FIRST OPPORTUNITY FUND INC
Form N-CSR
June 07, 2012

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

Date of Reporting Period: March 31, 2012

Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

Annual Report March 31, 2012

First Opportunity Fund, Inc.

Letter from the Advisers

March 31, 2012 (Unaudited)

Dear Stockholders:

Before delving into a discussion of the Fund s performance, I wanted to take the opportunity to quickly introduce myself. In February of this year, I joined Rocky Mountain Advisers, LLC as a portfolio manager and will work alongside Stewart Horejsi, the Fund s other portfolio manager, in managing the Fund s portfolio. Dispensing with any further formalities, let us proceed to the Fund s performance.

The equity markets remained volatile during the Fund s fiscal year as concerns related to the European sovereign debt crisis, the debt ceiling crisis and the resulting downgrade of the United States credit rating were balanced against signs of an economic recovery. While these concerns drove the markets lower in the first half of the Fund s fiscal year, optimism on the economy won out in the in the back half resulting in a rapid market rally. This rally helped First Opportunity Fund, Inc. (the Fund) reverse negative returns in the first half of the year and deliver a 1.2% return on net assets for the 12 month period ending March 31, 2012 (the Fund s fiscal year). Unfortunately, the Fund was unable to keep pace with the rebound in the S&P 500 as it generated an 8.5% return during the same period. The Fund s underperformance relative to the S&P 500 and its other benchmarks is highlighted in the below table.

	3 mos.	6 mos.	One Year	Three Years*	Five Years*	Ten Years*	Since June 2010**
FOFI (NAV)	9.0%	12.2%	1.2%	18.1%	-5.9%	6.3%	7.9%
FOFI (Market)	13.3%	16.7%	-2.8%	17.9%	-9.9%	2.7%	6.8%
S&P 500 Index	12.6%	25.9%	8.5%	23.4%	2.0%	4.1%	17.4%
DJIA	8.8%	22.7%	10.2%	23.5%	4.2%	5.0%	18.6%
NASDAQ Composite	19.0%	28.7%	12.3%	27.7%	6.0%	6.1%	20.0%

**Annualized*

***Annualized since June 1, 2010, when the current Advisers became investment advisers to the Fund.*

The performance data quoted represents past performance. Past performance is no guarantee of future results. Fund returns include reinvested dividends and distributions, but do not reflect the reduction of taxes that a stockholder would pay on Fund distributions or the sale of Fund shares and do not reflect brokerage commissions, if any. Returns of the S&P 500 Index, the Dow Jones Industrial Average (DJIA) and the NASDAQ Composite include reinvested dividends and distributions. The investment return and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

While we are glad the Fund finished the fiscal year with a positive absolute return during such a volatile period in the markets, we are nonetheless disappointed with the underperformance relative to the Fund s benchmarks and will strive to improve the Fund s performance going forward. To accomplish this, we believe we must first understand what drove the Fund s performance during the fiscal year.

One of the primary contributors to the Fund s performance for its fiscal year was the legacy portfolio. As a refresher for our stockholders, approximately 23.3% of the Fund s assets are managed by Wellington Management Company, LLP pursuant to a sub-advisory agreement that expires in December of 2012. These assets are referred to as the legacy portfolio and consist primarily of securities in banks and thrifts. For the period, the legacy portfolio had an 8.3% return. This compares favorably with other financial stocks during this period as measured by the NASDAQ Bank Index return of 2.7% and roughly in-line with the general market as measured by the 8.5% return on the S&P 500. Upon expiration of the sub-advisory agreement, management of the legacy portfolio will transition to the Fund s co-advisers, Rocky Mountain Advisers and Stewart Investment Advisers.

Other key contributors to performance on an absolute and relative basis were the Fund s equity positions in Johnson & Johnson, Philip Morris and PPL Corp, which each generated total returns for the period of 15.2%, 40.6% and 17.3% respectively. In addition, the Fund benefitted on an absolute basis from its two largest hedge fund positions: Bay Pond Partners, L.P. (Bay Pond) and Wolf Creek Investors (Bermuda), L.P. (Wolf Creek). The position in Bay Pond accounted for roughly 17.4% of the total portfolio and generated a 2.1% return for the period. Similarly, the position in Wolf Creek accounted for roughly 16.7% of the total portfolio and generated a 1.5% return for the period. Both of these funds are focused on securities in the financial sector and performed fairly in line with the financial company focused indexes during the same period. Unfortunately, the Fund s large weight in each of these positions combined with their low returns relative to the S&P 500 for the period were key factors in the Fund s relative underperformance.

Contributing to the Fund s underperformance relative to its benchmarks and detracting from absolute return was the Fund s elevated cash position during the period. While this aided the Fund s performance in the first half of the fiscal year, it acted as a drag on returns in the back half of the year as the market rebounded. Additional positions that detracted from performance were two of the hedge fund positions: J. Caird Partners, L.P. (J.Caird) and North River Investors (Bermuda), L.P. (North River). The position in J. Caird accounted for roughly 7.2% of the total portfolio and generated a negative 1.6% return for the period. Similarly, the position in North River accounted for roughly 5.6% of the total portfolio and generated a negative 1.9% return for the period. The Fund s equity positions in Alliance Bernstein and Freeport-McMoRan Copper also negatively impacted performance for the period as each generated total returns for the period of a negative 23.4% and a negative 9.0% respectively.

However, the largest detractor to the Fund s absolute and relative performance for the period was the Fund s position in Inergy, L.P. (Inergy). Inergy is a master limited partnership (MLP) that operates retail propane and midstream businesses and owns 75.2% of the limited partner interest and all of the general partner interest and incentive distribution rights in Inergy Midstream L.P. (Ticker: NRGM). In January, Inergy s management announced it was going to cut its distribution as the current rate was unsustainable in light of the collapse in propane demand due to the abnormally warm winter and the lower than expected performance of recent acquisitions. As the market tends to value MLPs off of their distribution yield, the reaction to this announcement was unsurprisingly quite negative. The net impact was a 48.3% decline in the Fund s Inergy position for the period. Despite the obvious disappointment in the position s decline and the realization that the initial analysis proved incorrect, we resisted the temptation to quickly sell the position out of the Fund and re-evaluated the situation based on then current factors. Based on this analysis, we believed that the market s reaction to the distribution cut was overly punitive and the valuation at the time severely undervalued Inergy s retail propane and internal midstream operations, especially if there were a return to more normal winter weather conditions. On April 26th, we received the favorable announcement that Suburban Propane Partners agreed to acquire Inergy s retail propane business for a total consideration of $1.8 billion. Inergy s unit price moved higher on the news allowing for a partial recovery of the prior price decline.

Unfortunately, we do not expect to see a full recovery of our losses in the Inergy position any time soon and our decision to maintain the Fund s position after the distribution cut related price decline proved to be a pyrrhic victory. In the end, the initial analysis on Inergy proved incorrect. As much as we believe in our investment process and philosophy, it is not infallible and we recognize that we will miss on an investment from time to time (although we try to keep this at a minimum). If there is something positive to take out of this whole episode, it is that we maintained our investment discipline. It would have been very easy to react out of disappointment in the distribution cut, in the initial analysis, in Inergy s management and the loss to the Fund and quickly sell the position when the distribution cut was announced. We then could have only given it a perfunctory mention in this letter and have moved on without giving it additional thought. However, this is not how we operate. Instead, we recognized our mistake, adjusted our analysis to the prevailing conditions and made an informed decision to hold the position. Fortunately, this decision was vindicated quicker than we expected and in a manner we did not anticipate.

It is precisely because of this discipline and the commitment to its core investment philosophy that I decided to join Rocky Mountain Advisers, LLC in February of this year. This investment philosophy is built on the core principals to, first and foremost, protect our stockholders principal investment and to generate superior returns over the long run by investing in good companies at attractive valuations. It is a philosophy that is elegant in its simplicity, but difficult in its execution due to the required temperament of patience and the ability to separate out emotion from an investment decision. When combined with rigorous fundamental research analysis steeped in value investing principals, we believe it to be the most effective investment strategy there is when correctly executed. I believe we can effectively execute this strategy, but I do not expect you to simply take me at my word. This is why another core aspect of our investment philosophy is to invest alongside our stockholders as Stewart Horejsi s family is already a fellow stockholder and I will be as soon as practicable. We hope this serves as an effective demonstration of our belief in and our ability to execute upon our investment philosophy.

I look forward to writing you again in six months and wish you a safe and happy summer.

Sincerely,

Brendon Fischer, CFA

Portfolio Manager

The views and opinions in the preceding commentary are subject to change. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

Portfolio weightings and other figures in the foregoing commentary are provided as of period-end, unless otherwise stated.

Note to Stockholders on Investments in Hedge Funds: The Fund s investment advisers feel it is important that stockholders be aware that the Fund has highly concentrated positions in certain hedge funds and may take concentrated positions in other securities. Concentrating investments in a fewer number of securities (including investments in hedge funds) may involve a degree of risk that is greater than a fund which has less concentrated investments spread out over a greater number of securities. For example, the value of the Fund s net assets will fluctuate significantly based on the fluctuation in the value of the hedge funds in which it invests. In addition, investments in hedge funds can be highly volatile and may subject investors to heightened risk and higher operating expenses than another closed-end fund with a different investment focus.

Note to Stockholders on the Fund s Discount. As most stockholders are aware, the Fund s shares presently trade at a significant discount to net asset value. The Fund s board of directors is aware of this, monitors the discount and periodically reviews the options available to mitigate the discount. In addition, there are several factors affecting the Fund s discount over which the board and management have little control. In the end, the market sets the Fund s share price. The Fund s investment objective, its current long exposure in the legacy portfolio of financial sector stocks and the fact that it is not traded on a national exchange are likely factors that exacerbate the discount beyond other general equity closed-end investment companies. For long-term stockholders of a closed-end fund, we believe the Fund s discount should only be one of many factors taken into consideration at the time of your investment decision.

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		Per Share of Common Stock	
		Market	**Dividend**
	Net Asset Value	**Price**	**Paid**
3/31/11	$ 9.19	$ 7.25	$ 0.00
4/30/11	9.28	7.38	0.00
5/31/11	9.16	7.19	0.00
6/30/11	8.99	7.20	0.00
7/31/11	8.97	6.84	0.00
8/31/11	8.79	6.55	0.00
9/30/11	8.29	6.04	0.00
10/31/11	8.64	6.25	0.00
11/30/11	8.51	6.21	0.00
12/31/11	8.53	6.22	0.00
1/31/12	8.87	6.51	0.00
2/29/12	9.16	6.71	0.00
3/31/12	9.30	7.05	0.00

Investments as a % of Net Assets

Consolidated Portfolio of Investments | First Opportunity Fund, Inc.

March 31, 2012

Shares	Description	Value (Note 2)
LONG TERM INVESTMENTS (87.9%)		
DOMESTIC COMMON STOCKS (33.0%)		
Banks (0.2%)		
51,965	BBCN Bancorp, Inc.*	$578,370
Banks & Thrifts (9.9%)		
41,290	Alliance Bankshares Corp.*	167,637
27,800	American River Bankshares*	219,620
8,439	Ameris Bancorp*	110,888
406,400	AmeriServ Financial, Inc.*	1,064,768
30,289	Bank of Commerce Holdings	133,877
45,500	Bank of Virginia*	45,491
42,700	BCB Bancorp, Inc.	426,787
28,000	Bridge Capital Holdings*	376,880
35,498	Carolina Trust Bank*	73,481
340,815	CCF Holding Co.*(a)	85,204
43,644	Central Valley Community Bancorp*	316,419
18,860	Centrue Financial Corp.*	9,996
12,300	Citizens & Northern Corp.	246,000
60,000	Community Bank*(b)(c)(d)	6,348,600
54,100	The Connecticut Bank & Trust Co.*	457,145
65,566	Eastern Virginia Bankshares, Inc.*	236,693
4,085	Evans Bancorp, Inc.	58,416
97,200	FC Holdings, Inc.*(b)(c)(d)	
4,300	First Advantage Bancorp	56,717
39,700	First American International*(b)(c)(d)	724,922
61,678	First California Financial Group, Inc.*	359,583
14,421	First Security Group, Inc.*	43,407
66,726	First Southern Bancorp, Inc. - Class B*	600,534
193,261	Florida Capital Group*(b)(c)(d)	32,854
8,211	FNB Bancorp	118,649
155,800	Great Florida Bank - Class A*	62,320
15,300	Great Florida Bank - Class B*	6,885
61,000	Greater Hudson Bank N.A.*	283,650
179,500	Hampshire First Bank*(a)	2,683,525
8,500	Heritage Financial Corp.	115,600
199,918	Heritage Oaks Bancorp*	1,017,583
36,900	ICB Financial*	147,600
2,323	Katahdin Bankshares Corp.	28,573
126,100	Metro Bancorp, Inc.*	1,474,109
905,600	National Bancshares, Inc.*(b)(c)(d)	81,504
14,900	New England Bancshares, Inc.	155,556
4,000	North Dallas Bank & Trust Co.(d)	233,080
30,400	Oak Ridge Financial Services, Inc.*	112,480
1,900	Old Point Financial Corp.	21,185

Shares	Description	Value (Note 2)
Banks & Thrifts (continued)		
44,800	OmniAmerican Bancorp, Inc.*	$867,328
12,000	Pacific Continental Corp.	113,040
162,590	Pilot Bancshares, Inc.*	325,180
190,540	Republic First Bancorp, Inc.*	449,674
4,500	Shore Bancshares, Inc.	31,905
83,814	Southern First Bancshares, Inc.*	569,935
79,900	Southern National Bancorp of Virginia, Inc.	519,350
302,900	Square 1 Financial, Inc.*(b)(c)(d)	1,723,501
41,122	Valley Commerce Bancorp*	390,659
57,400	Wells Fargo & Co.	1,959,636
226,000	Western Liberty Bancorp*	648,620
12,404	Xenith Bankshares, Inc.*	52,593
		26,389,639
Coal (0.5%)		
10,000	Alliance Resource Partners, LP	601,000
40,000	Penn Virginia Resource Partners, LP	873,200
		1,474,200
Diversified Financial Services (1.6%)		
16,241	Affinity Financial Corp.*(b)(c)(d)	
79,000	AllianceBernstein Holding, LP	1,233,190
276,300	Highland Financial Partners, LP*(b)(d)(e)	
60,000	Independence Financial Group, Inc.*(b)(c)(d)	370,800
70,215	Mackinac Financial Corp.*	491,505
455,100	Ocwen Structured Investments, LLC*(b)(c)(d)	341,325
25,000	South Street Securities Holdings, Inc.*(b)(d)(e)	684,750
47,960	Tiptree Financial*(b)(d)(e)	1,167,346
		4,288,916
Electric (1.2%)		
80,000	PPL Corp.	2,260,800
16,800	Public Service Enterprise Group, Inc.	514,248
12,400	SCANA Corp.	565,564
		3,340,612
Environmental Control (0.3%)		
30,000	Republic Services, Inc.	916,800
Gas (0.4%)		
63,000	Inergy, LP	1,031,310
Healthcare Products (2.3%)		
91,800	Johnson & Johnson	6,055,128
Insurance (2.1%)		

19,678	Forethought Financial Group, Inc. - Class A*[(b)(c)(d)]	5,524,205

Consolidated Portfolio of Investments

First Opportunity Fund, Inc.
March 31, 2012

Shares	Description	Value (Note 2)
Mining (1.7%)		
119,500	Freeport-McMoRan Copper & Gold, Inc.	$ 4,545,780
Mortgages & REITS (0.7%)		
55,000	Coronado First Bank*	440,000
155,504	Newcastle Investment Holdings Corp., REIT*(d)	81,329
87,900	Verde Realty*(b)(c)(d)	1,319,379
		1,840,708
Oil & Gas (0.4%)		
30,000	Linn Energy LLC	1,144,500
Pharmaceuticals (0.3%)		
20,447	Merck & Co., Inc.	785,165
Pipelines (1.2%)		
30,000	Boardwalk Pipeline Partners, LP	793,800
10,000	Buckeye Partners, LP	611,800
9,800	Energy Transfer Partners, LP	459,718
15,000	Kinder Morgan Energy Partners, LP	1,241,250
		3,106,568
Registered Investment Companies (RICs) (0.4%)		
40,000	Cohen & Steers Infrastructure Fund, Inc.	704,000
18,727	RMR Real Estate Income Fund	301,505
		1,005,505
Retail (0.5%)		
20,000	Walgreen Co.	669,800
10,000	Wal-Mart Stores, Inc.	612,000
		1,281,800
Savings & Loans (8.1%)		
34,100	Appalachian Bancshares, Inc.*	136
10,000	Auburn Bancorp, Inc.*	38,000
113,600	Beacon Federal Bancorp, Inc.	1,601,760
96,980	Broadway Financial Corp.*(a)	131,893
3,006	Carver Bancorp, Inc.*	21,343
61,100	Central Federal Corp.*	45,886
40,846	CFS Bancorp, Inc.	222,611
12,730	Citizens Community Bank*	66,196
84,466	Citizens South Banking Corp.*	384,320
33,500	Eagle Bancorp	331,315
20,200	ECB Bancorp, Inc.	185,234
30,000	Fidelity Federal Bancorp*(d)	281,400
19,238	First Community Bank Corp. of America*	5,869
43,400	Georgetown Bancorp, Inc.*	286,440
84,989	Hampden Bancorp, Inc.	1,024,117

22,030	HF Financial Corp.	264,140

Shares	Description	Value (Note 2)
Savings & Loans (continued)		
47,216	Home Bancorp, Inc.*	$823,447
88,948	Home Federal Bancorp, Inc.	901,043
58,100	Jefferson Bancshares, Inc.*	133,049
42,000	Liberty Bancorp, Inc.	428,400
15,000	Malvern Federal Bancorp, Inc.*	105,750
310,300	MidCountry Financial Corp.*(b)(c)(d)	2,209,336
23,217	Newport Bancorp, Inc.*	299,499
106,998	Ocean Shore Holding Co.	1,241,177
29,100	Old Line Bancshares, Inc.	305,550
82,800	Osage Bancshares, Inc.	621,828
171,410	Pacific Premier Bancorp, Inc.*	1,371,280
165,930	Perpetual Federal Savings Bank(a)	2,105,652
17,500	Privee, LLC*(b)(c)(d)	
52,700	Provident Financial Holdings, Inc.	576,011
40,650	Redwood Financial, Inc.*(a)	532,515
89,993	River Valley Bancorp(a)	1,404,791
18,807	Rockville Financial, Inc.	219,102
6,300	Royal Financial, Inc.*	15,750
277,279	SI Financial Group, Inc.	3,166,526
13,200	Sound Financial, Inc.*	97,284
100,000	Sterling Eagle*(d)	
110,500	Third Century Bancorp*(a)	154,700
		21,603,350
Telecommunications (0.4%)		
23,000	Harris Corp.	1,036,840
Tobacco Products (0.8%)		
42,000	Altria Group, Inc.	1,296,540
11,000	Philip Morris International, Inc.	974,710
		2,271,250
TOTAL DOMESTIC COMMON STOCKS (Cost $123,604,393)		88,220,646
FOREIGN COMMON STOCKS (5.3%)		
Banks (0.0%)(f)		
7,378	Spar Nord Bank A/S*	31,339
Banks & Thrifts (0.2%)		
5,490	Gronlandsbanken AB	467,381
Food (0.4%)		
18,000	Nestle SA	1,132,602

Consolidated Portfolio of Investments

First Opportunity Fund, Inc.
March 31, 2012

Shares	Description	Value (Note 2)
Insurance (0.6%)		
3,650	American Overseas Group, Ltd.*	$34,675
11,200	Majestic Capital, Ltd.*	11
6,700	Muenchener Rueckversicherungs AG	1,010,196
70,457	Phoenix Group Holdings	636,728
		1,681,610
Iron/Steel (0.3%)		
9,000	POSCO, ADR	753,300
National Stock Exchange (0.5%)		
17,776	NSE India, Ltd.*(b)(c)(d)	1,385,345
Oil & Gas (0.8%)		
80,000	Pengrowth Energy Corp.	752,000
18,000	Total SA, Sponsored ADR	920,160
8,000	Transocean, Ltd.	437,600
		2,109,760
Pharmaceuticals (2.0%)		
24,000	Sanofi	1,863,882
88,500	Sanofi, ADR	3,429,375
		5,293,257
Real Estate (0.5%)		
98,000	Cheung Kong Holdings, Ltd.	1,265,770
TOTAL FOREIGN COMMON STOCKS (Cost $17,348,711)		14,120,364
DOMESTIC LIMITED PARTNERSHIPS (24.6%)		
	Bay Pond Partners, LP*(b)(c)(d)	46,656,971
	J. Caird Partners, LP*(b)(c)(d)	19,185,599
		65,842,570
TOTAL DOMESTIC LIMITED PARTNERSHIPS (Cost $56,167,938)		65,842,570
FOREIGN LIMITED PARTNERSHIPS (24.0%)		
	Iguazu Master Investors (Cayman), LP, an Iguazu Investors (Cayman), SPC share class *(b)(c)(d)	4,512,224
	North River Investors (Bermuda), LP, a Wellington Management Investors (Bermuda), Ltd. share class*(b)(c)(d)	14,860,515

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Shares	Description	Value (Note 2)
FOREIGN LIMITED PARTNERSHIPS (continued)		
	Wolf Creek Investors (Bermuda), LP, a Wellington Management Investors (Bermuda), Ltd. share class*(b)(c)(d)	$44,777,188
		64,149,927
TOTAL FOREIGN LIMITED PARTNERSHIPS (Cost $60,990,788)		64,149,927
DOMESTIC PREFERRED STOCKS (0.6%)		
1,600	Maiden Holdings, Ltd., Series C, 14.00%*(b)(d)(e)	1,713,829
TOTAL DOMESTIC PREFERRED STOCKS (Cost $1,600,000)		1,713,829
DOMESTIC WARRANTS (0.1%)		
61,300	Central Federal Corp., Warrant, strike price $1.00, Expires 4/17/12*(d)	8
195,000	Dime Bancorp, Inc., Litigation Tracking Warrant, strike price $0.00, Expires 12/26/50*(d)	
11,708	First Capital Bancorp, Inc., Warrant, strike price $2.00, Expires 4/30/12*(d)	
262,296	Flagstar Bancorp, Warrant, strike price $1.00, Expires 1/30/19*(d)	154,551
		154,559
TOTAL DOMESTIC WARRANTS (Cost $0)		154,559

Shares/ Par Value	Description	Value (Note 2)
DOMESTIC CORPORATE BONDS & NOTES (0.3%)		
$760,000	Susquehanna Capital II, 11.00%, due 3/23/40	818,900
TOTAL DOMESTIC CORPORATE BONDS & NOTES (Cost $760,000)		818,900
TOTAL LONG TERM INVESTMENTS (Cost $260,471,830)		235,020,795

Consolidated Portfolio of Investments

First Opportunity Fund, Inc.
March 31, 2012

Shares	Description	Value (Note 2)
SHORT TERM INVESTMENTS (12.1%)		
Money Market Funds (12.1%)		
16,512,358	Dreyfus Treasury & Agency Cash Management Money Market Fund, Institutional Class (7 day Yield 0.010%)	$16,512,358
15,900,000	JPMorgan Prime Money Market Fund (7 day Yield 0.216%)	15,900,000
TOTAL SHORT TERM INVESTMENTS (Cost $32,412,358)		32,412,358
TOTAL INVESTMENTS (100.0%) (Cost $292,884,188)		267,433,153
TOTAL LIABILITIES LESS OTHER ASSETS (0.0%)[f]		(68,151)
TOTAL NET ASSETS (100.0%)		$267,365,002

* *Non-income producing security.*

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

(b) *Indicates a security which is considered restricted. Also see Notes to Consolidated Financial Statements.*

(c) *Private Placement: these securities may only be resold in transactions exempt from registration under the Securities Act of 1933. As of March 31, 2012, these securities had a total value of $150,054,268 or 56.12% of total net assets.*

(d) *Fair valued security under procedures established by the Fund s Board of Directors. Total value of fair valued securities as of March 31, 2012 was $154,370,561 or 57.74% of total net assets.*

(e) *Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. As of March 31, 2012 these securities had a total value of $3,565,925 or 1.33% of total net assets.*

(f) *Less than 0.05% of total net assets.*

Common Abbreviations:

AB - Aktiebolag is the Swedish equivalent of the term corporation
ADR - American Depositary Receipt
AG - Aktiengesellschaft is a German term that refers to a corporation that is limited by shares, i.e., owned by shareholders
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.

See Accompanying Notes to Consolidated Financial Statements.

Regional Breakdown as a % of Total Net Assets

United States	70.7%
Bermuda	22.3%
France	2.3%
Cayman Islands	1.9%
Switzerland	0.6%
India	0.5%
Hong Kong	0.5%
Germany	0.4%
South Korea	0.3%
Canada	0.3%
Denmark	0.2%
Total liabilities less other assets	0.0%*

* *Less than 0.05% of total net assets.*
See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statement

of Assets and Liabilities

First Opportunity Fund, Inc.

March 31, 2012

ASSETS	
Investments:	
Investments, at value of Unaffiliated Securities (Cost $287,007,954) (Note 2)	$ 260,334,873
Investments, at value of Affiliated Securities (Cost $5,876,234) (Notes 2 and 9)	7,098,280
Total Investments, at value	267,433,153
Dividends and interest receivable	139,865
Foreign currency, at value (Cost $34,422)	44,086
Dividends reclaim receivable	35,805
Receivable for investments sold	17,150
Prepaid expenses	30,079
Total Assets	267,700,138
LIABILITIES	
Investment advisory fees payable (Note 3)	137,965
Audit fees payable	108,506
Administration and co-administration fees payable (Note 3)	73,577
Accrued expenses and other payables	15,088
Total Liabilities	335,136
Net Assets	$ 267,365,002
NET ASSETS CONSIST OF:	
Par value of common stock (Note 5)	$ 28,739
Paid-in capital in excess of par value of common stock	337,540,015
Overdistributed net investment income	(535,971)
Accumulated net realized loss on investments sold and foreign currency related transactions	(44,230,025)
Net unrealized depreciation on investments and foreign currency translation	(25,437,756)
Net Assets	$ 267,365,002
Net Asset Value, $267,365,002/28,739,389 Shares Outstanding	$ 9.30

See Accompanying Notes to Consolidated Financial Statements.

First Opportunity Fund, Inc.

Consolidated Statement of Operations

For the Year Ended March 31, 2012

INVESTMENT INCOME	
Dividends from Unaffiliated Securities (net of foreign withholding taxes $63,844)	$ 2,204,299
Dividends from Affiliated Securities	181,789
Interest	130,103
Other income	15,159
Total Investment Income	2,531,350
EXPENSES	
Investment advisory fee (Note 3)	1,887,157
Administration and co-administration fees (Note 3)	594,457
Audit fees	149,581
Directors fees and expenses (Note 3)	111,907
Legal fees	98,825
Printing fees	39,243
Insurance expense	36,151
Custody fees	24,109
Transfer agency fees	21,727
Other	32,264
Total Expenses before fee waiver	2,995,421
Less fees waived by investment advisor (Note 3)	(316,098)
Total Net Expenses	2,679,323
Net Investment Loss	(147,973)
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on:	
Unaffiliated securities	13,703,304
Affiliated securities	239,197
Credit default swap contracts	119,451
Foreign currency related transactions	(185,450)
	13,876,502
Net change in unrealized depreciation of:	
Investment securities	(10,160,686)
Credit default swap contracts	(219,264)
Translation of assets and liabilities denominated in foreign currencies	(712)
	(10,380,662)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	3,495,840
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 3,347,867

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statements

of Changes in Net Asset

First Opportunity Fund, Inc.

	For the Year Ended March 31, 2012	For the Year Ended March 31, 2011
OPERATIONS		
Net investment loss	$ (147,973)	$ (467,494)
Net realized gain on investments and foreign currency related transactions	13,876,502	967,212
Net change in unrealized appreciation/(depreciation) on investments, credit default swap contracts and foreign currency translation	(10,380,662)	28,945,579
Net Increase in Net Assets Resulting from Operations	3,347,867	29,445,297
NET ASSETS:		
Beginning of period	264,017,135	234,571,838
End of period (including overdistributed net investment income of $(535,971) and $(216,276), respectively)	$ 267,365,002	$ 264,017,135

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the Year Ended March 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets from operations	$	3,347,867
Adjustments to reconcile net increase in net assets from operations to net cash provided by (used in) operating activities:		
Purchase of investment securities		(139,571,053)
Proceeds from disposition of investment securities		164,361,742
Net sale of short-term investment securities		(24,422,037)
Decrease in deposits with brokers as collateral for credit default swaps		(260,000)
Increase in dividends and interest receivable		(11,408)
Decrease in upfront payments on swap contracts		44,880
Decrease in prepaid expenses and other assets		5,379
Increase in accounts payables and accrued expenses		30,402
Net change in unrealized depreciation on investments		10,160,686
Net change in unrealized depreciation on swap contracts		219,264
Net realized gain from unaffiliated securities		(13,703,304)
Net realized gain from affiliated securities		(239,197)
Net realized gain from credit default swaps		(119,451)
Net realized loss on foreign currency transactions		185,450
NET CASH USED IN OPERATING ACTIVITIES		29,220
NET INCREASE IN CASH AND FOREIGN CURRENCY		29,220
CASH AND FOREIGN CURRENCY, BEGINNING BALANCE	$	14,866
CASH AND FOREIGN CURRENCY, ENDING BALANCE	$	44,086

See Accompanying Notes to Consolidated Financial Statements.

Consolidated 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/LOSS 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[b]
RATIOS AND SUPPLEMENTAL DATA:
Ratio of operating expenses to average net assets including waiver
Ratio of operating expenses to average net assets excluding waiver
Ratio of net investment income/(loss) to average net assets including waiver
Ratio of net investment income/(loss) to average net assets excluding waiver
Portfolio turnover rate
Net assets, end of period (in 000 s)
Number of shares outstanding, end of period (in 000 s)

[a] *Based on average shares outstanding during the fiscal period.*

[b] *Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price 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 Fund s dividend reinvestment plan. The calculation does not reflect brokerage commissions. Past performance is not a guarantee of future results.*

See Accompanying Notes to Consolidated Financial Statements.

For the Year Ended March 31, 2012	For the Year Ended March 31, 2011	For the Year Ended March 31, 2010	For the Year Ended March 31, 2009	For the Year Ended March 31, 2008
$9.19	$8.16	$5.68	$10.18	$15.15
(0.01)[(a)]	(0.02)[(a)]	0.01	0.17	0.18
0.12	1.05	2.50	(4.57)	(3.33)
0.11	1.03	2.51	(4.40)	(3.15)
		(0.03)	(0.12)	(0.18)
			(0.01)	(1.64)
		(0.03)	(0.13)	(1.82)
			0.03	
$9.30	$9.19	$8.16	$5.68	$10.18
$7.05	$7.25	$7.04	$4.32	$9.04
(2.76)%	2.98%	63.76%	(51.03)%	(25.85)%
1.05%	N/A	N/A	N/A	N/A
1.18%	1.24%	1.64%	1.84%	1.57%
(0.06)%	(0.19)%	(0.27)%	2.57%	1.34%
(0.18)%	N/A	N/A	N/A	N/A
59%	97%	169%	64%	76%
$267,365	$264,017	$234,572	$163,291	$297,133
28,739	28,739	28,739	28,739	29,201

NOTE 1. FUND ORGANIZATION

First Opportunity Fund, Inc. (the Fund) was incorporated in Maryland on March 3, 1986, as a closed-end, management investment company; registered under the Investment Company Act of 1940, as amended (the 1940 Act). On October 14, 2008, the Fund changed its name from First Financial Fund, Inc. to First Opportunity Fund, Inc. The Fund is non-diversified and its primary investment objective is total return. The Fund trades over the counter under the trading symbol FOFI.

In seeking to achieve its investment objective, the Fund invests a significant portion of its investments (the Hedge Fund Portfolio) in private investment partnerships and similar investment vehicles, typically referred to as hedge funds (Hedge Funds). In addition, a portion of the Fund s assets are invested primarily in equity securities issued by financial services companies (the Legacy Portfolio). Under the terms of a sub-advisory agreement, Wellington Management Company LLP (Wellington or the Sub-Adviser), currently serves as sub-adviser to the Fund and manages the Legacy Portfolio with a view toward holding and opportunistically liquidating the assets. As these assets are sold, the cash proceeds are available to Rocky Mountain Advisers, LLC (RMA) and Stewart Investment Advisers (SIA) (together, RMA and SIA are the Advisers) for investment in a wide range of securities which could include, among others, U.S. or foreign common stocks, debt instruments, preferred stocks, securities convertible into common stocks, cash, and cash equivalents (the Advisers Portfolio).

On October 3, 2011, the Fund effected a series of transactions; withdrawing from or transferring all of its interests in domestic Hedge Funds to offshore entities (the Hedge Fund Restructuring). As a result of these transactions, the Fund s investments in Hedge Funds became either: 1) direct investments in offshore Hedge Funds substantially similar to the domestic Hedge Fund from which the Fund withdrew, or 2) indirect investments in the same domestic Hedge Fund through wholly-owned subsidiaries of the Fund organized in the Cayman Islands. The Hedge Fund Restructuring was effected to ensure the Fund s continued compliance with Subchapter M of the Internal Revenue Code. Investments in offshore Hedge Funds and the use of offshore subsidiaries carry unique regulatory and tax risks that could exacerbate the risks already present in domestic hedge funds (see Note 2) and will subject the Fund to increased expenses and tax reporting obligations.

Stockholders should be aware that an investment in the Fund involves a high degree of risk, including the risk associated with investing in Hedge Funds. Please refer to additional discussion of these risks in Note 2.

As of March 31, 2012, the portion of the Fund under the direct management of the Advisers represented approximately 76.7% of the Fund s net assets, including 28.1% of the Fund s net assets in the Advisers Portfolio and 48.6% invested in Hedge Funds. The Legacy Portfolio, managed by the Sub-Adviser, represented approximately 23.3% of the net assets of the Fund.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND SECURITIES VALUATION

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 requires 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.

Basis for Consolidation: The accompanying consolidated financial statements include the accounts of FOFI 1, Ltd. and FOFI 2, Ltd. (the Subsidiaries), each a wholly-owned subsidiary of the Fund organized under the laws of the Cayman Islands. FOFI 1, Ltd. invests in Bay Pond Partners, LP, and FOFI 2, Ltd. invests in J. Caird Partners, LP. The Fund may invest up to 25% of its total assets in the Subsidiaries. The aggregated net assets of the Subsidiaries at March 31, 2012 were $65,809,529 or 24.6% of the Fund s consolidated total net assets. The Consolidated Portfolio of Investments includes positions of the Fund and of the Subsidiaries. The Subsidiaries price their portfolio investments pursuant to the same pricing and valuation methodologies used by the Fund.

Securities Valuation: Equity securities for which market quotations are readily available (including securities listed on national securities exchanges and those traded over-the-counter) are valued based on the last quoted sales price from the applicable exchange. If such equity securities were not traded on the valuation date, but market quotations are readily available, they are valued at the most recently quoted bid price provided by an independent pricing service or by principal market makers. Equity securities traded on NASDAQ are valued at the NASDAQ Official Closing Price (NOCP). Debt securities are valued at the mean between the closing bid and asked prices, or based on a matrix system which utilizes information (such as credit ratings, yields and maturities) from independent sources. 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 Hedge Funds are valued, as a practical expedient, at the most recent estimated net asset value periodically determined by the respective Hedge Fund managers according to such manager s policies and procedures based on valuation information reasonably available to the Hedge Fund manager at that time (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 investors, at the discretion of the Hedge Fund manager or the Fund.

The financial statements include investments valued at $154,370,561 (57.74% of total net assets) as of March 31, 2012 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.

For valuation purposes, the last quoted prices of non-U.S. equity securities may be adjusted under the circumstances described below. If the Fund determines that developments between the close of a foreign market and the close of the NYSE will, in its judgment, materially affect the value of some or all of its portfolio securities, the Fund will adjust the previous closing prices to reflect what it believes to be the fair value of the securities as of the close of the NYSE. In deciding whether it is necessary to adjust closing prices to reflect fair value, the Fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The Fund may also fair value securities in other situations, such as when a particular foreign market is closed but the U.S. market is open. The Fund uses outside pricing services to provide it with closing prices and information to evaluate and/or adjust those prices. The Fund cannot predict how often it will use closing prices and how often it will determine it necessary to adjust those prices to reflect fair value. If the Fund uses adjusted prices, the Fund will periodically compare closing prices, the next day s opening prices in the same markets and those adjusted prices as a means of evaluating its security valuation process.

Various inputs are used to determine the value of the Fund s investments. Observable inputs are inputs that reflect the assumptions market participants would use based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity s own assumptions based on the best information available in the circumstances.

These inputs are 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 following is a summary of the inputs used as of March 31, 2012 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	$ 60,258,293	$ 6,838,022	$ 21,124,331	$ 88,220,646
Banks	578,370			578,370
Banks & Thrifts	15,338,392	1,906,786	9,144,461	26,389,639
Coal	1,474,200			1,474,200
Diversified Financial Services	1,724,695		2,564,221	4,288,916
Electric	3,340,612			3,340,612
Environmental Control	916,800			916,800

	Valuation Inputs			
Investments in Securities at Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Gas	$ 1,031,310	$	$	$ 1,031,310
Healthcare Products	6,055,128			6,055,128
Insurance			5,524,205	5,524,205
Mining	4,545,780			4,545,780
Mortgages & REITS		440,000	1,400,708	1,840,708
Oil & Gas	1,144,500			1,144,500
Pharmaceuticals	785,165			785,165
Pipelines	3,106,568			3,106,568
Registered Investment Companies (RICs)	1,005,505			1,005,505
Retail	1,281,800			1,281,800
Savings & Loans	14,621,378	4,491,236	2,490,736	21,603,350
Telecommunications	1,036,840			1,036,840
Tobacco Products	2,271,250			2,271,250
Foreign Common Stocks	12,735,008	11	1,385,345	14,120,364
Banks	31,339			31,339
Banks & Thrifts	467,381			467,381
Food	1,132,602			1,132,602
Insurance	1,681,599	11		1,681,610
Iron/Steel	753,300			753,300
National Stock Exchange			1,385,345	1,385,345
Oil & Gas	2,109,760			2,109,760
Pharmaceuticals	5,293,257			5,293,257
Real Estate	1,265,770			1,265,770
Domestic Limited Partnerships			65,842,570	65,842,570
Foreign Limited Partnerships			64,149,927	64,149,927
Domestic Preferred Stocks			1,713,829	1,713,829
Domestic Warrants			154,559	154,559
Domestic Corporate Bonds & Notes		818,900		818,900
Short Term Investments	32,412,358			32,412,358
TOTAL	$ 105,405,659	$ 7,656,933	$ 154,370,561	$ 267,433,153

The Fund evaluates transfers into or out of Level 1, Level 2 and Level 3 as of the end of the reporting period. During the year ended March 31, 2012, there were no significant transfers between Level 1 and Level 2 securities.

Notes to Consolidated

Financial Statements

First Opportunity Fund, Inc.
March 31, 2012

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, 2011	Realized gain/(loss)	Change in unrealized appreciation/ (depreciation)	Net purchases/ (sales)	Transfer in and/or (out) of Level 3	Balance as of March 31, 2012	Net change in unrealized appreciation/ (depreciation) included in the Statement of Operations attributable to Level 3 investments still held at March 31, 2012
Domestic Common Stocks	$ 32,925,256	$ 7,613,214	$ (3,062,482)	$ (15,911,657)	$ (440,000)	$ 21,124,331	$ 3,548,898
Foreign Common Stocks	1,606,281		(220,936)			1,385,345	(220,936)
Limited Partnerships	136,065,045	5,593,620	(17,565,045)	(124,093,620)			
Domestic Limited Partnerships			9,674,632	56,167,938		65,842,570	9,674,632
Foreign Limited Partnerships			3,159,139	60,990,788		64,149,927	3,159,139
Domestic Preferred Stocks	1,803,779		(89,950)			1,713,829	(89,950)
Domestic Warrants	512,605		(358,046)			154,559	(141,304)
TOTAL	**$ 172,912,966**	**$ 13,206,834**	**$ (8,462,688)**	**$ (22,846,551)**	**$ (440,000)**	**$ 154,370,561**	**$ 15,930,479**

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

Recent Accounting Pronouncements: In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-03 Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. The ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem the financial assets before their maturity. The ASU is effective for the first interim or annual period beginning on or after December 15, 2011. Management is currently evaluating the impact this ASU may have on the Fund s financial statements.

In May 2011, the FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose quantitative information about the unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. Management is currently evaluating the impact this ASU may have on the Fund s financial statements.

Securities Transactions and Investment Income: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded as of 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 interest method.

Foreign Currency Translations: 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. See Foreign Issuer Risk below.

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 U.S. 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 amounts of foreign interest and dividends recorded on the books of the Fund and the amounts actually received.

The portion of realized and unrealized gains or losses on investments due to fluctuations in foreign currency exchange rates is not separately disclosed and is included in realized and unrealized gains or losses on investments, when applicable.

Foreign Issuer Risk: 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.

Concentration Risk: The Fund has highly concentrated positions in certain Hedge Funds and may take concentrated positions in other securities. Concentrating investments in a fewer number of securities (including investments in Hedge Funds) may involve a degree of risk that is greater than a fund which has less concentrated investments spread out over a greater number of securities. For example, the value of the Fund s net assets will fluctuate significantly based on the fluctuation in the value of the Hedge Funds in which it invests. In addition, investments in Hedge Funds can be highly volatile and may subject investors to heightened risk and higher operating expenses than another closed-end fund with a different investment focus.

Hedge Fund Risk: The Fund invests a significant portion of its assets in Hedge Funds. The Fund s investments in Hedge Funds are private entities that are not registered under the 1940 Act and have limited regulatory oversight and disclosure obligations. In addition, the Hedge Funds invest in and actively trade securities and other financial instruments using different strategies and investment techniques, which involve significant risks. These strategies and techniques may include, among others, leverage, employing various types of derivatives, short selling, securities lending, and commodities trading. These Hedge Funds may invest a high percentage of their assets in specific sectors of the market in order to achieve a potentially greater investment return. As a result, the Hedge Funds may be more susceptible to economic, political, and regulatory developments in a particular sector of the market, positive or negative, and may experience increased volatility. These and other risks associated with Hedge Funds may cause the Fund s net asset value to be more volatile and more susceptible to the risk of loss than that of other funds with a different investment strategy.

Changes In Investment Policies: On May 3, 2010, stockholders 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. As a result, the Fund may not invest more than 25% of its assets in any industry or group of industries (including financial services related industries). While the Advisers and the Sub-Adviser do not intend to invest more than 25% of the Fund s assets in a single industry, the Fund does not look through its investments in the Hedge Funds, some of which have significant exposure to industries within the financial sector, to determine whether the Fund exceeds the 25% limit. As a result, the Fund may be indirectly concentrated in an industry or group of industries by virtue of the Fund s investments in Hedge Funds.

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 may be difficult to value, may be 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 Consolidated 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 Consolidated 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.

The Fund had no outstanding credit default swap contracts as of March 31, 2012.

Derivative Instruments: The Effect of Derivatives Instruments on the Consolidated Statement of Operations for the year ended March 31, 2012:

Risk Exposure	Location of Gain/(Loss) On Derivatives Recognized in Income	Realized Loss On Derivatives Recognized in Income	Change in Unrealized Gain/(Loss) On Derivatives Recognized in Income
Credit Contracts	Net realized gain/(loss) on: Credit default swap contracts/Net change in unrealized appreciation/(depreciation) of: credit default swap contracts	$ 119,451	$ (219,264)
Total		$ 119,451	$ (219,264)

During the year ended March 31, 2012, the average notional amounts of credit default swap contracts entered into by the Fund, were $12,500,000 for those contracts measured in U.S. Dollars, and 6,200,000 for those measured in Euros.

Derivative Risk: The Fund, as well as the Hedge Funds in which the Fund invests, may employ derivative instruments as a strategy to hedge its portfolio or enhance return. Derivatives are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index or interest rate. Derivatives can be volatile and involve various types and degrees of risk.

Federal Income Taxes: For federal income tax purposes, the Fund currently qualifies, and intends to remain qualified, as a regulated investment company under the provisions of subchapter M of the Internal Revenue Code by distributing substantially all of its earnings to its stockholders. Accordingly, no provision for federal income or excise taxes has been made.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations, which may differ from U.S. GAAP. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund as a whole.

Management has concluded there are no uncertain tax positions that require recognition of a tax liability. The Fund files income tax returns in the U.S. federal jurisdiction and Colorado. The statute of limitations on the Fund s federal and state tax filings remains open for the fiscal years ended March 31, 2009, through March 31, 2012.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the Modernization Act) was signed into law. The provisions of the Modernization Act are generally effective for tax years beginning after the date it was signed into law so the enacted provisions apply to the Fund for the fiscal year ended March 31, 2012. The Modernization Act is the first major piece of legislation affecting regulated investment companies (RICs) since 1986 and it modernizes several of the federal income and excise tax provisions related to RICs. Some highlights of the enacted provisions are as follows:

- New capital losses may now be carried forward indefinitely, and retain the character of the original loss. Under pre-enactment law, capital losses could be carried forward for eight years, and carried forward as short-term capital losses, irrespective of the character of the original loss.

- The Modernization Act contains simplification provisions, which are aimed at preventing disqualification of a RIC for inadvertent failures of the asset diversification and/or qualifying income tests. Additionally, the Modernization Act exempts RICs from the preferential dividend rule, and repealed the 60-day designation requirement for certain types of paythrough income and gains.

- Finally, the Modernization Act contains several provisions aimed at preserving the character of distributions made by a RIC during the portion of its taxable year ending after October 31 or December 31, reducing the circumstances under which a RIC might be required to file amended Forms 1099 to restate previously reported distributions.

NOTE 3. AGREEMENTS

RMA and SIA serve as co-advisers to the Fund, and make investment decisions on behalf of the Fund. Wellington serves as sub-adviser to the Fund.

According to the Advisory Agreements, RMA and SIA are paid an advisory fee, payable monthly, at an annual rate equal to 1.25% of the Fund s average monthly total net assets plus leverage, if any (Managed Assets) (the Advisory Fee). However, RMA and SIA have agreed to waive their fees in an amount equal to up to 1.00% of the Fund s assets invested in Wellington-affiliated Hedge Funds to offset any asset based fees (but not any performance-based fees) paid to Wellington with respect to the hedge fund investments. Additionally, effective December 1, 2011, RMA and SIA agreed to waive 0.10% of the Advisory Fee applied to the Advisers Portfolio such that the Advisory Fee will be calculated at the annual rate of 1.15% of Managed Assets in the Advisers Portfolio. The fee waiver agreement has a one-year term and is renewable annually. The waiver does not apply to the Hedge Fund Portfolio or to the Legacy Portfolio.

RMA is owned by the Susan L. Ciciora Trust (the SLC Trust), which is also a member of Evergreen Atlantic LLC, a Colorado limited liability company (EALLC), and is a stockholder of the Fund. SIA is owned by the Stewart West Indies Trust, which is also a member of EALLC. RMA and SIA are considered affiliated persons, as that term is defined the 1940 Act, of the Fund and Fund Administrative Services, LLC (FAS). SIA receives a fee equal to 75% of the fees earned by the Advisers, and RMA receives 25% of the fees earned by the Advisers.

According to the Sub-Advisory Agreement, Wellington earns a sub-advisory fee, payable monthly by RMA and SIA, at an annual rate equal to 1.125% of the Fund s month-end value of the Legacy Portfolio. Effective April 1, 2011, Wellington agreed to voluntarily waive its sub-advisory fees in excess of 0.625%, per annum. Under the terms of the Wellington fee waiver agreement, it is a condition to the waiver that the Advisers and the Fund expressly acknowledge that Wellington may unilaterally terminate the agreement if the Advisers do not pass through the economic benefit of this waiver to the Fund. Accordingly, the Advisers have voluntarily agreed to waive any additional fees relating to the Legacy Portfolio to which the Advisers would otherwise be entitled by virtue of Wellington s waiver.

The term of Wellington s role as sub-adviser was for an initial two year period and is limited to managing, and if appropriate, opportunistically liquidating a portion of the Fund s legacy holdings. On April 27, 2012, the Board renewed the Sub-Advisory Agreement for a term set to expire on December 31, 2012.

FAS serves as the Fund s co-administrator. Under the Administration Agreement, FAS provides certain administrative and executive management services to the Fund. The Fund pays FAS a monthly fee, calculated at an annual rate of 0.20% of Managed Assets up to $100 million and 0.15% of the Fund s Managed Assets over $100 million. The equity owners of FAS are EALLC and the Lola Brown Trust No. 1B (the Lola Trust). The Lola Trust is a stockholder of the Fund, and the Lola Trust and EALLC are considered to be affiliated persons of the Fund and the Advisers, as that term is defined in the 1940 Act.

ALPS Fund Services, Inc. (ALPS) serves as the Fund s co-administrator. As compensation for its services, ALPS receives certain out-of-pocket expenses and asset-based fees, which are accrued daily and paid monthly (the Co-Administration Fee). Fees paid to ALPS are calculated based on combined assets of the Fund and the following affiliates of the Fund: Boulder Total Return Fund, Inc., Boulder Growth & Income Fund, Inc., and The Denali Fund Inc. (the Fund Group). ALPS receives the greater of the following, based on combined average assets of the Fund Group: an annual minimum of $460,000, or an annualized fee of 0.045% on assets up to $1 billion, an annualized fee of 0.03% on assets between $1 and $3 billion, and an annualized fee of 0.02% on assets above $3 billion. In connection with the Hedge Fund Restructuring, the Fund and the Fund s wholly-owned Cayman subsidiaries entered into an additional Administration Agreement with ALPS to provide certain administrative services to the Cayman subsidiaries. Pursuant to the new Administration Agreement, the Fund pays ALPS through its subsidiaries a fee in addition to the Co-Administration Fee at the annual rate of $45,000, payable monthly.

The Fund pays each Director who is not a director, officer, employee, or affiliate of the investment adviser or FAS a fee of $8,000 per annum, plus $4,000 for each in-person meeting of the Board of Directors and $500 for each telephone meeting. In addition, the Chairman of the Board and the Chairman of the Audit Committee receive $1,000 per meeting and each member of the Audit Committee receives $500 per meeting. Each member of the Nominating Committee receives $500 per meeting. The Fund will also reimburse all non-interested Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

Bank of New York Mellon (BNY Mellon) serves as the Fund s custodian and as compensation for BNY Mellon s services the Fund pays BNY Mellon a monthly fee plus certain out-of-pocket expenses.

Computershare Trust Company, N.A. (Computershare), serves as the Fund s Transfer Agent, dividend-paying agent, and registrar, and as compensation for Computershare s services as such, the Fund pays Computershare a monthly fee plus certain out-of-pocket expenses.

NOTE 4. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sale of securities for the year ended March 31, 2012, excluding short-term investments, aggregated $136,710,617 and $164,386,566, respectively.

On March 31, 2012, based on cost of $289,745,401 for federal income tax purposes, aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was $35,495,053, aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was $(58,147,551) and net appreciation of foreign currency and derivatives was $353,529. This resulted in net unrealized depreciation of $(22,298, 969).

NOTE 5. CAPITAL

As of March 31, 2012, 50,000,000 shares of $0.001 par value Common Stock were authorized and 28,739,389 shares were issued and outstanding.

Transactions in Common Stock were as follows:

	Year Ended March 31, 2012	**Year Ended March 31, 2011**
Common Stock outstanding - beginning of period	28,739,389	28,739,389
Common Stock outstanding - end of period	28,739,389	28,739,389

NOTE 6. SHARE REPURCHASE PROGRAM

In accordance with Section 23(c) of the 1940 Act, the Fund may from time to time repurchase shares of the Fund in the open market at the option of the Board of Directors and upon such terms as the Directors shall determine. For the years ended March 31, 2012 and March 31, 2011, the Fund did not repurchase any of its own shares.

NOTE 7. SIGNIFICANT STOCKHOLDERS

As of March 31, 2012, the Lola Trust and other entities affiliated with Stewart R. Horejsi and the Horejsi family owned 11,307,899 shares of Common Stock of the Fund, representing 39.4% of the total Fund shares outstanding.

NOTE 8. DISTRIBUTIONS AND TAX INFORMATION

The Fund paid no distributions during the year ended March 31, 2012.

As of March 31, 2012, the components of distributable earnings on a tax basis were as follows:

Undistributed Ordinary Income	$ 0
Accumulated Capital Gains / (Losses)	(47,368,387)
Unrealized Appreciation / (Depreciation)	(22,298,969)
Other Cumulative Effect of Timing Differences	(536,396)
TOTAL	$ (70,203,752)

As of March 31, 2012, the Fund had unused capital loss carryovers of $5,215,767 expiring March 31, 2017 and $35,618,163 expiring March 31, 2018.

The fund utilized capital loss carryovers in the current year of $11,432,649.

The Fund has post October capital losses of $6,534,457 which it has elected to defer until the next fiscal year.

Investment income/(loss) and net realized gain/(loss) may differ for financial statement and tax purposes. The character of dividends and distributions made during the fiscal year from net investment income and or realized gains may differ from their ultimate characterization for federal income tax purposes. The Fund has decreased over distributed net investment income by $171,722, increased accumulated capital gains by $2,424,514 and decreased paid-in-capital by $2,252,792 at March 31, 2012. Included in the amounts reclassified was a net operating loss of $959,073. The reclassifications had no impact on net asset value.

NOTE 9. TRANSACTIONS WITH AFFILIATED COMPANIES

Transactions during the period with companies in which the Fund owned at least 5% of the voting securities were as follows:

Name of Affiliate	**Beginning Share Balance as of 4/1/11**	**Purchases**	**Sales**	**Ending Share Balance as of 3/31/12**	**Dividend Income**	**Realized Gains (Losses)**	**Market Value**
Broadway Financial Corp.	96,980			96,980	$	$	$ 131,893
CCF Holding Co.	340,815			340,815			85,204
Hampshire First Bank	228,000		(48,500)	179,500		239,197	2,683,525
Perpetual Federal Savings Bank	165,930			165,930	106,195		2,105,652

Name of Affiliate	Beginning Share Balance as of 4/1/11	Purchases	Sales	Ending Share Balance as of 3/31/12	Dividend Income	Realized Gains (Losses)	Market Value
Redwood Financial, Inc.	40,650			40,650			532,515
River Valley Bancorp	89,993			89,993	75,594		1,404,791
Third Century Bancorp	110,500			110,500			154,700
TOTAL					**$ 181,789**	**$ 239,197**	**$ 7,098,280**

NOTE 10. RESTRICTED SECURITIES

As of March 31, 2012, investments in securities included issues that are considered restricted. Restricted securities are often purchased in private placement transactions, are not registered under the Securities Act of 1933, may have contractual restrictions on resale, and may be valued under methods approved by the Board of Directors as reflecting fair value.

Restricted securities as of March 31, 2012 were as follows:

Description	Acquisition Date	Cost	Market Value	Market Value as Percentage of Net Assets
Affinity Financial Corp.	3/24/05	$ 1,000,000	$	0.0%
Bay Pond Partners, LP	10/3/11	39,387,185	46,656,971	17.5%
Community Bank	2/12/08	912,100	6,348,600	2.4%
FC Holdings, Inc.	1/5/06	972,000		0.0%
First American International	11/29/05	1,052,050	724,922	0.3%
Florida Capital Group	8/23/06	2,203,175	32,854	0.0%
Forethought Financial Group, Inc. Class A	11/13/09	4,066,780	5,524,205	2.1%
Highland Financial Partners, LP	10/18/06	4,558,950		0.0%
Iguazu Master Investors (Cayman) LP, an Iguazu Investors (Cayman), SPC share class	10/3/11	4,341,847	4,512,224	1.7%
Independence Financial Group, Inc.	9/13/04	480,000	370,800	0.1%
J. Caird Partners, LP	10/3/11	16,780,753	19,185,599	7.2%
Maiden Holdings, Ltd., Series C	1/15/09	1,600,000	1,713,829	0.6%
MidCountry Financial Corp.	10/22/04	4,654,500	2,209,336	0.8%
National Bancshares, Inc.	6/6/06	2,128,160	81,504	0.0%

Description	Acquisition Date	Cost	Market Value	Market Value as Percentage of Net Assets
North River Investors (Bermuda) LP, a Wellington Management Investors (Bermuda), Ltd. share class	10/3/11	16,605,291	14,860,515	5.6%
NSE India, Ltd.	4/30/10	1,517,269	1,385,345	0.5%
Ocwen Structured Investments, LLC	3/20/07 8/27/07	1,399,433	341,325	0.1%
Privee, LLC	11/17/04	2,362,500		0.0%
South Street Securities Holdings, Inc.	12/8/03	2,500,000	684,750	0.3%
Square 1 Financial, Inc.	5/3/05	3,029,000	1,723,501	0.6%
Tiptree Financial	6/4/07 7/10/09	2,058,848	1,167,346	0.4%
Verde Realty	2/16/07	2,900,700	1,319,379	0.5%
Wolf Creek Investors (Bermuda) LP, a Wellington Management Investors (Bermuda), Ltd. share class	10/3/11	40,043,650	44,777,188	16.7%
		$ 156,554,191	**$ 153,620,193**	**57.4%**

NOTE 11. INVESTMENTS IN LIMITED PARTNERSHIPS

As of March 31, 2012, the Fund held investments in limited partnerships. The Fund s investments in the limited partnerships are reported on the Consolidated Portfolio of Investments under the sections titled Domestic Limited Partnerships and Foreign Limited Partnerships.

Since the investments in limited partnerships are not publicly traded, the Fund s ability to make withdrawals from its investments in the limited partnerships is subject to certain restrictions which vary for each respective limited partnership. These restrictions include notice requirements for withdrawals and additional restrictions or charges for withdrawals within a certain time period following initial investment. In addition, there could be circumstances in which such restrictions can include the suspension or delay in withdrawals from the respective limited partnership, or limited withdrawals allowable only during specified times during the year. In certain circumstances a limited partner may not make withdrawals that occur less than one year following the date of admission to the partnership. The following table summarizes the Fund s investments in limited partnerships as of March 31, 2012.

Description	% of Net Assets as of 3/31/12	Value as of 3/31/12	Net Unrealized Gain/ (Loss) as of 3/31/12	Mgmt fees	Incentive fees	Redemption Period/ Frequency
Bay Pond Partners, LP	17.4%	$ 46,656,971	$ 7,269,786	Annual rate of 1% of net assets	20% of net profits at the end of the fiscal year	June 30 or Dec 31 upon 45 days notice

Description	% of Net Assets as of 3/31/12	Value as of 3/31/12	Net Unrealized Gain/ (Loss) as of 3/31/12	Mgmt fees	Incentive fees	Redemption Period/ Frequency
Iguazu Master Investors (Cayman) LP, an Iguazu Investors (Cayman), SPC share class	1.7%	4,512,224	170,377	Annual rate of 1% of net assets	20% of net profits at the end of the fiscal year	At the end of each calendar quarter upon 45 days notice
J. Caird Partners, LP	7.2%	19,185,599	2,404,846	Annual rate of 1% of net assets	20% of net profits at the end of the fiscal year	At the end of each calendar quarter upon 45 days notice
North River Investors (Bermuda) LP, a Wellington Management Investors (Bermuda), Ltd. share class	5.6%	14,860,515	(1,744,776)	Annual rate of 1% of net assets	20% of net profits at the end of the fiscal year	At the end of each calendar quarter upon 45 days notice
Wolf Creek Investors (Bermuda) LP, a Wellington Management Investors (Bermuda), Ltd. share class	16.7%	44,777,188	4,733,538	Annual rate of 1% of net assets	20% of net profits at the end of the fiscal year	At the end of each calendar quarter upon 45 days notice
Total	48.6%	$ 129,992,497	$ 12,833,771			

The Fund did not have any outstanding unfunded commitments as of March 31, 2012.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of First Opportunity Fund, Inc.:

We have audited the accompanying consolidated statement of assets and liabilities of First Opportunity Fund, Inc. and subsidiaries (the Fund), including the consolidated portfolio of investments, as of March 31, 2012, and the related consolidated statements of operations and cash flows for the year then ended, the consolidated statements of changes in net assets for each of the two years in the period then ended, and the consolidated financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and consolidated financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of March 31, 2012, by correspondence with the custodian and hedge funds administrator. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of First Opportunity Fund, Inc. and subsidiaries as of March 31, 2012, the results of their operations and their cash flows for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the consolidated financial statements include investments valued at $154,370,571 (57.7% of total assets) as of March 31, 2012, whose fair values have been estimated by management in the absence of readily determinable fair values. Management s estimates are based on information provided by the Fund s sub-adviser or affiliates of such sub-adviser.

DELOITTE & TOUCHE LLP

Denver, Colorado

May 30, 2012