was volatile during this period, declining in June and August and rallying in July and September.

The second quarter saw US equities plummet as escalating global growth concerns, challenges in Europe, and mixed economic data combined to push the S&P 500 Index down to its lowest level since October 2009. Equities moved higher early in the quarter on the back of strong corporate earnings and generally favorable economic data before succumbing to negative news from Europe and China and an unfavorable turn in US economic news. Investor optimism waned as housing data disappointed following the expiration of the homebuyers' tax credit. Furthermore, employment data softened in May and June as jobless claims remained elevated, sinking consumer confidence and raising fears of a double-dip recession. A one-day flash crash in early May also shook investor confidence and further boosted market volatility.

US equities reversed course in the third quarter, surging despite volatility driven by sharp swings in investors' views about the pace of the economic recovery. Early in the quarter, strong corporate earnings and encouraging news regarding Europe's banks and economies bolstered markets. However, equities tumbled in August as fears of a double-dip global recession gained momentum. The quarter finished on a high note amid favorable economic data and rising expectations that the Fed will take additional measures to spur growth. Corporate actions accelerated in recent months, adding fuel to the rally, as corporations took advantage of exceptionally low interest rates and healthy balance sheets to acquire companies and raise dividend payouts.

Within the Financial sector, the prospects of increased legislation and regulation have made the environment for US banks uncertain. The recent US elections have removed some of the uncertainty as one house of Congress is likely to be less anti-industry and will also now have a seat at the table. The Dodd-Frank Financial Regulatory reform bill was passed and we expect that its implementation will both increase capital requirements and lead to higher costs that squeeze net interest margins. In addition, the mortgage foreclosure issues and the potential for put-backs will only delay the bottoming process in the US housing market and further increase the costs for banks. On the positive side, we are seeing fewer bank failures and an increase in M&A activity. While there will continue to be FDIC-assisted deals, we expect to see more deals in the way of whole bank transactions, where relatively healthy organizations take over the less healthy. As opposed to past cycles, we think this acceleration in acquisition activity will benefit both buyers and sellers. Outside the US, the Basel III global capital guidelines were agreed upon and were less stringent than the markets anticipated. The issuance of the new regulations helped lift some of the uncertainty for global banks.

During the period from April 1st to May 31st, Ocwen Financial (+35.7%), a provider of residential and commercial mortgage loan servicing, special servicing and asset management services, was

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First Opportunity Fund, Inc.

Letter from the Sub-Adviser
September 30, 2010

the strongest contributor to the Fund's absolute performance during the period. The company's shares moved higher at the end of May after Barclays PLC announced it was selling its US mortgage servicing business to an Ocwen subsidiary. The Portfolio also benefited during the two month period from prior credit default swap (CDS) protection purchased on a group of European and UK-based banks that underperformed as concerns about Euro zone sovereign debt and solvency issues arose.

The largest detractor from the Fund's absolute performance during the two month period was our position in Goldman Sachs (-15.3%). The New York-based investment bank was charged with alleged fraud by an SEC committee in April. The announcement during the trading day coupled with the pending Financial Reform Bill in Congress appeared to indicate the facts surrounding the case were unclear, and the stock sold off significantly on the day of the indictment. Our position in Assured Guaranty (-22.9%), a credit protection company, which provides bond insurance, mortgage insurance, and other financial guaranty products, also detracted from performance. Its shares declined after the firm reported lower-than-anticipated earnings as expected claims rose during the period.

In late July, the notional exposure of the Portfolio's CDS positioning was reduced as previously purchased protection was removed on several individual European and U.K. banks. We anticipate further reductions in the notional exposure of the CDS hedges going forward.

As of the end of the period, the Portfolio comprised 38.7% of the Fund and consisted of Banks & Thrifts (56%), Capital Markets and Diversified Finance companies (15%), companies in the Insurance industry (10%), REITs and real estate-related (3%), other non-financial sector companies (8%), and cash (7%).

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

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Financial Data
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

	Per Share of Common Stock		
	Net Asset		Dividend
	Value	Closing Price	Paid
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
4/30/10	8.62	7.01	0.00
5/31/10	8.09	6.25	0.00
6/30/10	7.84	5.97	0.00
7/31/10	8.06	6.38	0.00
8/31/10	7.92	6.34	0.00
9/30/10	8.28	6.53	0.00

Investments as a % of Net Assets

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First Opportunity Fund, Inc.

Financial Data
September 30, 2010 (Unaudited)

Regional Breakdown

U.S.	89.4%
India	7.9%
Bermuda	0.6%
Cayman Islands	0.4%
Denmark	0.4%
Puerto Rico	0.4%
Pakistan	0.3%
Canada	0.3%
Brazil	0.2%
Other assets less liabilities	0.1%

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Portfolio of Investments
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

Shares	Description	Value (Note 1)
LONG TERM INVESTMENTS (95.0%)		
DOMESTIC COMMON STOCKS (33.2%)		
Banks & Thrifts (15.4%)		
32,825	1st United Bancorp, Inc.*	\$211,065
54,790	Alliance Bankshares Corp.*	155,604
27,800	American River Bankshares*	175,140
8,439	Ameris Bancorp*	78,905
406,400	AmeriServ Financial, Inc.*	699,008
30,289	Bank of Commerce Holdings	118,127
62,500	Bank of Virginia*	131,250
42,700	BCB Bancorp, Inc.	387,289
28,000	Bridge Capital Holdings*	245,000
35,498	Carolina Trust Bank*	198,789
340,815	CCF Holding Co.* ^(a)	85,204
14,044	Central Valley Community Bancorp*	82,298
29,600	Central Valley Community Bancorp* ^{(b)(c)}	173,456
38,860	Centrue Financial Corp.*	64,508
21,500	Citizens & Northern Corp.	279,500
60,000	Community Bank* ^{(b)(c)(d)}	3,696,000
56,800	The Connecticut Bank & Trust Co.*	269,800
91,070	East West Bancorp, Inc.* ^{(b)(c)}	1,482,619
65,566	Eastern Virginia Bankshares, Inc.	239,971
4,085	Evans Bancorp, Inc.	53,718
97,200	FC Holdings, Inc.* ^{(b)(c)(d)}	25,272
4,300	First Advantage Bancorp	46,655
39,700	First American International* ^{(b)(c)(d)}	441,464
61,678	First California Financial Group, Inc.*	152,345
17,400	First Capital Bancorp, Inc.*	52,896
4,024	First Interstate Bancsystem, Inc.	54,163
558,729	First Republic Bank* ^{(b)(c)(d)}	8,502,026
144,200	First Security Group, Inc.	161,504
66,726	First Southern Bancorp, Inc. - Class B*	633,897
28,200	First State Bank* ^{(b)(c)(d)}	15,510
2,880	First Trust Bank*	13,248
193,261	Florida Capital Group* ^{(b)(c)(d)}	96,630
7,448	FNB Bancorp	57,722
155,800	Great Florida Bank - Class A*	71,668
15,300	Great Florida Bank - Class B*	6,120
66,000	Greater Hudson Bank N.A.*	264,000
228,000	Hampshire First Bank* ^{(b)(c)}	2,166,000
8,500	Heritage Financial Corp.*	119,000
199,918	Heritage Oaks Bancorp* ^{(b)(c)}	661,728
36,900	ICB Financial*	108,855
14,200	Katahdin Bankshares Corp.	198,800
126,100	Metro Bancorp, Inc.*	1,310,179

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First Opportunity Fund, Inc.

Portfolio of Investments
September 30, 2010 (Unaudited)

Shares	Description	Value (Note 1)
Banks & Thrifts (continued)		
905,600	National Bancshares, Inc. ^{*(b)(c)(d)}	\$615,808
17,300	New England Bancshares, Inc.	126,809
4,000	North Dallas Bank & Trust Co. ^(d)	174,280
30,400	Oak Ridge Financial Services, Inc. *	127,680
1,900	Old Point Financial Corp.	22,268
44,800	OmniAmerican Bancorp, Inc. *	504,896
24,000	Pacific Continental Corp.	217,200
29,700	Parkway Bank *	14,850
162,590	Pilot Bancshares, Inc. *	409,727
1,058,666	Popular, Inc. *	3,070,131
190,540	Republic First Bancorp, Inc. *	386,796
370,344	Seacoast Banking ^{*(b)(c)}	451,820
4,500	Shore Bancshares, Inc.	42,750
69,269	Southern First Bancshares, Inc. *	461,331
79,900	Southern National Bancorp of Virginia, Inc. *	578,476
302,900	Square 1 Financial, Inc. ^{*(b)(c)(d)}	1,559,935
73,100	State Bancorp, Inc.	656,438
9,960	Tower Bancorp, Inc.	201,889
39,164	Valley Commerce Bancorp *	195,820
57,400	Wells Fargo & Co.	1,442,462
238,000	Western Liberty Bancorp *	1,425,620
12,404	Xenith Bankshares, Inc. *	65,121
		36,739,040
Diversified Financial Services (2.2%)		
16,241	Affinity Financial Corp. ^{*(b)(c)(d)}	
100,033	Center Financial Corp. ^{*(b)(c)}	509,168
25,000	CMET Finance Holding ^{*(b)(d)(e)}	669,000
276,300	Highland Financial Partners LP ^{*(b)(d)(e)}	
60,000	Independence Financial Group, Inc. ^{*(b)(c)(d)}	271,200
70,215	Mackinac Financial Corp. *	354,586
431,640	Muni Funding Co. of America, LLC ^{*(b)(d)(e)}	1,066,151
161,835	Ocwen Financial Corp. *	1,641,007
455,100	Ocwen Structured Investments, LLC ^{*(b)(c)(d)}	468,753
349,967	Terra Nova Financial Group *	321,969
		5,301,834
Insurance (2.7%)		
19,678	Forethought Financial Group, Inc. - Class A ^{*(b)(c)(d)}	4,281,146
93,403	Penn Millers Holding Corp. *	1,381,430
179,400	The PMI Group, Inc. *	658,398
		6,320,974
Mortgages & REITS (1.2%)		

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55,000	Embarcadero Bank ^{*(b)(c)(d)}	539,550
155,504	Newcastle Investment Holdings Corp., REIT ^{*(d)}	143,686
52,500	Two Harbors Investment Corp.	473,550

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Portfolio of Investments
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

Shares	Description	Value (Note 1)
Mortgages & REITS (continued)		
87,900	Verde Realty ^{*(b)(c)(d)}	\$1,658,673
		2,815,459
Registered Investment Companies (RICs) (0.9%)		
40,000	Cohen & Steers Infrastructure Fund, Inc.	636,800
32,235	Cohen & Steers Quality Income Realty Fund, Inc.	253,367
40,475	RMR Asia Pacific Real Estate Fund	735,431
42,000	THL Credit, Inc.	494,760
		2,120,358
Retail (0.5%)		
20,000	Walgreen Co.	670,000
10,000	Wal-Mart Stores, Inc.	535,200
		1,205,200
Savings & Loans (9.3%)		
34,100	Appalachian Bancshares, Inc.*	648
10,000	Auburn Bancorp, Inc. ^{*(d)}	67,800
113,600	Beacon Federal Bancorp, Inc.	1,183,712
14,400	BofI Holding, Inc.*	170,928
96,980	Broadway Financial Corp. ^(a)	253,118
45,100	Carver Bancorp, Inc.	138,908
61,300	Central Federal Corp.*	58,848
54,346	CFS Bancorp, Inc.	249,992
14,015	Charter Financial Corp.	114,923
14,300	Citizens Community Bank*	85,800
80,444	Citizens South Banking Corp. ^{*(b)(c)}	361,998
1,314	Colonial Financial Services, Inc.*	12,746
33,500	Eagle Bancorp	310,880
20,200	ECB Bancorp, Inc.	275,326
30,491	ESSA Bancorp, Inc.	361,013
32,500	Fidelity Federal Bancorp ^{*(d)}	369,200
19,238	First Community Bank Corp. of America*	31,743
18,128	Fox Chase Bancorp, Inc.*	171,491
43,400	Georgetown Bancorp, Inc.*	208,320
222,900	Hampden Bancorp, Inc.	2,240,145
22,030	HF Financial Corp.	231,315
47,216	Home Bancorp, Inc.*	631,750
88,948	Home Federal Bancorp, Inc.	1,082,497
58,100	Jefferson Bancshares, Inc.	200,445
35,500	Legacy Bancorp, Inc.	282,225
42,000	Liberty Bancorp, Inc.	380,100
22,600	Malvern Federal Bancorp, Inc.	155,940
58,299	Meridian Interstate Bancorp, Inc.*	614,471

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310,300	MidCountry Financial Corp. ^{*(b)(c)(d)}	1,200,861
600	Naugatuck Valley Financial Corp.	3,030
113,200	Newport Bancorp, Inc. *	1,339,156

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First Opportunity Fund, Inc.

Portfolio of Investments
September 30, 2010 (Unaudited)

Shares	Description	Value (Note 1)
Savings & Loans (continued)		
106,998	Ocean Shore Holding Co.	\$1,143,809
29,100	Old Line Bancshares, Inc.	236,583
3,450	Oritani Financial Corp.	34,431
82,800	Osage Bancshares, Inc.	579,600
191,410	Pacific Premier Bancorp, Inc.*	869,001
165,930	Perpetual Federal Savings Bank ^(a)	1,914,832
17,500	Privee, LLC ^{*(b)(c)(d)}	
52,700	Provident Financial Holdings, Inc.	308,295
40,650	Redwood Financial, Inc. ^{*(a)}	376,013
89,993	River Valley Bancorp ^(a)	1,218,505
12,400	Rockville Financial, Inc.	142,476
6,300	Royal Financial, Inc.*	13,545
308,740	SI Financial Group, Inc.	2,083,995
13,200	Sound Financial, Inc.	66,000
100,000	Sterling Eagle ^{*(d)}	
110,500	Third Century Bancorp ^{*(a)}	266,305
		22,042,719
Tobacco Products (0.5%)		
26,000	Altria Group, Inc.	624,520
11,000	Philip Morris International, Inc.	616,220
		1,240,740
Trucking & Leasing (0.5%)		
121,082	Willis Lease Finance Corp.*	1,224,139
TOTAL DOMESTIC COMMON STOCKS (Cost \$126,301,039)		79,010,463
FOREIGN COMMON STOCKS (10.5%)		
Bermuda (0.6%)		
84,130	Assured Guaranty, Ltd.	1,439,464
112,000	Majestic Capital, Ltd.*	41,440
36,500	RAM Holdings, Ltd.*	30,295
		1,511,199

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Brazil (0.2%)		
117,000	Banco Panamericano S.A.	576,702
Canada (0.3%)		
37,300	Sino-Forest Corp.*	621,365
Cayman Islands (0.4%)		
1,414,100	Fantasia Holdings Group Co., Ltd.	235,111
70,457	Phoenix Group Holdings	741,511
		976,622

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Portfolio of Investments
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

Shares	Description	Value (Note 1)
Denmark (0.4%)		
5,490	Gronlandsbanken*	\$431,323
7,378	Spar Nord Bank A/S*	76,252
19,324	Sydbank A/S*	450,333
		957,908
India (7.9%)		
45,582	Axis Bank, Ltd.	1,558,725
33,428	Bajaj Auto, Ltd.	1,093,487
43,173	Educomp Solutions, Ltd.	584,495
14,934	Financial Technologies India, Ltd.	382,830
221,163	Karnataka Bank, Ltd.	898,728
161,804	Kotak Mahindra Bank, Ltd.	1,715,083
932,280	Magma Fincorp, Ltd.	1,607,916
693,370	Manappuram General Finance & Leasing, Ltd.	2,251,312
20,659	Maruti Suzuki India, Ltd.	662,458
17,776	NSE India, Ltd. *(b)(c)(d)	1,602,154
53,608	Reliance Infrastructure, Ltd.	1,275,449
200,259	Shriram Transport Finance Co., Ltd.	3,457,459
66,094	Tata Motors, Ltd.	1,615,174
		18,705,270
Pakistan (0.3%)		
299,213	Engro Corp., Ltd.	604,113
Puerto Rico (0.4%)		
72,800	Oriental Financial Group, Inc.	968,240
TOTAL FOREIGN COMMON STOCKS (Cost \$24,329,955)		24,921,419
LIMITED PARTNERSHIPS (50.1%)		
1	Bay Pond *(b)(c)(d)	41,252,294
1	J. Caird Partners, LP *(b)(c)(d)	19,149,446
1	North River Partners *(b)(c)(d)	16,991,630
1	Wolf Creek *(b)(c)(d)	41,934,483
		119,327,853
TOTAL LIMITED PARTNERSHIPS (Cost \$114,000,000)		119,327,853

DOMESTIC PREFERRED STOCKS (0.7%)

1,600	Maiden Holdings, Ltd., Series C, 14.00% ^{*(b)(d)(e)}	1,736,000
TOTAL DOMESTIC PREFERRED STOCKS (Cost \$1,600,000)		1,736,000

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First Opportunity Fund, Inc.

Portfolio of Investments
September 30, 2010 (Unaudited)

Shares	Description	Value (Note 1)
DOMESTIC WARRANTS (0.1%)		
195,000	Dime Bancorp, Inc., Litigation Tracking Warrant, strike price \$0.00, Expires 12/26/50*	\$77,025
52,459	Flagstar Bancorp, Warrant, strike price \$5.00, Expires 1/30/19*(d)	47,293
6,560	Forethought Financial Group, Inc., Warrant, strike price \$220.00, Expires 11/13/10*(b)(c)(d)	
233,333	Terra Nova Financial Group, Inc., Warrant, strike price \$3.00, Expires 3/17/11*(c)(d)	
181,429	Washington Mutual, Inc., Warrant, strike price \$10.06, Expires 4/11/13*(b)(c)(d)	11
		124,329
TOTAL DOMESTIC WARRANTS (Cost \$)		124,329
Shares/ Value		
Par Value	Description	(Note 1)
DOMESTIC CORPORATE BONDS & NOTES (0.4%)		
Banks (0.4%)		
\$1,010,000	Susquehanna Capital II, 11.00%, due 3/23/40	1,046,613
TOTAL DOMESTIC CORPORATE BONDS & NOTES (Cost \$1,010,000)		1,046,613
TOTAL LONG TERM INVESTMENTS (Cost \$267,240,994)		226,166,677
SHORT TERM INVESTMENTS (4.9%)		
Money Market Funds (4.9%)		
8,057,984	Dreyfus Treasury Cash Management Money Market Fund, Institutional Class (7 day Yield 0.017%)	8,057,984
3,500,000	JPMorgan Prime Money Market Fund (7 day Yield 0.176%)	3,500,000
TOTAL SHORT TERM INVESTMENTS (Cost \$11,557,984)		11,557,984
TOTAL INVESTMENTS (99.9%) (Cost \$278,798,978)		237,724,661
TOTAL OTHER ASSETS LESS LIABILITIES (0.1%)		215,759
TOTAL NET ASSETS (100.0%)		\$237,940,420

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Portfolio of Investments
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

* *Non-income producing security.*

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

(b) *Indicates a security which is considered restricted. Also see Note 9.*

(c) *Private Placement: these securities may only be resold in transactions exempt from registration under the Securities Act of 1933. As of September 30, 2010, private placements had a total value of \$150,109,635 or 63.09% of total net assets.*

(d) *Indicates a fair valued security. Total market value for fair value securities is \$148,576,256 representing 62.44% of total net assets.*

(e) *Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended.*

Common Abbreviations:

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

LLC - Limited Liability Company

LP - Limited Partnership

Ltd. - Limited

N.A. - National Association

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.

For Fund compliance purposes, the Fund's industry/geography classifications refer to any one or more of the industry/geography sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or defined by Fund management. This definition may not apply for purposes of this report, which may combine industry/geography sub-classifications for reporting ease. Industries/geographies are shown as a percent of total net assets. These industry/geography classifications are unaudited.

See Accompanying Notes to Financial Statements.

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First Opportunity Fund, Inc.

Statement of Assets and Liabilities
September 30, 2010 (Unaudited)**ASSETS**

Investments:		
Investments, at value of Unaffiliated Securities (Cost \$274,717,745) (Note 1)	\$	233,610,684
Investments, at value of Affiliated Securities (Cost \$4,081,233) (Note 1 and 8)		4,113,977
Total Investments, at value		237,724,661
Receivable for investments sold		3,264,275
Appreciated credit default swap contracts, at value		675,359
Dividends and interest receivable		113,076
Dividends reclaim receivable		112,997
Prepaid expenses and other assets		29,233
Total Assets		241,919,601

LIABILITIES

Payable for investment securities purchased		2,946,236
Payable to broker for credit default swaps ^(a)		543,000
Depreciated credit default swap contracts, at value (net upfront payments received of \$208,978)		212,980
Investment advisory fees payable (Note 2)		140,034
Legal and audit fees payable		48,158
Administration and co-administration fees payable (Note 2)		44,971
Directors' fees and expenses payable (Note 2)		8,656
Accrued expenses and other payables		35,146
Total Liabilities		3,979,181
Net Assets	\$	237,940,420

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
Overdistributed net investment income		(115,469)
Accumulated net realized loss on investments sold		(63,514,569)
Net unrealized depreciation on investments, swaps and foreign currency translation		(40,792,672)
Net Assets	\$	237,940,420

Net Asset Value, \$237,940,420/28,739,389 Shares Outstanding \$ 8.28

^(a) Represents restricted cash on deposit with the counterparties as collateral for swaps. See Accompanying Notes to Financial Statements.

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Statement of Operations

For the Six Months Ended September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

NET INVESTMENT INCOME

Investment Income:

Dividends from unaffiliated securities (net of foreign withholding taxes \$15,959)	\$ 1,097,699
Dividends from affiliated securities	88,869
Interest	58,530
Total Investment Income	1,245,098

EXPENSES

Investment advisory fee (Note 2)	1,066,319
Administration and co-administration fees (Note 2)	278,071
Legal and audit fees	75,475
Custody fees	44,640
Printing fees	35,615
Directors' fees and expenses (Note 2)	35,444
Insurance expense	25,703
Transfer agency fees	17,901
Other	22,293
Total Expenses	1,601,461
Net Investment Loss	(356,363)

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

Net realized gain/(loss) on:

Unaffiliated securities	1,927,278
Credit default swap contracts	(408,116)
Foreign currency related transactions	(1,004,218)
	514,944

Net change in unrealized appreciation of:

Investment securities	2,393,102
Credit default swap contracts	793,479
Translation of assets and liabilities denominated in foreign currencies	23,420
	3,210,001

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	3,724,945
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 3,368,582

See Accompanying Notes to Financial Statements.

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First Opportunity Fund, Inc.

Statements of Changes in Net Assets
September 30, 2010 (Unaudited)

	For the Six Months Ended September 30, 2010 (Unaudited)	For the Year Ended March 31, 2010
OPERATIONS		
Net investment loss	\$ (356,363)	\$ (557,438)
Net realized gain/(loss) on investments sold	514,944	(1,448,385)
Net change in unrealized appreciation on investments, swap contracts and foreign currency translation	3,210,001	74,148,913
Net Increase in Net Assets Resulting from Operations	3,368,582	72,143,090
DISTRIBUTIONS TO COMMON STOCKHOLDERS		
From net investment income		(862,182)
Net Decrease in Net Assets from Distributions		(862,182)
Net Increase in Net Assets	3,368,582	71,280,908
NET ASSETS:		
Beginning of period	234,571,838	163,290,930
End of period (including undistributed/(overdistributed) net investment income of \$(115,469) and \$240,894, respectively)	\$ 237,940,420	\$ 234,571,838

See Accompanying Notes to Financial Statements.

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Statement of Cash Flows
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets from operations	\$ 3,368,582
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:	
Purchase of investment securities	(374,447,478)
Proceeds from disposition of investment securities	382,747,868
Net proceeds from short-term investment securities	(4,657,618)
Premium amortization	(367)
Decrease in deposits with brokers as collateral for credit default swaps	1,003,000
Increase in receivable for investments sold	(2,588,385)
Decrease in dividends and interest receivable	38,368
Increase in upfront payments on swap contracts	(33,461)
Decrease in prepaid expenses and other assets	41,189
Decrease in payable for investment securities purchased	(692,139)
Decrease in accounts payable and accrued expenses	(480,921)
Net change in unrealized appreciation on investments	(2,393,102)
Net change in unrealized appreciation on swap contracts	(793,479)
Net realized gain from investments	(1,927,278)
Net realized loss on foreign currency transactions	1,004,218
NET CASH USED IN OPERATING ACTIVITIES	188,997
NET INCREASE IN CASH AND FOREIGN CURRENCY	188,997
CASH AT BEGINNING OF PERIOD	\$ (188,997)
CASH AND FOREIGN CURRENCY AT END OF PERIOD	\$

See Accompanying Notes to Financial Statements.

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Financial Highlights

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 and market price data for the Fund's shares.

OPERATING PERFORMANCE:

Net asset value, beginning of period

INCOME FROM INVESTMENT OPERATIONS:

Net investment income/(loss)

Net realized and unrealized gain/(loss) on investments

Total from Investment Operations

DISTRIBUTIONS:

Distributions paid from net investment income

Distributions paid from net realized capital gains

Total Distributions

Accretive/Dilutive Impact of Capital Share Transactions

Net asset value, end of period

Market price per share, end of period

Total Investment Return Based on Market Price^(a)

RATIOS AND SUPPLEMENTAL DATA:

Ratio of operating expenses to average net assets

Ratio of net investment income/(loss) to average net assets

Portfolio turnover rate

Net assets, end of period (in 000's)

Number of shares outstanding, end of period (in 000's)

^(a) Total investment return is calculated assuming a purchase of common stock at the current market value on the first day and a sale at the current market value on the last day of each period reported. Dividends and distributions are assumed for purposes of calculation to be reinvested at prices obtained under the dividend reinvestment plan. The calculation does not reflect brokerage commissions. Past performance is not a guarantee of future results.

^(b) Annualized.

See Accompanying Notes to Financial Statements.

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First Opportunity Fund, Inc.

For the Six Months Ended September 30, 2010 (Unaudited)	For the Year Ended March 31, 2010	For the Year Ended March 31, 2009	For the Year Ended March 31, 2008	For the Year Ended March 31, 2007	For the Year Ended March 31, 2006
\$8.16	\$5.68	\$10.18	\$15.15	\$15.67	\$17.28
(0.01)	0.01	0.17	0.18	0.08	0.15
0.13	2.50	(4.57)	(3.33)	1.03	2.36
0.12	2.51	(4.40)	(3.15)	1.11	2.51
	(0.03)	(0.12)	(0.18)	(0.20)	(0.20)
		(0.01)	(1.64)	(1.43)	(3.92)
	(0.03)	(0.13)	(1.82)	(1.63)	(4.12)
		0.03			
\$8.28	\$8.16	\$5.68	\$10.18	\$15.15	\$15.67
\$6.53	\$7.04	\$4.32	\$9.04	\$14.25	\$16.51
(7.24)%	63.76%	(51.03)%	(25.85)%	(4.28)%	17.07%
1.37% ^(b)	1.64%	1.84%	1.57%	1.28%	1.02%
(0.30)% ^(b)	(0.27)%	2.57%	1.34%	0.50%	1.54%
167%	169%	64%	76%	55%	70%
\$237,940	\$234,572	\$163,291	\$297,133	\$442,363	\$439,675
28,739	28,739	28,739	29,201	29,201	28,062

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Notes to Financial Statements
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

NOTE 1. FUND STRUCTURE AND SIGNIFICANT ACCOUNTING POLICIES

First Opportunity Fund, Inc. (the Fund) was incorporated in Maryland on March 3, 1986, as a closed-end, management investment company. As of October 14, 2008, the Fund changed its name from First Financial Fund, Inc. to First Opportunity Fund, Inc. As of July 28, 2008, the Fund is non-diversified and its primary investment objective is total return.

At a stockholder meeting held on May 3, 2010, stockholders approved new investment co-advisory agreements with Rocky Mountain Advisers, LLC (RMA) and Stewart Investment Advisers (SIA and together with RMA, the Advisers) (the Advisory Agreements), as well as a new sub-advisory agreement with Wellington Management Company, LLP (Wellington) (the Sub-Advisory Agreement). Under the new structure, with respect to the portion of the portfolio managed by RMA and SIA, the Advisers intend to make a substantial investment in certain private investment funds currently managed by an affiliate of Wellington. Separately, Wellington acts as sub-adviser with respect to a discrete portion of the portfolio containing positions with respect to which Wellington has long-term familiarity in its role as the Fund's prior adviser. The term of Wellington's role as sub-adviser will not last more than 2 years and will be limited to managing and, if appropriate, opportunistically liquidating a portion of the Fund's legacy holdings.

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.

On May 6, 2010, the Fund announced that the New York Stock Exchange (the NYSE) notified the Fund of its intent to suspend trading of the Fund's shares prior to the market opening on May 12, 2010, because of the restructuring proposals approved by a majority of the Fund's stockholders. As discussed in the Fund's proxy materials, the NYSE does not have a listing standard expressly prohibiting or otherwise regulating the Fund's ability to invest in private investment funds nor does federal securities law prohibit it. The NYSE indicated that it would exercise its discretionary authority under the NYSE rules and initiate its de-listing process based on it being in the public interest. At the opening of market May 12, 2010, the Fund's shares stopped trading on the NYSE, but continued to trade in the over-the-counter market. The Fund notified stockholders on May 11, 2010, of its new trading symbol: FOFI. Stockholders should be able to continue to trade their Fund shares through their existing brokerage relationships, although under the new symbol.

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The preparation of financial statements is in accordance with generally accepted accounting principles in the United States of America (GAAP), which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. The most critical estimates reflected in the financial statements relate to securities whose fair values have been estimated by management in the absence of readily determinable fair values. Actual results could differ from those estimates.

Securities Valuation: Securities for which market quotations are readily available (including securities listed on national securities exchanges and those traded over-the-counter) are valued at the last quoted sales price on the valuation date on which the security is traded. If such securities were not traded on the valuation date, but market quotations are readily available, they are valued at

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First Opportunity Fund, Inc.

Notes to Financial Statements
September 30, 2010 (Unaudited)

the most recently quoted bid price provided by an independent pricing service or by principal market makers. Securities traded on NASDAQ are valued at the NASDAQ Official Closing Price (NOCP). Where market quotations are not readily available or where the pricing agent or market maker does not provide a valuation or methodology, or provides a valuation or methodology that, in the judgment of the adviser or sub-adviser, does not represent fair value (Fair Value Securities), securities are valued at fair value by a Pricing Committee appointed by the Board of Directors, in consultation with the adviser or sub-adviser. The Fund uses various valuation techniques that utilize both observable and unobservable inputs including multi-dimensional relational pricing model, option adjusted spread pricing, book value, last available trade, discounted future cash flow models, cost, and comparable company approach. In such circumstances, the adviser or sub-adviser makes an initial written recommendation to the Pricing Committee regarding valuation methodology for each Fair Value Security. Thereafter, the adviser or sub-adviser conducts periodic reviews of each Fair Value Security to consider whether the respective methodology and its application is appropriate and recommends methodology changes when appropriate. The Pricing Committee reviews and makes a determination regarding each initial methodology recommendation and any subsequent methodology changes. All methodology recommendations and any changes are reviewed by the entire Board of Directors on a quarterly basis.

The Fund's investments in unregistered pooled investment vehicles (hedge funds) are valued at the most recent value periodically determined by the respective hedge fund managers according to such manager's policies and procedures (adjusted for estimated expenses and fees accrued to the Fund since the last valuation date); provided, however, that the Pricing Committee may consider whether it is appropriate, in light of relevant circumstances, to adjust such valuation in accordance with the Fund's valuation procedures. If a hedge fund does not report a value to the Fund on a timely basis, the fair value of such hedge fund shall be based on the most recent value reported by the hedge fund, as well as any other relevant information available at the time the Fund values its portfolio. As a practical matter, hedge fund valuations generally can be obtained from hedge fund managers on a weekly basis, as of close of business Thursday, but the frequency and timing of receiving valuations for hedge fund investments is subject to change at any time, without notice to stockholders, at the discretion of the hedge fund manager or the Fund.

The financial statements include investments valued at \$148,576,256 (62.44% of total net assets) as of September 30, 2010 whose fair values have been estimated by management in the absence of readily determinable fair values. Due to the inherent uncertainty of the valuation of these investments, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost, which approximates fair value.

The Fund has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) and follows the provisions of ASC 820, Fair Value Measurements and Disclosures (ASC 820). In accordance with ASC 820, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique

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Notes to Financial Statements
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 Unadjusted quoted prices in active markets for identical investments
- Level 2 Significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 Significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The Fund uses the value of investment securities, as of the end of each reporting period, in determining transfers in/out of Levels 1, 2 or 3. The following is a summary of the inputs used as of September 30, 2010 in valuing the Fund's investments carried at value:

Valuation Inputs

Investments in Securities

at Value^	Level 1	Level 2	Level 3	Total
Domestic Common Stocks	\$46,647,190	\$6,757,918	\$25,605,355	\$79,010,463
Foreign Common Stocks	23,319,265		1,602,154	24,921,419
Limited Partnerships	-	-	119,327,853	119,327,853
Domestic Preferred Stock	-	-	1,736,000	1,736,000
Domestic Warrants	77,025	47,304	-	124,329
Domestic Corporate Bonds & Notes	-	1,046,613	-	1,046,613
Short Term Investments	11,557,984	-	-	11,557,984
TOTAL	\$81,601,464	\$7,851,835	\$148,271,362	\$237,724,661

Other Financial Instruments*	Level 1	Level 2	Level 3	Total
Credit Default Swaps	\$	\$253,401	\$	\$253,401
TOTAL	\$	\$253,401	\$	\$253,401

^For detailed descriptions of industry and/or geography classifications, see the accompanying Portfolio of Investments.

*Other financial instruments include swap contracts.

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First Opportunity Fund, Inc.

Notes to Financial Statements
September 30, 2010 (Unaudited)

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

Investments in Securities	Balance as of March 31, 2010	Realized gain/ (loss)	Change in unrealized appreciation/ (depreciation)	Net purchases/ (sales)	Transfers in and/or out of Level 3	Balance as of Sept. 30, 2010
Domestic Common Stocks	\$16,978,622	\$-	\$(940,631)	\$1,926,885	\$7,640,479	\$25,605,355
Foreign Common Stocks	-	-	84,886	1,517,268	-	1,602,154
Limited Partnerships	-	-	5,327,853	114,000,000	-	119,327,853
Domestic Preferred Stock	2,737,160	-	(201,160)	(800,000)	-	1,736,000
TOTAL	\$19,715,782	\$-	\$4,270,948	\$116,644,153	\$7,640,479	\$148,271,362

Net change in unrealized appreciation/depreciation on Level 3 securities are included the Statement of Assets and Liabilities under Net change in unrealized depreciation on investments, swaps and foreign currency translation.

New Accounting Pronouncement: In January 2010, the FASB issued Accounting Standards Update Improving Disclosures about Fair Value Measurements (ASU). The ASU requires enhanced disclosures about a) transfers into and out of Levels 1 and 2, and b) purchases, sales, issuances, and settlements on a gross basis relating to Level 3 measurements. The first disclosure is effective for the first reporting period beginning after December 15, 2009, and for interim periods within those fiscal years. There were no significant transfers in to and out of Levels 1 and 2 during the current period presented.

The second disclosure will become effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is currently evaluating the impact this disclosure may have on the Fund's financial statements.

Securities Transactions and Net Investment Income: Securities transactions are recorded on the trade date. Realized gains or losses on sales of securities are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date, or for certain foreign securities, when the information becomes available to the Fund. Interest income including amortization of premium and accretion of discount on debt securities, as required, is recorded on the accrual basis, using the effective interest method.

Dividend income from investments in real estate investment trusts (REITs) is recorded at management's estimate of income included in distributions received. Distributions received in excess of this amount are recorded as a reduction of the cost of investments. The actual amount of income and return of capital are determined by each REIT only after its fiscal year-end, and may differ from the estimated amounts. Such differences, if any, are recorded in the Fund's following year.

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Notes to Financial Statements
September 30, 2010 (Unaudited)

First Opportunity Fund, Inc.

Foreign Currency Transactions: The Fund may invest a portion of its assets in foreign securities. In the event that the Fund executes a foreign security transaction, the Fund will generally enter into a forward foreign currency contract to settle the foreign security transaction. Foreign securities may carry more risk than U.S. securities, such as political, market and currency risks.

The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities denominated in foreign currencies are translated into US dollars at the exchange rate prevailing at the end of the period, and purchases and sales of investment securities, income and expenses transacted in foreign currencies are translated at the exchange rate on the dates of such transactions. Foreign currency gains and losses result from fluctuations in exchange rates between trade date and settlement date on securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually received.

The portion of foreign currency gains and losses related to fluctuation in the exchange rates between the initial purchase trade date and subsequent sale trade date is included in gains and losses as stated in the Statement of Operations under Foreign currency related transactions. The net U.S. dollar value of foreign currency underlying all contractual commitments held by the Fund and the resulting unrealized appreciation or depreciation are determined using prevailing forward foreign currency exchange rates. Unrealized appreciation and depreciation on foreign currency contracts are reported in the Fund's Statement of Assets and Liabilities as a receivable or a payable and in the Fund's Statement of Operations with the change in unrealized appreciation or depreciation.

Investment in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers. These risks may include, but are not limited to: (i) less information about non-U.S. issuers or markets may be available due to less rigorous disclosure, accounting standards or regulatory practices; (ii) many non-U.S. markets are smaller, less liquid and more volatile thus, in a changing market, the adviser may not be able to sell the Fund's portfolio securities at times, in amounts and at prices they consider reasonable; (iii) currency exchange rates or controls may adversely affect the value of the Fund's investments; (iv) the economies of non-U.S. countries may grow at slower rates than expected or may experience downturns or recessions; and, (v) withholdings and other non-U.S. taxes may decrease the Fund's return.

Repurchase Agreements: The Fund may enter into repurchase agreement transactions with United States financial institutions. It is the Fund's policy that its custodian take possession of the underlying collateral securities, the value of which exceed the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to maintain the adequacy of the collateral. The value of the collateral at the time of the execution must be at least equal to 102% of the total amount of the repurchase obligations, including interest. If the seller defaults, and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited. The Fund had no outstanding repurchase agreements as of September 30, 2010.

Lending of Portfolio Securities: The Fund may participate in securities lending arrangements. To do so, the Fund would engage a lending agent to loan securities to qualified brokers and dealers in exchange for negotiated lenders' fees. As of September 30, 2010, the Fund was not participating in any securities lending arrangements.

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First Opportunity Fund, Inc.

Notes to Financial Statements
September 30, 2010 (Unaudited)

Credit Default Swaps: The Fund may enter into credit default swap contracts for hedging purposes, to gain market exposure or to add leverage to its portfolio. When used for hedging purposes, the Fund would be the buyer of a credit default swap contract. In that case, the Fund would be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation, index or other investment from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign issuer, on the referenced debt obligation. In return, the Fund would pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would have spent the stream of payments and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it receives the stream of payments but is obligated to pay upon default of the referenced debt obligation. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total assets, the Fund would be subject to investment exposure on the notional amount of the swap.

In addition to the risks applicable to derivatives generally, credit default swaps involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation, as opposed to a credit downgrade or other indication of financial difficulty. Credit default swaps are marked to market periodically using quotations from pricing services. Unrealized gains, including the accrual of interest are recorded as an asset and unrealized losses are reported as a liability on the Statement of Assets and Liabilities. The change in value of the credit default swap, including the accrual of interest to be paid or received is reported as a change in unrealized appreciation/depreciation on the Statement of Operations. A realized gain or loss is recorded upon payment or receipt of a periodic payment or termination of the swap agreement.

Counterparty Risk: Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to derivatives, swaps or other transactions supported by another party's credit will affect the value of those instruments. By using derivatives, swaps or other transactions, the Fund assumes the risk that its counterparties could experience such changes in credit quality.

Credit default swap contracts entered into by the Fund as of September 30, 2010, were as follows:

Swap Counterparty	Referenced Obligation	Notional Amount	Rates Paid by Fund	Termination Date	Upfront	Unrealized
					Payment Received/(Paid)	Appreciation/(Depreciation)
Credit Suisse First Boston Intl	Bank of India London	1,000,000 USD	1.00%	6/20/15	\$ 20,427	\$ 12,878
Morgan Stanley	Barclays Bank	4,500,000 EUR	1.42%	9/20/13	-	(70,989)

Credit Suisse First Boston
Intl

Capital One Bank	1,000,000 USD	1.00%	12/20/14	(10,425)	(1,393)
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Goldman Sachs

Commerzbank	4,500,000 EUR	0.88%	9/20/13	-	(11,817)
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Morgan Stanley

Credit Agricole	4,500,000 EUR	1.09%	9/20/13	-	927
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