

FIRST OPPORTUNITY FUND INC
Form N-Q
March 02, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-04605

First Opportunity Fund, Inc.
(Exact name of registrant as specified in charter)

2344 Spruce Street, Suite A, Boulder, CO
(Address of principal executive offices)

80302
(Zip code)

Fund Administrative Services

2344 Spruce Street, Suite A

Boulder, CO 80302
(Name and address of agent for service)

Registrant's telephone number, including area code: (303) 444-5483

Date of fiscal year end: March 31, 2009

Date of reporting period: December 31, 2008

Item 1 Schedule of Investments.

The Schedule of Investments are included herewith.

Portfolio of Investments as of December 31, 2008 (Unaudited)

FIRST OPPORTUNITY FUND, INC.

| Shares | Description | Value (Note 1) |
|---------------------------------------|---|-------------------|
| LONG TERM INVESTMENTS (91.5%) | | |
| DOMESTIC COMMON STOCKS (74.7%) | | |
| Banks & Thrifts (31.5%) | | |
| 97,144 | 1st United Bancorp, Inc.* | \$ 582,864 |
| 73,090 | Alliance Bankshares Corp.* | 101,595 |
| 541,900 | AmeriServ Financial, Inc. | 1,078,381 |
| 11,900 | Bank of Commerce Holdings | 50,337 |
| 34,000 | Bank of Marin | 804,100 |
| 83,300 | Bank of Virginia* | 249,900 |
| 57,000 | BCB Bancorp, Inc. | 589,950 |
| 64,300 | Beverly National Corp. | 902,129 |
| 37,400 | Bridge Capital Holdings* | 142,120 |
| 13,400 | Cambridge Bancorp | 347,060 |
| 47,298 | Carolina Trust Bank* | 290,883 |
| 340,815 | CCF Holding Co.(a) | 221,530 |
| 51,860 | Centrue Financial Corp. | 319,976 |
| 60,000 | Community Bank *(b)(c) | 4,353,599 |
| 75,800 | The Connecticut Bank & Trust Co.* | 375,210 |
| 114,831 | Dearborn Bancorp, Inc.* | 190,619 |
| 105,824 | Eastern Virginia Bankshares, Inc. | 932,309 |
| 97,200 | FC Holdings, Inc.*(b)(c) | 420,876 |
| 5,700 | First Advantage Bancorp | 58,425 |
| 39,700 | First American International*(b)(c) | 1,277,943 |
| 32,450 | First Bankshares, Inc.* | 113,575 |
| 79,578 | First California Financial Group, Inc.* | 439,271 |
| 17,400 | First Capital Bancorp, Inc.* | 115,362 |
| 225,534 | First Regional Bancorp* | 730,730 |
| 192,300 | First Security Group, Inc. | 888,426 |
| 66,726 | First Southern Bancorp*(b)(c) | 683,942 |
| 28,200 | First State Bank*(b)(c) | 105,750 |
| 2,880 | First Trust Bank* | 28,800 |
| 193,261 | Florida Capital Group*(b)(c) | 1,159,566 |
| 16,427 | FNB Bancorp | 188,089 |
| 123,500 | Goldman Sachs Group, Inc. | 10,422,165 |
| 207,700 | Great Florida Bank Class A* | 618,946 |
| 15,300 | Great Florida Bank Class B* | 26,775 |
| 66,000 | Greater Hudson Bank N.A.* | 306,900 |
| 228,000 | Hampshire First Bank*(c) | 1,299,600 |
| 35,203 | Heritage Oaks Bancorp | 176,719 |
| 19,300 | Iberiabank Corp. | 926,400 |
| 49,200 | ICB Financial* | 147,600 |
| 19,000 | Katahdin Bancshares Corp.(c) | 247,000 |
| 66,885 | MetroCorp Bancshares, Inc. | 498,293 |
| 905,600 | National Bancshares, Inc.*(b)(c) | 1,358,400 |
| 1,320,400 | National City Corp. | 2,389,924 |
| 29,900 | New England Bancshares, Inc.(c)(d) | 239,200 |
| 10,000 | New England Bancshares, Inc.(c) | 80,000 |

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| | | |
|---------|-------------------------------------|-----------|
| 138,600 | NewBridge Bancorp | 329,868 |
| 5,400 | North Dallas Bank & Trust Co. | 243,000 |
| 361,622 | Northfield Bancorp, Inc. | 4,068,248 |
| 40,500 | Oak Ridge Financial Services, Inc.* | 276,210 |
| 2,500 | Old Point Financial Corp. | 47,825 |
| 54,208 | Parkway Bank* | 157,203 |
| 130,500 | Pennsylvania Commerce Bancorp* | 3,479,130 |
| 163,590 | Pilot Bancshares, Inc.(c) | 327,180 |
| 190,540 | Republic First Bancorp, Inc.* | 1,676,752 |
| 40,849 | SCBT Financial Corp. | 1,409,291 |
| 10,292 | Signature Bank* | 295,277 |
| 101,022 | Southern Connecticut Bancorp, Inc.* | 500,059 |
| 92,369 | Southern First Bancshares, Inc.* | 849,795 |
| 302,900 | Square 1 Financial, Inc.*(b)(c) | 2,120,300 |
| 97,500 | State Bancorp, Inc.* | 949,650 |

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| | | |
|--|--|------------|
| 84,158 | Sterling Banks, Inc.* | 84,158 |
| 156,133 | Sun Bancorp, Inc.* | 1,169,436 |
| 49,680 | Valley Commerce Bancorp* | 489,348 |
| 36,100 | VIST Financial Corp. | 279,053 |
| 43,787 | Wainwright Bank & Trust Co. | 257,030 |
| 42,700 | Washington Banking Co. | 371,490 |
| 10,719 | Yadkin Valley Financial Corp. | 152,746 |
| | | 56,014,288 |
| Diversified Financial Services (3.9%) | | |
| 16,240 | Affinity Financial Corp.*(b)(c) | 12,505 |
| 25,000 | CMET Finance Holding*(b)(d) | 280,500 |
| 165,700 | Goldleaf Financial Solutions, Inc.* | 122,618 |
| 276,300 | Highland Financial Partners LP*(b)(d) | 19,341 |
| 60,000 | Independence Financial Group, Inc.*(b)(c) | 535,800 |
| 145,200 | KKR Financial Holdings, LLC | 229,416 |
| 93,615 | Mackinac Financial Corp.* | 383,822 |
| 745,500 | MF Global, Ltd.* | 1,520,820 |
| 175,100 | Muni Funding Co. of America, LLC(b)(d) | 794,954 |
| 455,100 | Ocwen Structured Investments, LLC(b)(c) | 1,028,344 |
| 265,000 | Resource Capital Corp.(d) | 1,014,950 |
| 466,667 | Terra Nova Financial Group* | 294,000 |
| 199,641 | TICC Capital Corp. | 758,636 |
| | | 6,995,706 |
| Insurance (2.2%) | | |
| 241,100 | Amtrust Financial Services, Inc.(d) | 2,796,760 |
| 375,700 | Maiden Holdings, Ltd.(d) | 1,175,941 |
| | | 3,972,701 |
| Mortgages & REITS (6.4%) | | |
| 134,500 | American Capital Agency Corp., REIT | 2,872,920 |
| 1,026,600 | Chimera Investment Corp. | 3,541,770 |
| 152,766 | Cypress Sharpridge Investments, Inc., REIT(b)(d) | 1,069,362 |
| 55,000 | Embarcadero Bank*(b)(c) | 542,300 |
| 1,400 | Hatteras Financial Corp., REIT | 37,240 |
| 177,324 | MFA Mortgage Investments, Inc., REIT | 1,044,438 |
| 155,504 | Newcastle Investment Holdings Corp., REIT*(b) | 673,332 |
| 87,900 | Verde Realty*(b)(c) | 1,683,285 |
| | | 11,464,647 |
| Savings & Loans (30.7%) | | |
| 236,800 | Abington Bancorp, Inc. | 2,190,400 |
| 75,500 | American Bancorp of NJ | 898,450 |
| 34,100 | Appalachian Bancshares, Inc.* | 87,637 |
| 10,000 | Auburn Bancorp, Inc.* | 66,600 |
| 151,500 | Beacon Federal Bancorp, Inc. | 1,246,845 |
| 317,000 | Beneficial Mutual Bancorp, Inc.* | 3,566,250 |
| 157,820 | Boston Private Financial Holdings, Inc. | 1,079,489 |
| 129,280 | Broadway Financial Corp.(a) | 493,850 |
| 60,100 | Carver Bancorp, Inc.* | 300,500 |
| 81,700 | Central Federal Corp. | 243,466 |
| 81,384 | CFS Bancorp, Inc. | 317,398 |
| 33,000 | Citizens Community Bank* | 231,000 |
| 27,766 | Citizens First Bancorp, Inc. | 58,309 |
| 540,000 | Citizens Republic Bancorp, Inc. | 1,609,200 |
| 199,382 | Danvers Bancorp, Inc. | 2,665,737 |
| 26,900 | ECB Bancorp, Inc. | 430,669 |
| 396,200 | ESSA Bancorp, Inc. | 5,598,305 |
| 32,500 | Fidelity Federal Bancorp(b) | 263,250 |
| 25,638 | First Community Bank Corp. of America* | 109,218 |
| 423,058 | Flagstar Bancorp, Inc.*(c) | 300,371 |

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| | | |
|---------|------------------------------------|-----------|
| 43,400 | Georgetown Bancorp, Inc.* | 173,600 |
| 222,900 | Hampden Bancorp, Inc. | 2,037,306 |
| 3,630 | HF Financial Corp. | 46,537 |
| 62,916 | Home Bancorp, Inc.* | 614,689 |
| 327,448 | Home Federal Bancorp, Inc.* | 3,510,243 |
| 77,500 | Jefferson Bancshares, Inc. | 628,525 |
| 81,700 | Legacy Bancorp, Inc. | 863,569 |
| 56,000 | Liberty Bancorp, Inc. | 416,640 |
| 130,712 | LSB Corp. | 967,269 |
| 30,200 | Malvern Federal Bancorp, Inc. | 277,840 |
| 182,200 | Meridian Interstate Bancorp, Inc.* | 1,685,350 |
| 310,300 | MidCountry Financial Corp.*(b)(c) | 1,672,517 |

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| | | |
|--------------------------------------|--|-------------|
| 113,200 | Newport Bancorp, Inc.* | 1,300,668 |
| 67,100 | Old Line Bancshares, Inc. | 389,180 |
| 110,400 | Osage Bancshares, Inc. | 800,400 |
| 163,300 | Pacific Premier Bancorp, Inc.* | 635,237 |
| 165,930 | Perpetual Federal Savings Bank(a) | 2,040,939 |
| 17,500 | Privee, LLC*(b)(c) | 1,305,150 |
| 75,100 | Provident Financial Holdings, Inc. | 339,452 |
| 40,650 | Redwood Financial, Inc.*(a)(b) | 508,125 |
| 89,993 | River Valley Bancorp(a) | 1,019,621 |
| 28,600 | Rockville Financial, Inc. | 399,542 |
| 38,700 | Rome Bancorp, Inc. | 336,690 |
| 6,300 | Royal Financial, Inc.* | 32,256 |
| 289,600 | SI Financial Group, Inc. | 1,737,600 |
| 17,600 | Sound Financial, Inc. | 125,312 |
| 100,000 | Sterling Eagle*(b)(c) | |
| 164,800 | TFS Financial Corp. | 2,125,920 |
| 110,500 | Third Century Bancorp(a) | 769,080 |
| 266,349 | United Financial Bancorp, Inc. | 4,032,523 |
| 125,200 | ViewPoint Financial Group | 2,009,460 |
| 1,451,428 | Washington Mutual Unit Split(b)(c) | 28,085 |
| | | 54,586,269 |
| TOTAL DOMESTIC COMMON STOCKS | | |
| (Cost \$212,869,240) | | 133,033,611 |
| FOREIGN COMMON STOCKS (14.5%) | | |
| Bermuda (1.6%) | | |
| 112,718 | Catlin Group, Ltd. | 702,533 |
| 112,000 | CRM Holdings, Ltd.* | 190,400 |
| 108,200 | Maiden Holdings, Ltd.(d) | 338,666 |
| 36,500 | RAM Holdings, Ltd.* | 13,505 |
| 5,700 | White Mountains Insurance Group, Ltd. | 1,522,527 |
| | | 2,767,631 |
| Brazil (1.1%) | | |
| 1,421,000 | Banco Industrial e Comercial S.A. | 1,779,297 |
| 292,300 | Brasil Brokers Participacoes S.A.* | 206,816 |
| | | 1,986,113 |
| Canada (0.3%) | | |
| 111,000 | DundeeWealth, Inc. | 528,700 |
| Denmark (0.4%) | | |
| 12,690 | Gronlandsbanken | 770,218 |
| Great Britain (1.6%) | | |
| 472,279 | Lancashire Holdings, Ltd. | 2,885,836 |
| Guernsey (1.0%) | | |
| 526,817 | European Capital(c) | 1,764,099 |
| India (2.3%) | | |
| 135,846 | Axis Bank, Ltd. | 1,407,255 |
| 14,934 | Financial Technologies India, Ltd. | 152,237 |
| 13,393 | Housing Development Finance Corp. | 408,607 |
| 193,066 | Indiabulls Financial Services, Ltd. | 527,048 |
| 468,996 | Infrastructure Development Finance Co., Ltd. | 643,040 |
| 574,975 | JM Financial, Ltd. | 296,221 |
| 80,902 | Kotak Mahindra Bank, Ltd. | 593,647 |
| | | 4,028,055 |
| Netherlands (0.7%) | | |

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|----------------------------|-------------------------------|-----------|
| 404,030 | AerCap Holdings N.V.* | 1,216,130 |
| Singapore (0.0%)(e) | | |
| 214,000 | ARA Asset Management, Ltd.(d) | 54,215 |
| Sweden (0.3%) | | |
| 61,000 | Intrum Justitia AB | 605,530 |
| Switzerland (5.2%) | | |
| 20,463 | Basler Kantonalbank | 2,212,892 |
| 8,968 | Luzerner Kantonalbank AG | 2,089,598 |

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|--|------------|--|-----------------------|
| 89,969 | | Paris RE Holdings, Ltd.*(d) | 1,245,609 |
| 5,891 | | St Galler Kantonalbank | 2,125,376 |
| 8,447 | | Valiant Holding | 1,576,943 |
| | | | 9,250,418 |
| TOTAL FOREIGN COMMON STOCKS | | | |
| (Cost \$62,677,001) | | | 25,856,945 |
| DOMESTIC PREFERRED STOCK (2.0%) | | | |
| 1,272 | | South Financial Group, Inc.(b)(c) | 845,390 |
| 4,228 | | South Financial Group, Inc.(b)(c) | 2,809,991 |
| TOTAL DOMESTIC PREFERRED STOCK | | | |
| (Cost \$5,500,000) | | | 3,655,381 |
| DOMESTIC WARRANTS (0.0%)(e) | | | |
| 195,000 | | Dime Bancorp, Inc., Warrant, Expires 12/26/50* | 3,900 |
| 12,300 | | ICB Financial, Warrant, Expires 6/30/09*(b)(c) | |
| 26,500 | | Resource Capital Corp., Warrant, Expires 12/31/09(b)(d) | |
| 233,333 | | Terra Nova Financial Group, Warrant, Expires 3/20/11*(b)(c) | 8,447 |
| 181,429 | | Washington Mutual, Inc., Warrant, Expires 4/11/13*(b)(c) | |
| TOTAL DOMESTIC WARRANTS | | | |
| (Cost \$) | | | 12,347 |
| Par Value | | Description | Value (Note 1) |
| DOMESTIC CORPORATE BONDS & NOTES (0.3%) | | | |
| Mortgages & REITS | | | |
| \$ | 9,956,000 | Thornburg Mortgage, Inc., 18.00%, due 3/31/15(b)(d) | 522,690 |
| | 1,094,077 | Thornburg Mortgage, Inc., 18.00%, due 3/31/15(b)(d) | 57,439 |
| TOTAL DOMESTIC CORPORATE BONDS & NOTES | | | |
| (Identified Cost \$10,040,743) | | | 580,129 |
| TOTAL LONG TERM INVESTMENTS | | | |
| (Cost \$291,086,984) | | | 163,138,413 |
| SHORT TERM INVESTMENTS (7.0%) | | | |
| Repurchase Agreement (7.0%) | | | |
| | 12,400,000 | Deutsche Bank Tri-party Repo, 0.10% dated 12/31/08, to be repurchased at \$12,400,069 on 1/2/09, collateralized by U.S. Government Agency Securities with an aggregate market value plus interest of \$12,596,594. | 12,400,000 |
| TOTAL SHORT TERM INVESTMENTS | | | |
| (Cost \$12,400,000) | | | 12,400,000 |
| TOTAL INVESTMENTS (98.5%) | | | |
| (Cost \$303,486,984) | | | 175,538,413 |
| TOTAL OTHER ASSETS LESS LIABILITIES (1.5%) | | | 2,645,686 |
| NET ASSETS (100.0%) | | | \$ 178,184,099 |

* Non-income producing security.

(a) Affiliated Company. See Note 3 in Notes to Quarterly Portfolio of Investments.

(b) Indicates a fair valued security. Total market value for fair value securities is \$26,141,183 representing 14.7% of total net assets.

(c) Private Placement restricted as to resale and does not have a readily available market.

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

(e) Less than 0.05% of Net Assets.

Common Abbreviations:

REIT - Real Estate Investment Trust

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 net assets. These industry/geography classifications are unaudited.

See accompanying Notes to Quarterly Portfolio of Investments.

Notes to Quarterly Portfolio of Investments

December 31, 2008 (Unaudited)

Note 1. Valuation and Investment Practices

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 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, 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. In such circumstances, the adviser makes an initial written recommendation to the Pricing Committee regarding valuation methodology for each Fair Value Security. Thereafter, the 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. Prior to implementation, 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 Portfolio of Investments include investments valued at \$26,141,183 (14.7% of total net assets) as of December 31, 2008 and \$66,655,800 (22.4% of total net assets) as of September 30, 2008, whose fair values have been estimated by management in the absence of readily determinable fair values.

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 adopted Financial Accounting Standards Board Statement of Financial Accounting Standards (FASB) No. 157, Fair Value Measurements (FAS 157), as well as FASB Standards No. 159 (FAS 159), Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115, effective April 1, 2008. Management has determined that there is no impact to the Fund as a result of adopting FAS 159. In accordance with FAS 157, 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. FAS 157 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 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 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 valuation techniques used by the Fund to measure fair value during the nine months ended December 31, 2008 maximized the use of observable inputs and minimized the use of unobservable inputs. The Fund utilized the following fair value techniques: book value, last available trade price, discounted future cash flow models, multi-dimensional relational pricing model, and option adjusted spread pricing.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Fund's investments carried at value:

| Valuation Inputs | | Investments in Securities | | Other Financial Instruments * Unrealized Appreciation (Depreciation) |
|---|-----------|------------------------------|-----------|--|
| Level 1 - Quoted Prices | \$ | 147,633,131 | | |
| Level 2 - Significant Observable Inputs | | 9,105,697 | | 1,797,451 |
| Level 3 - Significant Unobservable Inputs | | 18,799,585 | | |
| Total | \$ | 175,538,413 | \$ | 1,797,451 |

* Other financial instruments include swap contracts.

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 3/31/08 | \$ | |
| Realized loss | | (18,594) |
| Change in unrealized depreciation | | (13,150,147) |
| Net purchases/(sales) | | (4,535,467) |
| Transfer in and/or out of Level 3 | | 36,503,793 |
| Balance as of 12/31/08 | \$ | 18,799,585 |

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 portfolios. 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 the income included in distributions received. Distributions received in excess of this amount are recorded as a reduction of the cost of investments. The actual amounts of income and return of capital are determined by each REIT only after its fiscal year-end, and may differ from the estimated amounts.

Foreign Currency Translation: The books and records of the Fund are maintained in US 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 on investment securities sold.

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 exceeds 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.

Note 2. Unrealized Appreciation/(Depreciation)

On December 31, 2008, based on cost of \$304,945,004 for federal income tax purposes, aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$15,080,377 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$144,486,968, resulting in net unrealized depreciation of \$129,406,591.

Note 3. 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 | Purchases | Sales | Ending Share Balance | Dividend Income | Realized Gains (Losses) | Market Value |
|--------------------------------|-------------------------|-----------|-------|----------------------|-----------------|-------------------------|--------------|
| Broadway Financial Corporation | 129,280 | | | 129,280 | \$ 19,392 | | \$ 493,850 |
| CCF Holding Company | 340,815 | | | 340,815 | 17,041 | | 221,530 |
| Perpetual Federal Savings Bank | 165,930 | | | 165,930 | 99,558 | | 2,040,939 |
| Redwood Financial, Inc. | 40,650 | | | 40,650 | | | 508,125 |
| River Valley Bancorp | 90,000 | | 7 | 89,993 | 75,599 | 36 | 1,019,621 |
| Third Century Bancorp | 110,500 | | | 110,500 | 17,680 | | 769,080 |
| | | | | | \$ 229,270 | \$ 36 | \$ 5,053,145 |

Note 4. Credit Default Swaps

The Fund may invest in credit default swap contracts. Credit default swap contracts entered into by the Fund as of December 31, 2008, were as follows:

| Swap Counterparty | Referenced Obligation | Notional Amount | | Rates paid by Fund | Termination Date | Upfront Payments made (received) by the Fund | Unrealized Gain/(Loss) |
|-------------------|-----------------------|-----------------|-----|--------------------|------------------|--|------------------------|
| Morgan Stanley | Barclays Bank | 4,500,000 | EUR | 1.42% | 9/20/13 | \$ | \$ 50,692 |
| Goldman Sachs | BNP Paribas | 4,500,000 | EUR | 0.67% | 9/20/13 | | 6,930 |
| Goldman Sachs | CDX.NA.IG | 38,000,000 | USD | 1.50% | 12/20/13 | 426,077 | 371,937 |
| Goldman Sachs | Commerzbank | 4,500,000 | EUR | 0.88% | 9/20/13 | | (4,211) |
| Morgan Stanley | Credit Agricole | 4,500,000 | EUR | 1.09% | 9/20/13 | | (83,298) |
| Morgan Stanley | DBR | 25,000,000 | USD | 0.12% | 9/20/18 | | 790,131 |
| Goldman Sachs | EURO DB | 3,400,000 | EUR | 0.88% | 9/20/13 | | 79,881 |
| Goldman Sachs | Intesa Sanpaolo | 4,500,000 | EUR | 0.57% | 9/20/13 | | 145,436 |
| Morgan Stanley | Lloyds Bank | 4,500,000 | EUR | 0.89% | 9/20/13 | | 47,591 |
| Morgan Stanley | Republic of Korea | 3,000,000 | USD | 1.22% | 9/20/13 | | 233,126 |
| Morgan Stanley | Royal Bank Scott | 4,500,000 | EUR | 1.37% | 9/20/13 | | 90 |
| Morgan Stanley | Societe Generale | 4,500,000 | EUR | 1.01% | 9/20/13 | | 10,442 |
| Goldman Sachs | Unicredit S.P.A. | 4,500,000 | EUR | 0.68% | 9/20/13 | | 148,704 |
| TOTAL | | | | | | \$ 426,077 | \$ 1,797,451 |

Note 5. Recently Issued Accounting Pronouncements

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161) Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 133), expands the disclosure requirements in SFAS 133 about entity s derivative instruments and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the impact the adoption of SFAS No. 161 will have on the Fund s financial statement disclosures.

Item 2 - Controls and Procedures.

(a) The Registrant's Principal Executive Officer and Principal Financial Officer concluded that the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (17 CFR 270.300-3(c))) were effective as of a date within 90 days of the filing date of this report (the Evaluation Date), based on their evaluation of the effectiveness of the Registrant's disclosure controls and procedures as of the Evaluation Date.

(b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940 (17 CFR 270.30a-3(d))) that occurred during the Registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 3 Exhibits.

(a) Certification of Principal Executive Officer and Principal Financial Officer of the Registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is attached hereto as Exhibit 99CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant First Opportunity Fund, Inc.

By: /s/ Stephen C. Miller
 Stephen C. Miller, President
 (Principal Executive Officer)

Date: February 26, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Stephen C. Miller
 Stephen C. Miller, President
 (Principal Executive Officer)

Date: February 26, 2009

By: /s/ Carl D. Johns
 Carl D. Johns, Vice President and Treasurer
 (Principal Financial Officer)

Date: February 26, 2009
