FIRST FINANCIAL FUND INC
Form N-30D
November 26, 2002

FIRST FINANCIAL FUND, INC. (LOGO)

SEMI-
ANNUAL
REPORT

September 30, 2002

Letter To Shareholders October 31, 2002

Dear Fellow Shareholder:
They served humble pie this quarter and most of us got a good helping. Unless you took refuge in treasuries, municipals, agency securities or cash, there were few places to escape the carnage. Lessons learned (or re-learned) included (a) stocks' earnings yields and treasury yields can disconnect in an ugly fashion, (b) a recovering economy does not a recovering stock market make, (c) stocks can fall a lot and still fall a lot again, (d) balance sheets matter.

The balance sheet is the "ground-zero" of our worries these days. No one dismisses the debacle on the corporate side, bloodied by Enron, WorldCom, Conseco and the like. Indeed, close to 40% of all speculative debt issued in the three debt boom years 1997 through 1999 has defaulted. Could the consumer be next? Left largely unscathed during this past recession, the consumer keeps borrowing to buy cars, homes, and lifestyle in a binge fed by yield starved financial intermediaries and the lowest interest rates in a generation. Few argue that the average consumer balance isn't stretched. But the average won't matter as much as the distribution of that debt. Could it be that, similar to the corporate debt fiasco, a disproportionate share of the lending went to those who could least afford to pay the loans back? The answer may already reside in the stocks of Fannie Mae, Household International, Capital One, Americredit, the mortgage insurers, Sears, Ford and other big consumer debt issuers or insurers: all setting decided new lows.

Our government's balance sheet has taken a turn for the worse as well. Less than two years ago, the talk was of a huge surplus and the retirement of the 30-year treasury. Today, pundits project a $150 to $200 billion deficit again. And, this deficit is largely to fund non-productive assets: interest on debt, farm subsidies, national security and war. Add to this a balance-of-payments deficit running at 4% to 5% of GDP. Will our disappointing equity markets and low yielding treasuries and asset-back securities ever discourage our foreign trading partners?

For the six months ending September 30th, the Fund's total return was 2.7%, compared to a return of -28.4% for the S&P 500 and -6.0% for the NASDAQ Banks Composite.

TOTAL RETURNS

For the Periods Ended 9/30/02

	6 Mos.	1 Year	3 Years	5 Years
First Financial Fund's NAV1	2.65%	25.62%	25.84%	6.67%
S&P 500	-28.36	-20.49	-12.89	-1.63
NASDAQ Composite*	-36.49	-21.80	-24.71	-7.01
NASDAQ Banks*	-5.96	6.78	9.33	3.03
SNL All Daily Thrift*	-2.22	3.20	17.35	5.94
SNL MBS REITS	10.09	32.99	23.48	-0.80
SNL Mortgage Banks*	1.03	6.97	14.11	-8.10

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 September 30, 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.

Note: Returns for periods less than one year are not annualized.

Fortunately, inordinately strong balance sheets kept most of our companies out of trouble. The Fund's positive return over the past six months was due to favorable stock selection within the Mortgage REIT and the Bank & Thrift sectors. The Fund benefited from REIT investments such as RAIT Investment Trust and Novastar Financial REIT, which were sold when they hit their price targets. Positions in small to mid-sized banks such as Port Financial Corporation and Provident Financial Holdings also proved favorable.

Our position in Capital One Financial Corporation, a consumer finance company, was eliminated after it reported an unfavorable outlook on the collectability of consumer credit cards bills. Some small to mid-sized banks and thrifts (Astoria Financial, and Ocwen Financial Corporation) had sharp share declines after reporting disappointing second quarter 2002 results, but were retained due to their attractive long-term prospects. Our position in Koram Bank, a South Korean-based financial institution, also detracted from performance after a decline in its second quarter earnings.

The Fund took a temporary defensive position during the month of September, which added to total return. At the end of the period, our cash position was over 20%.

Ahead, we are probably more optimistic than we ought to be. For battle scarred, bottom-up practitioners with plenty of liquidity to put to work, volatility is our best friend. We are encouraged, as well, by an acceleration of merger activity in the banking sector, a trend likely to persist as long as low interest rates and weak loan demand reign.

We appreciate your continued interest and support of the Fund.

Nicholas C. Adams

2

Portfolio of Investments as of September 30, 2002
(Unaudited) FIRST FINANCIAL FUND, INC.

Shares	Description	Value (Note 1)
	LONG-TERM INVESTMENTS--76.4%	
	COMMON STOCKS--75.6%	
	Banks & Thrifts--38.1%	
12,800	Abington Bancorp, Inc.	$ 247,424
34,600	Algiers Bancorp, Inc.	252,580
367,000	Astoria Financial Corp.	8,954,800
538,450	Bay View Capital Corp.	3,053,012
90,300	Bostonfed Bancorp, Inc.	2,708,097
64,640	Broadway Financial Corp.	1,038,765
151,200	Capital Crossing Bank*	3,318,840
83,050	CB Bancshares, Inc.	2,943,292
86,600	CBES Bancorp, Inc.	1,507,706
142,538	CCF Holding Co.	3,048,888
94,235	Charter One Financial, Inc.	2,800,664
18,000	City National Corp.	841,860
60,000	Community Bank San Jose California(a)	2,284,800
57,900	Compass Bancshares, Inc.	1,707,471
98,900	Connecticut Bancshares, Inc.	3,662,267
195,000	Dime Bancorp, Inc.*	17,550
249,900	Downey Financial Corp.	8,559,075
413,565	Fidelity Federal Bancorp.*	932,589
20,199	First Citizens BancShares, Inc.	2,120,895
111,000	First Community Bancorp, Inc.	3,204,570
223,150	First Republic Bank*	4,853,512
217,900	FirstFed America Bancorp, Inc.	5,249,211
252,000	FirstFed Bancorp, Inc.	1,890,000
71,468	FNB Corp.	1,203,521
241,600	Golden State Bancorp, Inc.	7,808,512
286,400	Hawthorne Financial Corp.*	7,560,960
19,999	HFB Financial Corp.	277,486
50,000	Hibernia Corp.	999,500
19,500	Iberiabank Corp.	733,785
689,280	Koram Bank*	4,693,445
219,600	MetroCorp Bancshares, Inc.	2,635,200
224,000	North Valley Bancorp	3,689,280
90,000	Northeast Pennsylvania Financial Corp.	1,341,000
102,900	Pacific Crest Capital, Inc.	3,164,175
380,059	Pacific Union Bank*	4,260,461
165,930	Perpetual Federal Savings Bank*	3,152,670
195,400	Port Financial Corp.	7,817,954
403,050	Provident Financial Holdings, Inc.*	9,471,675
40,650	Redwood Financial, Inc.*	564,019
45,000	River Valley Bancorp	$ 1,175,850
2,880	Southern Financial Bancorp, Inc.	83,434
210,000	Southwest Bancorp, Inc.	5,281,500
32,500	St. Landry Financial Corp.(a)*	357,500

21,100	Team Financial, Inc.	204,670
40,629	Thistle Group Holdings Co.	426,605
35,000	Trico Bancshares	885,500
82,300	Unionbancal Corp.	3,457,423
80,070	United National Bancorp	1,647,841
23,418	Washington Trust Bancorp, Inc.	462,271
35,000	Westbank Corp.	458,500
172,000	Woronoco Bancorp, Inc.	3,620,600
		142,633,205

Other Financial Intermediaries--16.3%

14,100	American International Group, Inc.	771,270
113,800	Americredit Corp.*	918,366
1,147,667	Brookline Bancorp, Inc.	13,486,235
536,400	Ceres Group, Inc.*	1,035,252
282,600	FBR Asset Investment Corp.	8,834,076
130,030	Fidelity National Financial, Inc.	3,735,762
8,800	First Pactrust Bancorp, Inc.	123,904
214,800	Friedman, Billings, Ramsey Group, Inc. *	2,175,924
30,000	Hanmi Financial Corp.*	450,000
574,200	Hispanic Express, Inc.*	574,200
333,900	IPC Holdings Ltd., ADR (Bermuda)	9,806,643
1,210,100	Meadowbrook Insurance Group, Inc.	3,194,664
49,600	Merrill Lynch & Co., Inc.	1,634,320
339,200	Ocwen Financial Corp.*	983,680
170,100	Odyssey Re Holdings Corp.	2,825,361
959,315	Resource America, Inc.	7,674,520
83,700	Willis Group Holdings Ltd.*	2,803,113
		61,027,290

See Notes to Financial Statements. 3

Portfolio of Investments as of September 30, 2002
(Unaudited) FIRST FINANCIAL FUND, INC.

Shares	Description	Value (Note 1)
Mortgage & REITs--9.2%		
400,000	American Financial Realty Trust	$ 4,120,000
258,000	Countrywide Mortgage Investments, Inc.	12,164,700
227,875	First Mortgage Corp.*	854,531
184,700	Freddie Mac	10,324,730
85,300	IMPAC Mortgage Holdings, Inc.	951,095
272,590	Medical Office Properties, Inc.	3,162,044
155,504	Newcastle Investment Holdings Corp. REIT(a)	3,001,227
		34,578,327

Savings & Loan--12.0%		
24,400	Charter Financial Corp.	684,664
71,800	Chesterfield Financial Corp.*	1,312,145
238,500	Citizens First Bancorp, Inc.	4,285,845
35,500	First Bell Bancorp, Inc.	589,655
170,000	First Federal Bancshares, Inc.	3,235,100
107,900	First Niagara Financial Group, Inc.	3,408,561
221,600	FloridaFirst Bancorp, Inc.	3,909,024
141,500	Golden West Financial Corp.	8,798,470
90,000	HMN Financial, Inc.	1,571,400
577,400	Hudson City Bancorp, Inc.	9,371,202
94,800	Parkvale Financial Corp.	2,232,540
151,678	Progess Financial Corp.	1,425,773
127,750	Quaker City Bancorp, Inc.*	4,237,469
		45,061,848
	Total common stocks (cost $235,350,516)	283,300,670
Preferred Stocks--0.5%		
62,350	Capital One Financial Corp., 6.25% (cost $2,216,990)	1,976,495

Principal Amount (000)		
Convertible Bonds--0.3%		
$1,000	Online Resources & Communications, 8.00%, 9/30/05 (cost $1,000,000)	880,000
	Total long-term investments (cost $238,567,506)	286,157,165

Principal Amount (000)	Description	Value (Note 1)
SHORT-TERM INVESTMENTS--23.2%		
Repurchase Agreements--23.2%		
$43,521	Paribas Corp., 1.88%, dated 9/30/2002, due 10/1/2002 in the amount of $43,523,273 (cost $43,521,000; collateralized by $31,010,000 U.S. Treasury Bonds, 8.125%, due 8/15/2019, value of collateral including interest $44,392,290)	$ 43,521,000
43,520	UBS Warburg, 1.87%, dated 9/30/2002, due 10/1/2002 in the amount of $43,522,261 (cost $43,520,000; collateralized by $39,947,000 U.S. Treasury Bonds, 8.75%, due 11/15/2008, value of collateral	

	including interest $44,413,030)	43,520,000
		87,041,000
Certificates of Deposit		
2	Brookline Savings, 2.25%, 8/29/02	1,582
23	First Federal Savings Bank, 3.25%, 10/15/02	23,159
23	Naugatuck Valley Savings & Loan Assoc., 1.81%, 10/29/02	22,628
		47,369
	Total short-term investments (cost $87,088,523)	87,088,369
Total Investments--99.6%	(cost $325,656,029; Note 4)	373,245,534
	Other assets in excess of liabilities--0.4%	1,621,676
	Net Assets--100%	$374,867,210

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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 (Unaudited) FIRST FINANCIAL FUND, INC.

Assets

Investments, at value (cost $238,615,029)....................
Repurchase agreements, at value (cost $87,041,000)....................
Cash....................
Receivable for investments sold....................
Dividends and interest receivable....................
Prepaid assets....................

Total assets....................

Liabilities
Payable for investments purchased....................
Advisory fee payable....................
Administration fee payable....................
Accrued expenses....................

Total liabilities....................

Net Assets..	
Net assets were comprised of:	
Common stock, at par...	
Paid-in capital in excess of par..	
Undistributed net investment income..	
Accumulated net realized gains...	
Net unrealized appreciation on investments...............................	
Net assets, September 30, 2002...	
Net asset value per share ($374,867,210 / 23,622,382 shares of common stock outstanding).........	

See Notes to Financial Statements. 5

FIRST FINANCIAL FUND, INC.
Statement of Operations (Unaudited)

Net Investment Income	Six Months Ended September 30, 2002
Income	
Dividends............................	$ 4,018,895
Interest.............................	598,942
Total income......................	4,617,837
Expenses	
Investment advisory fee..............	1,255,326
Administration fee...................	293,775
Legal fees and expenses..............	774,000
Reports to shareholders..............	99,000
Directors' fees......................	70,000
Insurance expense....................	41,000
Custodian's fees and expenses........	40,000
Listing fee..........................	22,000
Transfer agent's fees and expenses....	18,000
Audit fee............................	13,000
Miscellaneous expenses...............	11,175
Total expenses....................	2,637,276
Net investment income..................	1,980,561
Realized and Unrealized Gain (Loss) on Investments	
Net realized gain on investment transactions.........................	35,379,028
Net change in unrealized appreciation of	

investments..........................	(27,699,542)
Net gain on investments.................	7,679,486
Net Increase in Net Assets Resulting from Operations................	$ 9,660,047

FIRST FINANCIAL FUND, INC.
Statement of Changes in Net Assets (Unaudited)

Increase in Net Assets	Six Months Ended September 30 2002	Year Ended March 31, 2001
Operations		
Net investment income.......	$ 1,980,561	$ 4,521,485
Net realized gain on investment transactions............	35,379,028	60,925,158
Net change in unrealized appreciation of investments.............	(27,699,542)	34,818,254
Net increase in net assets resulting from operations..............	9,660,047	100,264,897
Dividends and distributions (Note 1)		
Dividends from net investment income........	--	(4,724,478)
Distributions from net realized gains on investment transactions............	--	(34,535,923)
Cost of Fund shares reacquired (Note 6)....................	--	(11,189,671)
Total increase................	9,660,047	49,814,825
Net Assets		
Beginning of period...........	365,207,163	315,392,338
End of period(a)..............	$374,867,210	$365,207,163

(a) Includes undistributed net investment income of........ | $ 3,838,165 | $ 1,857,604

See Notes to Financial Statements. 6

Notes to Financial Statements (Unaudited) 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 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 (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.

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.

Note 3. Portfolio Securities
Purchases and sales of investment securities, other than short-term investments, for the six months ended September 30, 2002 were $126,220,500 and $170,014,986, respectively.

Note 4. Tax Information
The United States federal income tax basis of the Fund's investments and the net unrealized appreciation as of September 30, 2002 were as follows:

Tax Basis	Appreciation	Depreciation	Total Net Unrealized Appreciation
$325,678,413	$ 63,428,857	$ 15,861,736	$ 47,567,121

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. The Fund did not borrow any amounts pursuant to the Agreement during the six months ended September 30, 2002

Note 6. Capital
There are 50 million shares of $.001 par value common stock authorized. Of the 23,622,382 shares issued as of September 30, 2002, the Investment Adviser owned 10,994 shares. During the year ended March 31, 2002, the Fund repurchased 902,300 of its own shares at a weighted average discount of 14.8%.

Note 7. Dividends
On November 19, 2002, the Board of Directors of the Fund declared dividends of $0.168, $1.348 and $1.448 per share from ordinary income, short-term capital gains and long-term capital gains, respectively, payable December 10, 2002 to

shareholders of record as of November 29, 2002.

Financial Highlights (Unaudited) FIRST FINANCIAL FUND, INC.

	Six Months Ended September 30, 2002	Y 2002
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period..............................	$ 15.46	$ 12.86
Income from investment operations		
Net investment income..	.08	.19
Net realized and unrealized gain (loss) on investments............	.33	3.99
Total from investment operations...............................	.41	4.18
Less dividends and distributions		
Dividends from net investment income..............................	--	(.20
Distributions from net realized gains.............................	--	(1.46
Distributions in excess of net realized gains.....................	--	--
Total dividends and distributions..............................	--	(1.66
Increase resulting from Fund share repurchase.....................	--	.08
Net change resulting from the issuance of Fund shares.............	--	--
Net asset value, end of period(a).................................	$ 15.87	$ 15.46
Market price per share, end of period(a)..........................	$ 12.73	$ 15.75
TOTAL INVESTMENT RETURN(b):.......................................	(19.17)%	35.20
RATIOS/SUPPLEMENTAL DATA:		
Net assets, end of period (000)...................................	$ 374,867	$365,207
Average net assets (000)..	$ 391,704	$341,601
Ratios to average net assets:		
Expenses, before loan interest and commitment fees.............	1.34%(c)	.97
Total expenses...	1.34%(c)	1.00
Net investment income..	1.01%(c)	1.32
Portfolio turnover rate...	39%(d)	114
Total debt outstanding at end of period (000 omitted).............	$ --	$ --
Asset coverage per $1,000 of debt outstanding.....................	$ --	$ --

	1999	1998
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period..............................	$ 18.94	$ 15.26
Income from investment operations		
Net investment income..	.11	.14

Net realized and unrealized gain (loss) on investments	(7.20)	6.84
Total from investment operations	(7.09)	6.98
Less dividends and distributions		
Dividends from net investment income	(.05)	(.14)
Distributions from net realized gains	(2.59)	(2.68)
Distributions in excess of net realized gains	(.45)	(.63)
Total dividends and distributions	(3.09)	(3.45)
Increase resulting from Fund share repurchase	--	--
Net change resulting from the issuance of Fund shares	.09	.15
Net asset value, end of period(a)	$ 8.85	$ 18.94
Market price per share, end of period(a)	$ 7.3125	$ 20.813
TOTAL INVESTMENT RETURN(b):	(53.65)%	72.59%
RATIOS/SUPPLEMENTAL DATA:		
Net assets, end of period (000)	$221,881	$387,852
Average net assets (000)	$296,740	$320,484
Ratios to average net assets:		
Expenses, before loan interest and commitment fees	.94%	.91%
Total expenses	1.61%	1.25%
Net investment income	.91%	.82%
Portfolio turnover rate	65%	43%
Total debt outstanding at end of period (000 omitted)	$ 45,000	$ 20,000
Asset coverage per $1,000 of debt outstanding	$ 5,931	$ 20,393

(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. Total investment returns for periods of less than one full year are not annualized.
(c) Annualized.
(d) Not annualized.

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.

The annual meeting of stockholders of First Financial Fund, Inc. was held on August 12, 2002 (the 'Meeting') at the offices of Prudential Investments LLC, 100 Mulberry Street, Newark, New Jersey. On May 22, 2002, the record date for the Meeting, there were 23,622,382 Fund shares outstanding and entitled to vote. The Meeting was held to elect two Class I Directors to the Fund's Board to serve until 2005. Directors whose terms of office continue beyond this Meeting are Thomas T. Mooney, Robert I. Barr and Clay T. Whitehead.

The following persons were nominated by the Board to stand for election at the Meeting as Class I Directors: Eugene C. Dorsey and Robert E. La Blanc. A group of stockholders advised by Stewart R. Horejsi (the 'Horejsi Group') nominated Joel Looney and Dean Jacobson as Class I Directors.

The results of the voting at the Meeting, as independently certified by IVS Associates, Inc., were as follows:

Nominee	In Favor	Withheld
Eugene C. Dorsey	7,817,386	187,166
Robert E. La Blanc	7,812,470	192,082
Joel Looney	11,174,771	153,216
Dean Jacobson	11,174,771	153,216

No nominee for election as a Class I Director received the vote of a majority of the Fund's outstanding shares at the Meeting, which is required under the Fund's By-laws in order to be elected as a Director. Therefore, no nominee was elected at the Meeting and the incumbents, Messrs. Dorsey and La Blanc, remain on the Fund's Board as 'holdover' Directors until their successors are duly elected and qualified.

Shortly after the issuance of the Fund's press release announcing the results noted above, Badlands Trust Company ('Badlands'), as trustee of one of the members of the Horejsi Group, filed suit in United States District Court to invalidate the Fund's By-law and to seat Messrs. Looney and Jacobson as Class I Directors of the Fund. The District Court ruled for Badlands on these matters, but the United States Court of Appeals for the Fourth Circuit stayed the effect of the District Court's ruling until the Court of Appeals issues its appellate decision. Pursuant to an order of the District Court, the Fund's Board, consisting of the three Directors whose terms did not expire in 2002, may meet and conduct business until these matters are resolved.

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.

Equiserve Trust Company, N.A. (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 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, Equiserve Trust Company, N.A., P.O. Box 43011, Providence, RI 02940-3011.

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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 accompanying financial statements as of September 30, 2002 were not audited and, accordingly, no opinion is expressed on them.

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.

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The Fund's CUSIP number is:
320228109