

Edgar Filing: FIRST FINANCIAL FUND INC - Form N-30D

FIRST FINANCIAL FUND INC  
Form N-30D  
May 30, 2002

(LOGO)

ANNUAL

REPORT

March 31, 2002

Letter To Shareholders

April 30, 2002

Dear Fellow Shareholder:

The smell of accountability is in the air. And it's not just Enron. Wall Street, the accounting profession, and overpaid corporate CEOs--all are suffering from disclosure issues, specifically, a lack thereof. Ironic, isn't it, this being the "information age"?

While we are spectacularly unqualified to opine on geo-socio-political affairs, such ignorance will not prevent us from offering a solution to the current corporate malaise. Look in the mirror. Over the last 20 years, we've seen stock analysis evolve from dry, considered studies of the balance sheet and cash flow to what seems like Derby day at Churchill Downs complete with "whisper numbers," consensus expectations and minute-by-minute updates on CNBC. Investors turn over stocks and mutual funds faster than a hand of canasta. The public has paid CEOs with truckloads of stock options asking only for a better-than-expected next quarter earnings number in return. Is it any wonder, then, that a few short cuts were taken: a little barter revenue here, a little special purpose vehicle there and don't count the options--they are below the line. Simply put, the market got what it asked for--an upward spiral of stock prices--but at a cost. The cost is what you read and gnash your teeth about today.

TOTAL RETURNS  
For the Periods Ended 3/31/02

	6 Mos.	1 Year	3 Years	5 Years
First Financial Fund's NAV1	22.38%	35.20%	26.09%	13.21%
S&P 500	10.99	0.24	-2.53	10.18
NASDAQ Composite*	23.12	0.28	-9.16	8.60
NASDAQ Banks*	13.55	24.20	10.14	11.16
SNL All Daily Thrift*	5.54	13.73	12.47	13.79
SNL MBS REITS	20.80	53.18	12.21	1.67
SNL Mortgage Banks*	5.88	9.30	5.77	-2.52

1 Source: Lipper Analytical Services, Inc. The Fund's total return represents the change in net asset value from the beginning of the period noted through March 31, 2002 and assumes the reinvestment of dividends and distributions. Past performance is no guarantee of future results. Returns based on market price performance of the Fund's shares would be different.

\* Principal only.

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Note: Returns for periods greater than one year are annualized.

Our bet that the yield curve would remain steep and credit costs high proved remunerative this quarter, as did the market's love affair with small cap and value. Given investors' increasing fascination with the quality of earnings, our focus on strong balance sheets and understated

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values seemed timely as well. Among our current worries are the sustainability of strong residential and commercial real estate markets, the vulnerability of "less than prime" borrowers and another terrorist attack. While the current stock market offers few outstanding values, an especially skittish climate has yielded more than the usual trading opportunities.

We appreciate your continued interest and support of the Fund.

Nicholas C. Adams

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Portfolio of Investments as of March 31, 2002

FIRST FINANCIAL FUND, INC.

Shares	Description	Value (Note 1)
-----		
LONG-TERM INVESTMENTS--88.3%		
COMMON STOCKS--86.3%		
-----		
Banks & Thrifts--46.1%		
12,800	Abington Bancorp, Inc.	\$ 210,560
34,600	Algiers Bancorp, Inc.	302,750
125,600	American Home Mortgage Holdings, Inc.	1,946,800
339,500	Astoria Financial Corp.	9,862,475
645,950	Bay View Capital Corp.	4,418,298
125,300	Bostonfed Bancorp, Inc.	3,163,825
64,640	Broadway Financial Corp.	827,392
160,900	Capital Crossing Bank*	3,571,980
75,400	Capital One Financial Corp.	4,814,290
69,100	CB Bancshares, Inc.	2,564,301
86,600	CBES Bancorp, Inc.	1,177,760
142,538	CCF Holding Co.	3,028,933
24,400	Charter Financial Corp.	590,968
57,800	Charter One Financial, Inc.	1,804,516
60,000	Community Bank San Jose California(a)	2,099,400
131,600	Connecticut Bancshares, Inc.	3,617,684
195,000	Dime Bancorp, Inc.*	25,350
190,400	Downey Financial Corp.	8,682,240
413,565	Fidelity Federal Bancorp.*	1,157,982

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22,900	First Citizens BancShares, Inc.	2,357,784
45,000	First Community Bancorp, Inc.	1,183,500
29,000	First Financial Corp.	936,700
319,150	First Republic Bank*	9,063,860
297,100	FirstFed America Bancorp, Inc.	7,100,690
252,000	FirstFed Bancorp, Inc.	1,751,400
214,800	Friedman, Billings, Ramsey Group, Inc. *	1,503,600
241,600	Golden State Bancorp, Inc.	7,173,104
199,525	Hanmi Financial Corp.*	3,391,921
291,400	Hawthorne Financial Corp.*	8,523,450
19,999	HFB Financial Corp.	291,985
50,000	Hibernia Corp.	955,000
19,500	Iberiabank Corp.	676,065
131,300	KeyCorp	3,499,145
175,000	Macatawa Bank Corp.	3,465,000
219,600	MetroCorp Bancshares, Inc.	2,569,320
224,000	North Valley Bancorp	3,673,600
90,000	Northeast Pennsylvania Financial Corp.	1,471,500
339,200	Ocwen Financial Corp.*	2,235,328
102,900	Pacific Crest Capital, Inc.	2,510,760
341,660	Pacific Union Bank*	3,928,236
34,600	Peoples Financial Corp.	\$ 422,120
165,930	Perpetual Federal Savings Bank*	3,509,419
225,900	Port Financial Corp.	7,124,886
94,900	PrivateBankcorp, Inc.*	2,325,050
151,678	Progress Financial Corp.(a)	1,220,401
317,300	Provident Financial Holdings, Inc.*	9,388,907
40,650	Redwood Financial, Inc.*	389,021
45,000	River Valley Bancorp	1,073,250
47,800	Rowan Bancorp, Inc.*	1,625,200
82,280	Southern Financial Bancorp, Inc.	2,052,886
210,000	Southwest Bancorp, Inc.	4,255,860
32,500	St. Landry Financial Corp.(a)*	340,275
21,100	Team Financial, Inc.	187,790
150,800	Thistle Group Holdings Co.	1,898,572
35,000	Trico Bancshares	736,750
100,700	Unionbancal Corp.	4,432,814
77,595	Vista Bancorp, Inc.	2,095,065
172,000	Woronoco Bancorp, Inc.	3,225,000
		-----
		168,432,718
		-----
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Mortgage & REITS--13.5%		
538,800	Apex Mortgage Capital, Inc.	6,244,692
131,600	Fannie Mae	10,512,208
227,875	First Mortgage Corp.*	1,197,483
218,800	IMPAC Mortgage Holdings, Inc.	2,061,096
272,590	Medical Office Properties, Inc.(a)	2,725,900
243,000	New Century Financial Corp.(a)	4,964,490
155,504	Newcastle Investment Corp. REIT(a)	2,973,237
219,970	Novastar Financial, Inc.	4,135,436
708,400	RAIT Investment Trust	14,274,260
		-----
		49,088,802
		-----
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Other Financial Intermediaries--13.9%		
30,600	Ambac Financial Group, Inc.	1,807,542
25,500	Aon Corp.	892,500

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574,200	Banner Central Finance Co.*	1,177,110
447,000	Ceres Group, Inc.*	2,033,850
186,200	FBR Asset Investment Corp.	5,064,640
574,200	Hispanic Express, Inc.*	1,119,690

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See Notes to Financial Statements. 3

Portfolio of Investments as of March 31, 2002 FIRST FINANCIAL FUND, INC.  
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Shares	Description	Value (Note 1)
318,700	IPC Holdings Ltd., ADR (Bermuda)	\$ 10,370,498
64,000	Legg Mason, Inc.	3,397,120
84,300	Philadelphia Consolidated Holding Corp.*	3,355,140
167,000	PMA Capital Corp.	3,830,980
170,300	Prudential Financial, Inc.*	5,287,815
959,315	Resource America, Inc.	10,581,244
73,200	Willis Group Holdings Ltd.*	1,808,040
		-----
		50,726,169
		-----

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Savings & Loan--12.8%

114,600	Brookline Bancorp, Inc.	1,955,076
71,800	Chesterfield Financial Corp.*	1,262,244
238,500	Citizens First Bancorp, Inc.	4,545,810
181,800	Fidelity Bankshares, Inc.	3,272,400
35,500	First Bell Bancorp, Inc.	552,025
170,000	First Federal Bancshares, Inc.	2,852,600
184,400	FloridaFirst Bancorp, Inc.	3,374,520
163,100	Golden West Financial Corp.	10,356,850
90,000	HMN Financial, Inc.	1,444,500
320,300	Hudson City Bancorp, Inc.	10,396,938
95,000	Parkvale Financial Corp.	2,384,500
139,700	Quaker City Bancorp, Inc.*	4,425,697
		-----
		46,823,160
		-----

Total common stocks

(cost \$239,944,552) 315,070,849  
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Preferred Stocks--1.8%

121,000	Commerce Bancorp, Inc., 5.95%	
	(cost \$6,050,000)	6,382,750
		-----

Principal  
Amount  
(000)

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Convertible Bonds--0.2%

\$1,000	Online Resources Communications Zero Coupon, 9/30/05	
	(cost \$1,000,000)	830,000

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Total long-term investments	-----
(cost \$246,994,552)	322,283,599
	-----

Principal  
Amount

(000)	Description	Value (Note 1)
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SHORT-TERM INVESTMENTS--12.4%

Repurchase Agreement--12.4%

\$45,403	Paribas Corp., 1.80%, dated 3/28/2002, due 4/1/2002 in the amount of \$45,412,080 (cost \$45,403,000; collateralized by \$37,259,000 U.S. Treasury Bonds, 8.125%, due 8/15/19, value of collateral including interest \$46,332,399)	\$ 45,403,000
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Certificates of Deposit

2	Brookline Savings, 2.25%, 5/29/02	1,576
23	First Federal Savings Bank, 3.25%, 4/14/02	22,666
22	Naugatuck Valley Savings & Loan Assoc., 3.00%, 4/27/02	22,375

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46,617  
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Total short-term investments	-----
(cost \$45,449,617)	45,449,617
	-----

Total Investments--100.7%

(cost \$292,444,169; Note 4)	367,733,216
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Liabilities in excess of other assets--(0.7%)	(2,526,053)
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Net Assets--100%	\$365,207,163
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\* Non-income-producing security.  
(a) Indicates a fair valued security.  
ADR--American Depository Receipt.  
REIT--Real Estate Investment Trust.

See Notes to Financial Statements. 4

Statement of Assets and Liabilities

FIRST FINANCIAL FUND, INC.

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Assets

Investments, at value (cost \$247,041,169).....  
 Repurchase agreement, at value (cost \$45,403,000).....  
 Cash.....  
 Receivable for investments sold.....  
 Dividends and interest receivable.....  
 Other assets.....

Total assets.....

Liabilities

Payable for investments purchased.....  
 Advisory fee payable.....  
 Administration fee payable.....  
 Deferred directors' fees.....  
 Accrued expenses.....

Total liabilities.....

Net Assets.....

Net assets were comprised of:

Common stock, at par; 25,064,981 shares issued.....  
 Paid-in capital in excess of par.....  
 Cost of 1,442,594 shares held in treasury.....

Undistributed net investment income.....  
 Accumulated net realized gains.....  
 Net unrealized appreciation on investments.....

Net assets, March 31, 2002.....

Net asset value per share (\$365,207,163 / 23,622,387 shares of common stock outstanding).....

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 See Notes to Financial Statements. 5

FIRST FINANCIAL FUND, INC.  
 Statement of Operations  
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	Year Ended March 31, 2002
Net Investment Income	
Income	
Dividends.....	\$ 6,235,852
Interest.....	1,718,685
	-----
Total income.....	7,954,537
	-----

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Expenses	
Investment advisory fee.....	2,197,506
Administration fee.....	512,401
Legal fees and expenses.....	200,000
Insurance expense.....	87,000
Reports to shareholders.....	82,000
Custodian's fees and expenses.....	75,000
Transfer agent's fees and expenses.....	40,000
Listing fees.....	40,000
Directors fees.....	30,000
Audit fee.....	26,000
Miscellaneous.....	8,381
	-----
Total operating expenses.....	3,298,288
Loan interest (Note 5).....	134,764
	-----
Total expenses.....	3,433,052
	-----
Net investment income.....	4,521,485
	-----
Realized and Unrealized	
Gain on Investments	
Net realized gain on investment	
transactions.....	60,925,158
Net change in unrealized appreciation of	
investments.....	34,818,254
	-----
Net gain on investments.....	95,743,412
	-----
Net Increase in Net Assets	
Resulting from Operations.....	\$100,264,897
	-----
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FIRST FINANCIAL FUND, INC.  
Statement of Changes in Net Assets

Increase in Net Assets	Year Ended March 31,	
	2002	2001
	-----	-----
Operations		
Net investment income.....	\$ 4,521,485	\$ 3,434,275
Net realized gain on investment transactions.....	60,925,158	15,308,555
Net change in unrealized appreciation of investments.....	34,818,254	85,599,520
	-----	-----
Net increase in net assets resulting from operations.....	100,264,897	104,342,350
	-----	-----
Dividends and distributions (Note 1)		
Dividends from net investment income.....	(4,724,478)	(2,462,878)
Distributions from net		

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realized gains on investment transactions.....	(34,535,923)	--
Cost of Fund shares reacquired.....	(11,189,671)	(1,148,855)
Total increase.....	49,814,825	100,730,617
Net Assets		
Beginning of year.....	315,392,338	214,661,721
End of year(a).....	\$365,207,163	\$315,392,338
-----		
(a) Includes undistributed net investment income of.....	\$ 1,857,604	\$ 2,060,597
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See Notes to Financial Statements. 6

Notes to Financial Statements

FIRST FINANCIAL FUND, INC.

First Financial Fund, Inc. (the 'Fund') was incorporated in Maryland on March 3, 1986, as a closed-end, diversified management investment company. The Fund's primary investment objective is to achieve long-term capital appreciation with the secondary objective of current income by investing in securities issued by savings and banking institutions, mortgage banking institutions and their holding companies. The ability of issuers of debt securities held by the Fund to meet their obligations may be affected by economic developments in a specific industry or region.

Note 1. Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

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 for which market quotations are not readily available will be valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

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.

Repurchase Agreement: In connection with repurchase agreement transactions with 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 ensure the adequacy of collateral. If the seller defaults, and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller



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of the security, realization of the collateral by the Fund may be delayed or limited.

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; interest income is recorded on the accrual basis. Expenses are recorded on the accrual basis, which may require the use of certain estimates by management.

Federal Income Taxes: It is the Fund's policy to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to shareholders. Therefore, no federal income tax provision is required.

Dividends and Distributions: The Fund expects to declare and pay dividends from net investment income and any net capital gains, if any, annually. Dividends and distributions are recorded on the ex-dividend date.

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Note 2. Agreements

The Fund has agreements with Wellington Management Company, LLP (the 'Investment Adviser') and with Prudential Investments LLC (the 'Administrator'). The Investment Adviser makes investment decisions on behalf of the Fund; the Administrator provides occupancy and certain clerical and accounting services to the Fund. The Fund bears all other costs and expenses.

The investment advisory agreement provides for the Investment Adviser to receive a fee, computed monthly and payable quarterly, at the following annual rates: .75% of the Fund's average month-end net assets up to and including \$50 million, and .625% of such assets in excess of \$50 million. The administration agreement provides for the Administrator to receive a fee, computed monthly and payable quarterly, at the annual rate of .15% of the Fund's average month-end net assets.

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Note 3. Portfolio Securities

Purchases and sales of investment securities, other than short-term investments, for the year ended March 31, 2002 were \$342,926,500 and \$363,763,432, respectively.

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Note 4. Distributions and Tax Information

For the year ended March 31, 2002, the tax character of dividends paid was \$19,063,267 of ordinary income and \$20,197,134 of long-term capital gains.

As of March 31, 2002, the accumulated undistributed earnings on a tax basis were \$12,121,422 of ordinary income and \$15,738,060 of long-term capital gains.

The United States federal income tax basis of the Fund's investments and the net unrealized appreciation as of March 31, 2002 were as follows:

Total Net  
Unrealized

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Tax Basis	Appreciation	Depreciation	Appreciation
\$292,530,576	\$ 80,778,941	\$ (5,576,301)	\$ 75,202,640

The differences between book and tax basis are primarily attributable to deferred losses on wash sales.

Note 5. Borrowings

The Fund has a credit agreement (the 'Agreement') with an unaffiliated lender. The maximum commitment under the Agreement is \$45,000,000. These borrowings may be set to any desired maturity at a rate of interest determined by the lender at the time of borrowing. The Agreement expired on April 29, 2002. On May 6, 2002, the Agreement was amended. The maximum commitment was increased to \$75,000,000. The expiration date of the amended Agreement is April 28, 2003. All other terms and conditions are unchanged.

While outstanding, the borrowings will bear interest, payable monthly. During the period while the loan was outstanding, the average daily balance for the year ended March 31, 2002 was approximately \$6,647,000 at a weighted average interest rate of 2.32%. The highest face amount of borrowing at any month-end during the year ended March 31, 2002 was \$10,000,000. The Fund did not have a loan balance at March 31, 2002.

Note 6. Capital

There are 50 million shares of \$.001 par value common stock authorized. Of the 25,064,981 shares issued as of March 31, 2002, the Investment Adviser owned 10,994 shares. During the years ended March 31, 2002 and 2001, the Fund repurchased 902,300 and 104,094, respectively, of its own shares at a weighted average discount of 14.8% and 15.2%, respectively.

Financial Highlights

FIRST FINANCIAL FUND, INC.

	Year En	
	2002	2001
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of year.....	\$ 12.86	\$ 8.7
Income from investment operations		
Net investment income.....	.19	.1
Net realized and unrealized gain (loss) on investments.....	3.99	4.0
Total from investment operations.....	4.18	4.2
Less dividends and distributions		
Dividends from net investment income.....	(.20)	(.1
Distributions from net realized gains.....	(1.46)	-
Distributions in excess of net realized gains.....	--	-

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Total dividends and distributions.....	(1.66)	(.1
Increase resulting from Fund share repurchase.....	.08	.0
Net change resulting from the issuance of Fund shares.....	--	--
Net asset value, end of year(a).....	\$ 15.46	\$ 12.8
Market price per share, end of year(a).....	\$ 15.75	\$ 11.2
TOTAL INVESTMENT RETURN(b) :.....	35.20%	49.4
RATIOS/SUPPLEMENTAL DATA:		
Net assets, end of year (000).....	\$365,207	\$315,39
Average net assets (000).....	\$341,601	\$258,15
Ratios to average net assets:		
Expenses, before loan interest and commitment fees.....	.97%	1.0
Total expenses.....	1.00%	2.1
Net investment income.....	1.32%	1.3
Portfolio turnover rate.....	114%	8
Total debt outstanding at end of year (000 omitted).....	\$ --	\$ --
Asset coverage per \$1,000 of debt outstanding.....	\$ --	\$ --

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PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of year.....	\$ 15.26
Income from investment operations	
Net investment income.....	.14
Net realized and unrealized gain (loss) on investments.....	6.84
Total from investment operations.....	6.98
Less dividends and distributions	
Dividends from net investment income.....	(.14)
Distributions from net realized gains.....	(2.68)
Distributions in excess of net realized gains.....	(.63)
Total dividends and distributions.....	(3.45)
Increase resulting from Fund share repurchase.....	--
Net change resulting from the issuance of Fund shares.....	.15
Net asset value, end of year(a).....	\$ 18.94
Market price per share, end of year(a).....	\$ 20.813
TOTAL INVESTMENT RETURN(b) :.....	72.59%
RATIOS/SUPPLEMENTAL DATA:	
Net assets, end of year (000).....	\$387,852
Average net assets (000).....	\$320,484
Ratios to average net assets:	
Expenses, before loan interest and commitment fees.....	.91%
Total expenses.....	1.25%
Net investment income.....	.82%
Portfolio turnover rate.....	43%
Total debt outstanding at end of year (000 omitted).....	\$ 20,000

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Asset coverage per \$1,000 of debt outstanding..... \$ 20,393

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- (a) NAV and market value are published in The Wall Street Journal each Monday.
  - (b) Total investment return is calculated assuming a purchase of common stock at the current market value on the first day and a sale at the current market value on the last day of each year reported. Dividends and distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the dividend reinvestment plan. This calculation does not reflect brokerage commissions.

Contained above is selected data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for the year indicated. This information has been determined based upon information provided in the financial statements and market price data for the Fund's shares.

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See Notes to Financial Statements. 9

Report of Independent Accountants

FIRST FINANCIAL FUND, INC.

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To the Board of Directors and Shareholders of  
First Financial Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of First Financial Fund, Inc. (the 'Fund') at March 31, 2002, the results of its operations for the year then ended, the changes in its 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. These financial statements and financial highlights (hereafter referred to as 'financial statements') are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at March 31, 2002 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York 10036  
May 21, 2002

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Tax Information (Unaudited)

FIRST FINANCIAL FUND, INC.

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We are required by the Internal Revenue Code to advise you within 60 days of the Fund's fiscal year end (March 31, 2002) as to the federal tax status of dividends and distributions paid by the Fund during such fiscal year. Accordingly, we are advising you that during the fiscal year ended March 31, 2002, the Fund paid dividends of ordinary income of \$.200 and distributions of short-term capital gains of \$.607, taxable as ordinary income, and long-term capital gains of \$.855, taxable as such. Further, we wish to advise you that 33.8% of the dividends taxable as ordinary income and paid in the fiscal year ended March 31, 2002 qualified for the corporate dividend received deduction available to corporate taxpayers.

In January 2003, shareholders will receive a Form 1099-DIV or substitute Form 1099-DIV which reflects the amount of dividends to be used by calendar year taxpayers on their 2002 federal income tax returns. Shareholders are advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund.

Other Information (Unaudited)

FIRST FINANCIAL FUND, INC.

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Dividend Reinvestment Plan. Shareholders may elect to have all distributions of dividends and capital gains automatically reinvested in Fund shares (Shares) pursuant to the Fund's Dividend Reinvestment Plan (the Plan.) Shareholders who do not participate in the Plan will normally receive all distributions in cash paid by check in United States dollars mailed directly to the shareholders of record (or if the shares are held in streetname or other nominee name, then to the nominee) by the custodian, as dividend disbursing agent, unless the Fund declares a distribution payable in shares, absent a shareholder's specific election to receive cash. Shareholders who wish to participate in the Plan should contact the Fund at (800) 451-6788.

State Street Bank and Trust Company (the Plan Agent) serves as agent for the shareholders in administering the Plan. After the Fund declares a dividend or a capital gains distribution, if (1) the market price is lower than net asset value, the participants in the Plan will receive the equivalent in Shares valued at the market price determined as of the time of purchase (generally, following the payment date of the dividend or distribution); or if (2) the market price of Shares on the payment date of the dividend or distribution is equal to or exceeds their net asset value, participants will be issued Shares at the higher of net asset value or 95% of the market price. If the Fund declares a dividend or other distribution payable only in cash and the net asset value exceeds the market price of Shares on the valuation date, the Plan Agent will, as agent for the participants, receive the cash payment and use it to buy Shares in the open market. If, before the Plan Agent has completed its purchases, the market price exceeds the net asset value per share, the Plan Agent will halt open-market purchases of the Fund's shares for this purpose, and will request that the Fund pay the remainder, if any, in the form of newly-issued shares. The Fund will not issue Shares under the Plan below net asset value.

There is no charge to participants for reinvesting dividends or capital gain distributions, except for certain brokerage commissions, as described below. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Fund. There will be no brokerage commissions charged with respect to shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any federal income

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tax that may be payable on such dividends or distributions.

The Fund reserves the right to amend or terminate the Plan upon 90 days' written notice to shareholders of the Fund.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent or by telephone in accordance with specific procedures and will receive certificates for whole Shares and cash for fractional Shares.

All correspondence concerning the Plan should be directed to the Plan Agent, State Street Bank & Trust Company, P.O. Box 8200, Boston, MA 02266-8200.

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Management of the Fund (Unaudited)

FIRST FINANCIAL FUND, INC.

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Information pertaining to the Directors of the Fund is set forth below.

Directors

Name, Address and Age	Position With Fund	Term of Office and Length of Time Served*
Richard I. Barr (65) 6831 East Solano Drive Phoenix, AZ 85061	Director	Since 2001 (Class III)
Eugene C. Dorsey (75) 2010 Harbourside Drive, Pound2003 Longboat Key, FL 34228	Director	Since 1996 (Class I)
Name, Address and Age	Principal Occupations and Other Directorships Held**	
Richard I. Barr (65) 6831 East Solano Drive Phoenix, AZ 85061	Director of Boulder Total Return Fund, Inc. (since 1999) and USLIFE Income Fund, Inc. (since 2002); formerly President and Director of Advantage Sales and Marketing (1997-1999); formerly President and Chief Executive Officer of CBS Marketing (1976-1997) former President, Arizona Food Brokers Association (1996); former Director Association of Sales and Marketing Companies (formerly National Food Brokers Association) (1992-1998); former Director, St. Mary's Food Bank (1990-1996), and currently advisory board member of Kansas University Business School and Arizona State University.	
Eugene C. Dorsey (75) 2010 Harbourside Drive, Pound2003 Longboat Key, FL 34228	Retired. Director or Trustee of 78 portfolios within the Prudential Fund Complex and Director of The High Yield	

Plus Fund, Inc.; formerly President, Chief Executive Officer and Trustee of Gannett Foundation (now Freedom Forum) (1981-1989); former publisher of four Gannett newspapers and Vice President of Gannett Co., Inc. (publishing) (1978-1981); past Chairman, Independent Sector, Washington, D.C. (national coalition of philanthropic organizations) (1989-1992); and former Chairman of the American Council on the Arts; and former Director, Advisory Board of Chase Manhattan Bank of Rochester.

Management of the Fund (Unaudited)

FIRST FINANCIAL FUND, INC.

Name, Address and Age	Position With Fund	Term of Office and Length of Time Served*
Robert E. La Blanc (68) 323 Highland Avenue Ridgewood, NJ 07450	Director	Since 1999 (Class I)
Thomas T. Mooney (60)*** 55 St. Paul Street Rochester, NY 14604	Director, President and Treasurer	Since 1986 (as Director) (Class II)
Clay T. Whitehead (63) P.O. Box 8090 McLean, VA 22106	Director	Since 2000 (Class II)

Name, Address and Age	Principal Occupations During Past 5 Years and Other Directorships Held**
Robert E. La Blanc (68) 323 Highland Avenue Ridgewood, NJ 07450	President of Robert E. La Blanc Associates, Inc. (information technologies consulting) (since 1986); Director or Trustee of 74 portfolio companies within the Prudential Fund Complex; Director of The High Yield Plus Fund, Inc.; formerly Vice-Chairman of Continental Telecom, Inc. (1979-1986); formerly General Partner at Salomon Brothers (1969-1979); Director of Salient 3 Communications, Inc. (telecommunications). Storage Technology Corp. (computer equipment), Titan Corp. (electronics), and Chartered Semiconductor Manufacturing, Ltd.

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(semiconductors); and Trustee of Manhattan College.

Thomas T. Mooney (60)\*\*\*  
55 St. Paul Street  
Rochester, NY 14604

President of the Greater Rochester Chamber of Commerce (since 1976); Director or Trustee 95 portfolios within the Prudential Fund Complex; President and Treasurer of The High Yield Plus Fund, Inc.; former Rochester County Manager (during 1973); Trustee of Center for Governmental Research, Inc. (volunteer consulting); and Director of Blue Cross of Rochester, Executive Service Corps of Rochester, Monroe County Water Authority and Rural/Metro Medical Services, Inc. (ambulance service).

Clay T. Whitehead (63)  
P.O. Box 8090  
McLean, VA 22106

President of Clay Whitehead Associates (telecommunications) (since 1987) and National Exchange Inc. (new business development firm) (since May 1983); Director or Trustee of 91 portfolios within the Prudential Fund Complex; Director of The High Yield Plus Fund Inc., GTC Telecom, Inc. (telecommunications), and Crosswalk (website).

Management of the Fund (Unaudited)

FIRST FINANCIAL FUND, INC.

Information pertaining to the officers of the Fund, other than Mr. Mooney (who is listed above), is set forth below.

Officers

Name, Address and Age	Position With Fund	Term of Office and Length of Time Served*
Arthur J. Brown (53) 1800 Massachusetts Avenue, NW Washington, D.C. 20036	Secretary	Since 1986
R. Charles Miller (44) 1800 Massachusetts Avenue, NW Washington, D.C. 20036	Assistant Secretary	Since 1999

Name, Address and Age	Principal Occupations During Past 5 Years
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Arthur J. Brown (53) 1800 Massachusetts Avenue, NW	Partner, Kirkpatrick & Lockhart LLP (firm and counsel to the Fund)
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Washington, D.C. 20036

R. Charles Miller (44)  
1800 Massachusetts Avenue, NW  
Washington, D.C. 20036

Partner, Kirkpatrick & Lockhart LLP

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- \* The Board of Directors is divided into three classes, each of which has three terms. Class I Officers are generally elected by the Board to one year terms.
- \*\* This column includes only directorships of companies required to report to the Securities and Securities Exchange Act of 1934 (that is, 'public companies') or other investment companies Company Act of 1940 ('1940 Act'). Each Director of the Fund, except Mr. Barr, oversees three Fund's 'Fund Complex'. The Fund's Fund Complex consists of a group of investment companies a that are advised by the Investment Adviser.
- \*\*\* Indicates an 'interested person' of the Fund, as defined in the 1940 Act. Mr. Mooney is deemed solely by reason of his service as an officer of the Fund.

Revised Investment Policy (Unaudited)

FIRST FINANCIAL FUND, INC.

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On May 21, 2002, the Board of Directors unanimously approved a new investment policy for the Fund in order to comply with new Rule 35d-1 under the 1940 Act (commonly known as the 'names rule'). The names rule requires many funds that have names that signify certain investments to have an investment policy requiring that 80% of their assets be invested in such investments. The Fund's name includes the term 'financial,' which may suggest a particular type of investment. Accordingly, the Board adopted a new fundamental investment policy for the Fund as follows:

'Under normal circumstances, the Fund will invest at least 80% of its assets (net assets, plus the amount of any borrowings for investment purposes) in securities issued by finance and financial service-related companies, including savings and banking institutions, the deposits of which are insured by the Federal Deposit Insurance Corporation, securities issued by mortgage banking institutions, REITs, and consumer and industrial finance, insurance, brokerage, investment banking, asset management, and other financial service companies, as well as in the holding companies of such companies.'

The Investment Adviser expects the Fund to be in compliance with this revised policy by the July 31, 2002 effective date of this new rule.

The Fund will retain its existing industry concentration policy to invest at least 65% of its total assets in certain savings, banking and mortgage banking institutions and their holding companies.

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Directors  
Richard I. Barr  
Eugene C. Dorsey  
Robert E. La Blanc  
Thomas T. Mooney  
Clay T. Whitehead

Investment Adviser  
Wellington Management Company, LLP  
75 State Street

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Boston, MA 02109

Administrator  
Prudential Investments LLC  
Gateway Center Three  
100 Mulberry Street  
Newark, NJ 07102-4077

Custodian and Transfer Agent  
State Street Bank and Trust Company  
One Heritage Drive  
North Quincy, MA 02171

Independent Accountants  
PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, NY 10036

Legal Counsel  
Kirkpatrick & Lockhart LLP  
1800 Massachusetts Avenue, N.W.  
Washington, D.C. 20036

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock at market prices.

The views expressed in this report and the information about the Fund's portfolio holdings are for the period covered by this report and are subject to change thereafter.

This report is for stockholder information. This is not a prospectus intended for use in the purchase or sale of Fund shares.

First Financial Fund, Inc.  
Gateway Center Three  
100 Mulberry Street  
Newark, NJ 07102-4077

For information call toll-free (800) 451-6788

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