

SPECIAL OPPORTUNITIES FUND, INC.
Form N-CSRS
September 08, 2015

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07528

Special Opportunities Fund, Inc.
(Exact name of registrant as specified in charter)

615 East Michigan Street
Milwaukee, WI 53202
(Address of principal executive offices) (Zip code)

Andrew Dakos
Bulldog Investors, LLC
Park 80 West
250 Pehle Avenue, Suite 708
Saddle Brook, NJ 07663
(Name and address of agent for service)

Copy to:
Thomas R. Westle, Esp.
Blank Rome LLP
The Chrysler Building
405 Lexington Avenue
New York, NY 10174

1-877-607-0414
Registrant's telephone number, including area code

Date of fiscal year end: 12/31/2015

Date of reporting period: 6/30/2015

Item 1. Reports to Stockholders.

Special Opportunities Fund, Inc. (SPE)
Semi-Annual Report
For the six months ended
June 30, 2015

Special Opportunities Fund, Inc.–

August 31, 2015

Dear Fellow Shareholders:

On June 30, 2015, the Fund's market price closed at \$15.29 per share, down 0.52% from its closing price of \$15.37 per share on December 31, 2014. For the same period, the S&P 500 Index gained 1.23%. The primary reason for the Fund's underperformance in the first half of 2015 was a widening of the discount of the stock price to net asset value from 9.27% to 11.21%. Since June 30th, our performance has improved relative to the Index, which has taken a hit after a long upward climb. That is not surprising since the Fund is designed to be more risk averse than a hypothetical investment in the S&P 500 Index (and is not strongly correlated with it).

We remind you that the Fund may purchase shares of its common stock when they are trading at a discount to net asset value. Moreover, on June 18, 2015, the Fund announced that it would no longer rely on the "safe harbor" provisions set forth in Rule 10b-18 of the Securities Exchange Act of 1934. From January 1, 2015 through August 28, 2015, 224,666 shares have been purchased.

On April 29, 2015, the Fund announced that it would seek instructions from stockholders with regard to the voting of proxies for certain closed-end funds whose shares the Fund owns. The specific closed-end funds for which the Fund seeks instructions from stockholders are available on the Fund's website at www.specialopportunitiesfundinc.com and we urge you to check the website from time to time if you would like to provide such instructions. Also, if you would like to receive an email notification to advise you of each closed-end fund for which the Fund seeks proxy voting instructions, please email us at proxyinstructions@bulldoginvestors.com.

We are bullish on the investments held by the Fund and the opportunities to enhance their value through activism. Here is an update on some of our larger positions.

In our last letter, we discussed our intention to conduct proxy contests this year for two closed-end funds that were trading at double-digit discounts to NAV: Clough Global Equity Fund (GLQ) and LMP Real Estate Income Fund (RIT). We were disappointed when we received lackluster support from shareholders of GLQ for our proposal to unlock shareholder value and we are evaluating our options including increasing our position or reducing it. To follow up on RIT, we conducted a contentious proxy battle in the spring which ended in a stalemate when a quorum was not reached at the annual meeting. We have increased our position since then and, as a result, we believe a liquidity event is highly likely in 2016 or even this year if we can reach a resolution with RIT's management, which is not guaranteed.

Special Opportunities Fund, Inc.—

Our efforts to increase shareholder value at Deutsche High Income Opportunities Fund (DHG) and Deutsche Global High Income Fund (LBF) led to settlements with their boards, which have agreed to propose that stockholders vote to liquidate those funds in the next few years. Ordinarily, we would not agree to such a settlement and we would have preferred a shorter time to realize intrinsic value. However, in this case, we felt it was an acceptable tradeoff for eliminating the possibility of losing one or both proxy fights and having the discounts for these funds widen as a result.

Because we held a much stronger hand in Alliance New York Municipal Income Fund (AYN), we achieved an excellent outcome on our investment in the auction rate preferred shares, which we purchased at 84% of their liquidation value as well as the common shares, which we purchased at a discount to their NAV. The board of AYN, seeing the writing on the wall, unilaterally proposed a prompt liquidation. Consequently, we recently realized 100% of the intrinsic value of our preferred shares and we will realize 100% of the intrinsic value of our common shares by the end of the third quarter.

Lastly, our Fund is part of a group that owns about 7% of the shares of Global High Income Fund (GHI). We intend to discuss measures to enhance the value of our shares with representatives of GHI and are cautiously optimistic that they will seriously consider them. However, if we reach an impasse, we are likely to launch a proxy contest at the next annual meeting.

Aside from closed-end funds, we have also been busy seeking to unlock the intrinsic value of several operating companies.

Imperial Holdings (IFT) is a core investment of ours and we are represented on the board. Imperial owns a portfolio of life insurance policies with an aggregate face value of approximately \$3 billion. Imperial's stock price is far below its book value and we are hopeful that the gap will narrow as it reduces its cost of capital and gets closer to achieving positive cash flow. Since Imperial's directors own a meaningful number of shares, they are likely to consider options to enhance shareholder value if a sizeable discount persists.

In our last letter, we noted that we intended to conduct a proxy contest for Stewart Information Services (STC), a provider of title insurance and other services in connection with real estate transactions. We reached a settlement with management that included us designating a director. Since then, Stewart's operational performance has improved, but more can be done to enhance shareholder value. While Stewart's stock has performed well since we started acquiring it, we think additional gains can be achieved through further improvement in profit margins and elimination of the dysfunctional dual class capital structure, which impedes Stewart's ability to pay a higher dividend. In addition, we believe Stewart would be an attractive acquisition target. We will

Special Opportunities Fund, Inc.—

continue to press management and the board to address these issues. Although we hope another proxy contest next year will be unnecessary, we cannot rule that out at this time.

Hill International (HIL) is a global construction management firm that we think is significantly undervalued primarily because the father-and-son team that started the business and own more than 20% of the outstanding stock, still treat it as if it were still the private company they used to own. For example, each of them has not just one — but two company cars. Clearly, Hill needs to implement corporate governance reforms to make management more accountable to the public shareholders.

Hill's stock price peaked at more than \$19 per share in 2008. Fast-forward to early this year, when our group of funds purchased almost 5% of Hill's shares at prices mostly below \$4 per share with an eye toward taking an activist stand. On May 4th, a private equity firm made an unsolicited offer to buy the company for at least \$5.50 per share, a 40% premium to the last price. The board immediately rejected the offer, labeling it "grossly" inadequate and adopted a poison pill. We gave management notice of our intention to conduct a proxy contest to elect directors, dismantle the pill, and explore a sale of the company. Management claimed our notice was untimely. We then sued Hill and won an injunction to allow us to solicit proxies. Hill appealed and we won again. Faced with an almost certain loss at the August 7th annual meeting, management had to make last minute concessions to two major shareholders. Specifically, those shareholders will be permitted to designate two additional directors to represent the interests of the public shareholders. As we see it, management is on a short leash. There is nothing like having a guillotine over your head to focus your mind. Either the stock goes up over the next few months or the public shareholders will push for a sale of the company. Stay tuned!

Lastly, we have a sizeable investment in Winthrop Realty Trust (FUR), a real estate investment trust. We started purchasing shares of FUR in April 2014, shortly after it announced that it intended to liquidate its assets and distribute the net proceeds to shareholders. We were familiar with the company, its CEO and management team, and believed the ultimate liquidation value to shareholders would be materially higher than the prevailing market price of about \$14 to \$15 per share at the time. Therefore, we began purchasing shares. Since the plan of liquidation was approved by shareholders in August 2014, FUR has paid out a total of \$3.50 per share. The current stock price is approximately \$14.40 per share. We believe FUR still represents compelling value based upon our current estimate of its liquidation value.

Special Opportunities Fund, Inc.–

In addition to the above investments, we are finding a number of other compelling opportunities, and we look forward to discussing some of them in future letters if and when we accumulate meaningful positions.

On behalf of the Fund’s board and investment advisor, I would like to thank those shareholders that took the time to attend the informal shareholder meeting held in New York City on March 19, 2015 for a stimulating discussion. We are aware that the Fund is held by some very savvy investors and they did not disappoint us. They posed a number of probing questions about various topics, including our investment philosophy, our activist strategy, and some of our investments. They also gave us some thoughtful insights and helpful advice. Please let us if you would like to attend a similar meeting in the future.

Sincerely yours,

Phillip Goldstein
Chairman

Special Opportunities Fund, Inc.—

Performance at a glance (unaudited)

Average annual total returns for common stock for the periods ended 6/30/15

Net asset value returns	1 year	Since 1/25/10	5 years	10 years*
Special Opportunities Fund, Inc.	3.37%	9.40%	10.51%	6.51%
Market price returns				
Special Opportunities Fund, Inc.	0.37%	8.85%	10.24%	7.24%
Index returns				
S&P 500 Index	7.42%	14.74%	17.34%	7.89%
Share price as of 6/30/15				
Net asset value				\$17.22
Market price				\$15.29

Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor's share, when sold, may be worth more or less than their original cost. The Fund's common stock net asset value ("NAV") return assumes, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on payable dates for dividends and other distributions payable through December 31, 2009 and reinvested at the NAV on the ex-dividend date for dividends and other distributions payable after December 31, 2009. The Fund's common stock market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund's Dividend Reinvestment Plan (which was terminated on January 1, 2010) for dividends and other distributions payable through December 31, 2009 and reinvested at the lower of the NAV or the closing market price on the ex-dividend date for dividends and other distributions payable after December 31, 2009. NAV and market price returns for the period of less than one year have not been annualized. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

*The Fund's investment objective and investment adviser have changed. See Note 1 of the Notes to financial statements for more information about the change in investment objective and see Note 2 of the Notes to financial statements for more information about the change in investment adviser. On January 25, 2010, the Fund began investing using its new investment objective, therefore, performance prior to that date is not relevant.

The S&P 500 Index is a capital weighted, unmanaged index that represents the aggregate market value of the common equity of 500 stocks primarily traded on the New York Stock Exchange.

Special Opportunities Fund, Inc.—

Portfolio composition as of 6/30/2015(1) (unaudited)

	Value	Percent	
Investment Companies	\$ 109,220,642	61.09	%
Common Stocks	49,274,637	27.56	
Preferred Stocks	6,018,746	3.37	
Corporate Notes	3,323,904	1.86	
Convertible Bonds	3,207,528	1.79	
Money Market Funds	2,834,578	1.59	
Liquidation Claims	2,803,497	1.57	
Promissory Notes	1,400,000	0.78	
Convertible Preferred Stocks	1,301,002	0.73	
Warrants	504,303	0.28	
Rights	70,849	0.04	
Corporate Bonds	41,322	0.02	
Total Investments	\$ 180,001,008	100.68	%
Liabilities in Excess of Other Assets	(1,209,498)	(0.68)
Total Net Assets	\$ 178,791,510	100.00	%

(1) As a percentage of net assets.

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Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2015 (unaudited)

	Shares	Fair Value
INVESTMENT COMPANIES—61.09%		
Closed-End Funds—53.58%		
Adams Diversified Equity Fund (i)	200,878	\$ 2,806,266
Advent/Claymore Enhanced Growth & Income Fund	216,406	1,962,802
Alliance New York Municipal Income Fund, Inc.	141,734	1,992,780
Bancroft Fund, Ltd.	70,076	1,484,210
Blackrock Latin American Investment Trust PLC (h)	80,000	433,662
Boulder Growth & Income Fund, Inc.	1,313,455	11,085,560
Candover Investments PLC/Fund (a)(h)	40,468	174,779
Central Securities Corp.	136,479	2,911,097
Clough Global Equity Fund	347,284	5,139,803
Delaware Investments Dividend & Income Fund, Inc.	24,337	240,936
Deutsche Global High Income Fund	187,349	1,525,021
Deutsche High Income Opportunities Fund, Inc.	358,893	5,239,838
Diversified Real Asset Income Fund	386,626	6,781,420
Ellsworth Growth and Income Fund Ltd.	44,678	394,507
Federated Enhanced Treasury Income Fund	900	11,889
The GDL Fund	15,000	152,850
General American Investors Co., Inc.	408,024	14,203,315
Global High Income Fund, Inc.	314,300	2,668,407
JP Morgan Asian Investment Trust PLC (h)	28,426	104,849
Juridica Investments Ltd. (h)	495,258	708,912
Liberty All Star Equity Fund	1,536,545	8,835,134
LMP Real Estate Income Fund, Inc.	342,704	4,009,637
Madison Strategic Sector Premium Fund	18,689	218,661
Marwyn Value Investors Ltd. (h)	155,571	558,542
MFS Intermarket Income Trust I	301,874	2,544,798
MFS Intermediate High Income Fund	29,167	77,584
Millennium Investment & Acquisition Co., Inc. (a)	112,276	53,893
Morgan Stanley East Europe Fund Escrow (a)	97,901	0
Neuberger Berman Real Estate Securities Income Fund, Inc.	179,037	848,636
Nuveen Diversified Commodity Fund	130,301	1,551,885
Nuveen Global High Income Fund	92,083	1,538,707
Nuveen Long/Short Commodity Total Return Fund	229,216	3,766,019
The Prospect Japan Fund Ltd. (a)(h)	240,144	234,140
Swiss Helvetia Fund, Inc.	280,925	3,286,822
Terra Catalyst Fund (h)	20,319	31,207
Tri-Continental Corp.	387,319	8,207,290
		95,785,858

The accompanying notes are an integral part of these financial statements.

Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2015 (unaudited)

	Shares	Fair Value
INVESTMENT COMPANIES—(continued)		
Closed End Funds—Preferred Shares—0.41%		
Oxford Lane Capital Corp.—Series 2017	28,898	\$ 725,629
Auction Rate Preferred Securities—2.11% (c)(f)		
Alliance New York Municipal Income Fund, Inc.—Series T, 0.180% (b)	61	1,464,000
Alliance New York Municipal Income Fund, Inc.—Series M, 0.180% (b)	82	1,968,000
Putnam Managed Municipal Income Trust—Series C	6	225,000
Putnam Municipal Opportunities Trust—Series C	6	123,000
		3,780,000
Business Development Company—4.99%		
BDCA Venture, Inc.	292,681	1,317,065
Equus Total Return, Inc. (a)	106,919	203,146
Firsthand Technology Value Fund, Inc.	146,457	1,889,295
Full Circle Capital Corp.	393,023	1,403,092
MVC Capital, Inc.	403,584	4,116,557
		8,929,155
Total Investment Companies (Cost \$101,452,795)		109,220,642
PREFERRED STOCKS—3.37%		
Real Estate Investment Trusts—3.37%		
Adcare Health Systems, Inc.	6,773	170,002
Preferred Apartment Communities, Inc. (c)(f)	6,083	5,848,744
Total Preferred Stocks (Cost \$5,831,534)		6,018,746
CONVERTIBLE PREFERRED STOCKS—0.73%		
Real Estate Investment Trusts—0.73%		
Wheeler Real Estate Investment Trust, Inc.	54,367	1,301,002
Total Convertible Preferred Stocks (Cost \$1,324,859)		1,301,002
COMMON STOCKS—27.56%		
Construction Materials—0.02%		
Tecnoglass, Inc. (h)	2,437	30,779
Consumer Finance—3.34%		
Imperial Holdings, Inc. (a)	1,032,379	5,977,472

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Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2015 (unaudited)

	Shares	Fair Value
COMMON STOCKS—(continued)		
Health Care Providers & Services—0.00%		
Healthcare Corp. of America (Acquired 10/24/2012, Cost \$0) (a)(c)(g)	10,000	\$ 41
Insurance—8.13%		
Stewart Information Services Corp.	365,084	14,530,343
IT Services—0.06%		
JetPay Corp. (a)	39,596	108,097
Marine—0.02%		
Pangaea Logistics Solutions Ltd. (a)(h)	13,255	42,814
Professional Services—2.56%		
Hill International, Inc. (a)	869,045	4,571,177
Real Estate Investment Trusts—7.99%		
Five Oaks Investment Corp.	14,278	119,221
Gyrodyne Company of America, Inc.	6,682	19,979
Gyrodyne Dividend Notes (c)	11,502	59,465
Gyrodyne Special Distribution LLC (c)	10,914	107,394
Independence Realty Trust, Inc.	31,405	236,480
New York REIT, Inc.	229,006	2,278,610
Trade Street Residential, Inc.	283,334	1,887,005
Wheeler Real Estate Investment Trust, Inc.	440,000	893,200
Winthrop Realty Trust	573,454	8,687,828
		14,289,182
Software—0.01%		
SITO Mobile Ltd. (a)	38,418	13,830
Special Purpose Acquisition Vehicle—5.43% (a)		
1347 Capital Corp.	76,600	786,682
AR Capital Acquisition Corp.	99,994	979,941
Arowana, Inc. (h)	122,028	1,236,144
Barington/Hilco Acquisition Corp.	15,611	156,891
DT Asia Investments, Ltd. (h)	79,818	790,198
Electrum Special Acquisition Corp. (h)	46,800	468,936
FinTech Acquisition Corp.	48,085	489,505
Garnero Group Acquisition Co. (h)	153,199	1,504,414
Global Defense & National Security Systems, Inc.	90,807	953,474
Harmony Merger Corp.	62,937	