

SPECIAL OPPORTUNITIES FUND, INC.
Form N-CSR
March 09, 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 10570
(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: 12/31/2014

Date of reporting period: 12/31/2014

Item 1. Reports to Stockholders.

Special Opportunities Fund, Inc.
(SPE)
Annual Report
For the year ended
December 31, 2014

Special Opportunities Fund, Inc.–

March 2, 2015

Dear Fellow Shareholders:

On December 31, 2014, the Fund's market price closed at \$15.37 per share, up 0.90% from its closing price of \$16.70 per share on June 30, 2014 (after accounting for a year-end stock dividend of \$1.48 per share). For the same period, the S&P 500 Index gained 6.11%.

At the risk of sounding like a broken record, the stock market continued to soar in the second half of 2014 (and thus far in 2015), regularly making new highs with only modest pullbacks along the way. Since the Fund is designed to be more risk averse than a hypothetical investment in the S&P 500 Index (and is much less than 100% correlated with it), it is unsurprising to be underperforming. We would expect to outperform the indexes in a less euphoric environment. Eventually, the market's upward march will end and we will see if that is the case.

The Fund's recent stock price underperformance is also due in part to a modest widening of the discount to net asset value. We remind you that the Fund may purchase shares of its common stock without limitation when it is trading at a discount to net asset value. The Fund made its first such purchase of its stock in 2015 and we intend to make purchases opportunistically.

To reiterate what we said in our last letter, we will only elaborate on our current investments if we believe there is a low probability that doing so will negatively impact the Fund's performance. The investments discussed below fall into that category.

Imperial Holdings (IFT)

To recap, Imperial owns a portfolio of life insurance policies with an aggregate face value of approximately \$3 billion, but whose stated fair value reflects uncertainty about their collectability. I am the chairman of Imperial but even I am often perplexed about how its stock price changes from day to day. For example, on February 6, 2015, Imperial announced that a lawsuit filed by Sun Life Assurance Company of Canada seeking, among other things, to invalidate a number of Imperial's life insurance, was dismissed with prejudice. This was a very positive development for Imperial. The stock price increase immediately after the news but I thought it would rise much more than it did.

In my opinion, the dismissal was a major milestone toward reducing the uncertainty regarding collectability. If so, that, in turn, could lower Imperial's cost of capital. Imperial's board's primary goal is to have it become a boring cash flow positive company that invests in less liquid assets that have minimal counterparty risk as, to use a euphemism, maturities occur. Of course, as with any investment,

Special Opportunities Fund, Inc.–

there are still risks but, barring any material adverse events, I think the stock price could increase significantly over the next few years.

Activism Update

A primary focus for the Fund in 2014 was to acquire, along with other funds managed by Bulldog Investors, meaningful stakes in undervalued stocks with an eye toward seeking to persuade management to take measures to enhance shareholder value. Recently, we have begun to do just that. The Fund is part of a group of funds managed by Bulldog that has indicated an intent to conduct a proxy contest in 2015 to gain seats on the boards of two closed-end funds, Clough Global Equity Fund (GLQ) and LMP Real Estate Income Fund (RIT). Each of these funds have traded at a double-digit discount for a long time and neither of their boards has taken meaningful action to address the discount. Institutional shareholders that are likely to support us own a decent amount of shares of GLQ and RIT, so unless we reach a settlement, which is always possible, we think we have a pretty good chance to win a proxy contest.

The Fund is also one of several investors in a group that owns more than five percent of the shares of Stewart Information Services (STC). Stewart provides title insurance and other services in connection with real estate transactions. It has chronically underperformed its peers. We believe performance would improve significantly if it were better managed. Stewart also has a dysfunctional dual class capital structure whereby the non-publicly traded Class B shares, which represent only about 5% of Stewart's equity, have the power to elect four of the nine directors and, unlike the publicly traded common shares, are not entitled to any dividends. As a result, there are irreconcilable conflicts of interest between the Class B shareholders and the common shareholders. Our group intends to conduct a proxy contest this spring to elect directors, eliminate the Class B shares, and push for a sale of the company, which we think could be effected at a healthy premium to Stewart's recent stock price.

We are also considering taking action designed to enhance the value of several of our other investments – including operating companies and closed-end funds. In sum, we expect to be much more active in 2015 than we were in 2014.

Why We Invest in Closed-End Funds (Part II)

In our last letter, we discussed one reason why we like closed-end funds, i.e., they are much easier to value than operating companies. Another reason is that a closed-end fund trading at a persistent discount is often a better target for an activist investor like the Fund than an operating company. There are several reasons for this.

Special Opportunities Fund, Inc.—

First of all, when a closed-end fund trades at a discount to its net asset value, there are some proven measures that can be taken to enhance shareholder value. The most obvious ones are liquidating or open-ending it (or merging it into an open-end fund). Both of these will eliminate the discount permanently. Other measures include accretive share repurchases, self-tender offers at a premium to the market price, and increasing the dividend to attract income oriented investors. The path to increasing shareholder value in an operating company is rarely so clear.

Secondly, management of a closed-end fund cannot rely on the support of stakeholders like employees or local politicians that often oppose a sale or a merger of an operating company if it will result in store or plant closings or job cuts. By contrast, no politician is likely to care if a closed-end fund converts to an open-end fund.

Lastly, closed-end funds have to comply with some shareholder-friendly provisions of the Investment Company Act of 1940. For example, defensive tactics that are available to an operating company like adopting a poison pill to limit the amount of stock an activist can acquire, issuing super-voting stock, or having restrictive change of control covenants on its debt are prohibited. In addition, shareholders have a powerful threat in their statutory right to vote to terminate a fund's investment advisory agreement.

In sum, if a closed-end fund has been trading at a persistently large discount and a decent percentage of the stock is owned by value-oriented shareholders, there is a pretty good chance that an activist investment manager like Bulldog Investors will campaign for actions to address the discount. And there is a pretty good chance such a campaign will succeed.

A third reason we like to invest in closed-end funds is that they provide instant diversification since each one owns a number of securities. Thus, on a “look through” basis, the Fund is able to achieve broad diversification by acquiring a portfolio of closed-end funds. And, since the closed-end funds we own are almost invariably purchased at a discount from their net asset value, we can try to create “alpha” from our highly diversified portfolio of closed-end funds by using activist measures to persuade management to address the discount.

In Conclusion

For various reasons, the spin-off to shareholders of a new closed-end fund with a primary focus on investments in foreign closed-end funds and similar vehicles, is unlikely to happen very soon. That is unfortunate because we continue to see value in selected offshore closed-end funds that we do not see in the United States.

Special Opportunities Fund, Inc.–

Finally, we look forward to meeting with those shareholders that responded to our January 5, 2015 announcement to meet with the fund’s board of directors and representatives of management in New York City on March 19, 2015. We hope the weather, which has been dreadful in New York this year, does not prevent anyone from attending.

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 12/31/14

Net asset value returns	1 year	Since 1/25/10	5 years*	10 years*
Special Opportunities Fund, Inc.	(1.01)%	9.98%	9.82%	6.63%
Market price returns				
Special Opportunities Fund, Inc.	(3.59)%	9.82%	8.28%	7.49%
Index returns				
S&P 500 Index	13.69%	16.05%	15.45%	7.67%
Share price as of 12/31/14				
Net asset value				\$16.94
Market price				\$15.37

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 12/31/2014(1) (Unaudited)

	Value	Percent	
Investment Companies	\$ 118,528,346	68.83	%
Common Stocks	33,094,441	19.22	
Money Market Funds	19,340,274	11.23	
Preferred Stocks	5,806,162	3.37	
Convertible Bonds	3,427,441	1.99	
Liquidation Claims	2,842,434	1.65	
Promissory Notes	2,000,000	1.16	
Warrants	619,673	0.36	
Convertible Preferred Stocks	291,141	0.17	
Rights	41,985	0.02	
Corporate Bonds	41,472	0.03	
Total Investments	\$ 186,033,369	108.03	%
Liabilities in Excess of Other Assets	(13,830,233)	(8.03)
Total Net Assets	\$ 172,203,136	100.00	%

(1) As a percentage of net assets.

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Shares	Fair Value
INVESTMENT COMPANIES—68.83%		
Closed-End Funds—56.88%		
Aberdeen Israel Fund, Inc.	21,383	\$ 354,975
Adams Express Co. (j)	200,878	2,748,011
AllianceBernstein Income Fund, Inc.	330,620	2,469,731
Alliance New York Municipal Income Fund, Inc.	98,685	1,327,313
Atlantis Japan Growth Fund Ltd. (a)(h)	56,000	103,429
Bancroft Fund, Ltd.	79,335	1,591,460
Blackrock Latin American Investment Trust PLC (h)	80,000	499,376
Boulder Growth & Income Fund, Inc.	428,406	3,877,074
Boulder Total Return Fund, Inc.	184,149	5,110,135
Central Europe, Russia, & Turkey Fund, Inc.	1,416	28,009
Central Securities Corp.	136,479	2,998,444
Clough Global Equity Fund	283,673	4,107,585
Deutsche Global High Income Fund	118,527	929,252
Deutsche High Income Opportunities Fund, Inc.	307,317	4,311,657
Diversified Real Asset Income Fund	453,733	7,869,001
DWS RREEF Real Estate Fund II, Inc. (a)(c)(f)(g)	201,612	114,919
DWS RREEF Real Estate Fund, Inc. (a)(c)(f)(g)	126,913	48,227
Ellsworth Fund Ltd.	55,094	479,869
First Opportunity Fund, Inc.	279,106	2,665,462
The GDL Fund	15,000	153,450
General American Investors Co., Inc.	408,024	14,280,840
JP Morgan Asian Investment Trust PLC (h)	28,426	100,572
Juridica Investments Ltd. (h)	495,258	993,835
Kubera Cross-Border Fund Ltd. (a)(g)(h)	380,604	97,435
Liberty All Star Equity Fund	1,642,979	9,825,014
LMP Real Estate Income Fund, Inc.	169,197	2,123,422
Marwyn Value Investors Ltd. (a)(h)	160,023	530,625
MFS Intermarket Income Trust I	161,978	1,350,897
Millennium India Acquisition Co., Inc. (a)	34,036	21,102
Morgan Stanley Eastern Europe Fund, Inc.	9,181	126,790
Nuveen Diversified Commodity Fund	8,813	113,062
Nuveen Global High Income Fund	792,415	13,669,159
Nuveen Long/Short Commodity Total Return Fund	4,205	69,803
Pacific Alliance Asia Opportunity Fund Ltd. (a)(h)	294,172	467,439
The Prospect Japan Fund Ltd. (a)(h)	240,144	232,339

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

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Shares	Fair Value
INVESTMENT COMPANIES—(continued)		
Closed-End Funds—(continued)		
Swiss Helvetia Fund, Inc.	277,935	\$ 3,096,196
Terra Catalyst Fund (h)	20,319	28,502
Tri-Continental Corp.	387,319	8,292,500
Virtus Total Return Fund	163,386	738,505
		97,945,416
Closed End Funds—Preferred Shares—0.43%		
Oxford Lane Capital Corp.—Series 2017	28,898	733,142
Auction Rate Preferred Securities—3.70% (c)(f)		
Alliance New York Municipal Income Fund, Inc.—Series T, 0.165% (b)	61	1,277,188
Alliance New York Municipal Income Fund, Inc.—Series M, 0.143% (b)	82	1,716,875
BlackRock Municipal 2018 Term Trust—Series W7	17	425,000
Putnam Managed Municipal Income Trust—Series C	6	225,000
Putnam Municipal Opportunities Trust—Series C	6	112,500
Western Asset Managed Municipals Fund, Inc.—Series F, 0.144% (b)	14	306,250
Western Asset Managed Municipals Fund, Inc.—Series M, 0.144% (b)	14	306,250
Western Asset Managed Municipals Fund, Inc.—Series T, 0.166% (b)	14	306,250
Western Asset Managed Municipals Fund, Inc.—Series TH, 0.144% (b)	14	306,250
Western Asset Managed Municipals Fund, Inc.—Series W, 0.166% (b)	14	306,250
Western Asset Municipal Partners Fund, Inc.—Series M, 0.144% (b)	25	1,093,750
		6,381,563
Business Development Company—5.88%		
BDCA Venture, Inc.	170,479	833,642
Equus Total Return, Inc. (a)	106,919	224,530
Fifth Street Senior Floating Rate Corp.	110,931	1,133,715
Firsthand Technology Value Fund, Inc.	212,611	3,965,195
MVC Capital, Inc.	403,584	3,967,231
		10,124,313
Business Development Company—Preferred Shares 1.94%		
MVC Capital, Inc.	133,383	3,343,912
Total Investment Companies (Cost \$109,517,825)		118,528,346

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

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Shares	Fair Value
PREFERRED STOCKS—3.37%		
Real Estate Investment Trusts—3.37%		
Preferred Apartment Communities, Inc. (c)(f)	6,083	\$ 5,806,162
Total Preferred Stocks (Cost \$5,657,129)		5,806,162
CONVERTIBLE PREFERRED STOCKS—0.17%		
Real Estate Investment Trusts—0.17%		
Wheeler Real Estate Investment Trust, Inc.	13,085	291,141
Total Convertible Preferred Stocks (Cost \$326,994)		291,141
COMMON STOCKS—19.22%		
Construction Materials—0.01%		
Tecnoglass, Inc. (a)(h)	2,437	24,736
Consumer Finance—2.20%		
Imperial Holdings, Inc. (a)	581,622	3,792,176
Health Care Providers & Services—0.00%		
Healthcare Corp. of America (Acquired 10/24/2012, Cost \$0) (a)(c)(i)	10,000	41
Insurance—6.74%		
Stewart Information Services Corp.	313,254	11,602,928
IT Services—0.05%		
JetPay Corp. (a)	39,596	84,735
Marine—0.04%		
Pangaea Logistics Solutions Ltd. (a)(h)	13,255	62,961
Professional Services—0.31%		
Hill International, Inc. (a)	139,571	535,953
Real Estate Investment Trusts—4.14%		
Five Oaks Investment Corp.	15,791	170,543
Gladstone Land Corp.	2,582	27,627
Gyrodyne Company of America, Inc.	2,616	10,726
Gyrodyne Dividend Notes (c)	11,391	80,766
Gyrodyne Special Distribution LLC (c)	10,914	147,339
Independence Realty Trust, Inc.	25,128	233,942
Trade Street Residential, Inc.	43,892	337,529
Winthrop Realty Trust	392,511	6,119,247
		7,127,719

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

9

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Shares	Fair Value
COMMON STOCKS—(continued)		
Software—0.03%		
SITO Mobile Ltd. (a)	276,427	\$ 56,612
Special Purpose Acquisition Vehicle—5.70% (a)		
1347 Capital Corp.	76,600	766,766
AR Capital Acquisition Corp.	99,994	929,944
CB Pharma Acquisition Corp. (h)	23,814	239,093
Capitol Acquisition Corp. II	155,122	1,532,605
DT Asia Investments Ltd. (h)	79,818	798,180
Garnero Group Acquisition Co. (h)	153,199	1,463,051
Global Defense & National Security Systems, Inc.	142,712	1,462,798
Hennessy Capital Acquisition Corp.	65,223	635,924
Levy Acquisition Corp.	37,874	368,135
ROI Acquisition Corp II	57,484	565,068
Silver Eagle Acquisition Corp.	9,016	88,357
Sino Mercury Acquisition Corp.	33,634	334,658
Terrapin 3 Acquisition Corp.	62,138	622,001
		9,806,580
Total Common Stocks (Cost \$29,162,281)		33,094,441
LIQUIDATION CLAIMS—1.65% (a)(c)(f)		
The Home Insurance Company in Liquidation	1	1,245,565
The Home Insurance Company in Liquidation	1	1,596,869
Total Liquidation Claims (Cost \$2,569,880)		2,842,434
	Principal Amount	
CONVERTIBLE BONDS—1.99% (b)		
Imperial Holdings, Inc.		
8.500%, 02/15/2019	\$ 2,941,000	3,427,441
Total Convertible Bonds (Cost \$2,941,000)		3,427,441
CORPORATE BONDS—0.03% (b)		
Washington Mutual Inc.		
0.000%, 09/17/2012 (d)(f)	3,000,000	37,500
WMI Holdings Corp.		
13.000%, 03/19/2030—1st Lien	359	348
13.000%, 03/19/2030—2nd Lien	3,897	3,624
Total Corporate Bonds (Cost \$394)		41,472

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

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Principal Amount	Fair Value
PROMISSORY NOTES—1.16% (b)(c)(f)(i)		
Wheeler Real Estate Investment Trust Convertible 9.000%, 12/15/2018 (Acquired 12/16/2013, Cost \$1,200,000)	\$ 1,200,000	\$ 1,200,000
Wheeler Real Estate Investment Trust Non-convertible 9.000%, 12/15/2015 (Acquired 12/16/2013, Cost \$800,000)	800,000	800,000
Total Promissory Notes (Cost \$2,000,000)		2,000,000
	Shares	
WARRANTS—0.36% (a)		
AR Capital Acquisition Corp. Expiration: October 2019 Exercise Price: \$11.50	49,997	9,999
Arabella Exploration, Inc. Expiration: December 2016 Exercise Price: \$5.00 (h)	25,448	13,742
Capitol Acquisition Corp. II Expiration: May 2016 Exercise Price: \$11.50	77,561	26,371
Chart Acquisition Corp. Expiration: December 2017 Exercise Price: \$11.50	124,265	49,706
CIS Acquisition Ltd. Expiration: December 2017 Exercise Price: \$10.00 (h)	61,826	21,021
Collabrium Japan Acquisition Co. Expiration: April 2019 Exercise Price: \$11.50 (h)	208,234	12,494
EveryWare Global, Inc. Expiration: May 2018 Exercise Price: \$6.00	48,370	1,693
Garnero Group Acquisition Co. Expiration: June 2019 Exercise Price: \$11.50 (h)	153,199	18,384
Healthcare Corp. of America Expiration: November 2016 Exercise Price: \$7.50 (Acquired 10/24/2012, Cost \$0) (c)	5,000	8
Expiration: July 2018 Exercise Price: \$11.50	33,753	71

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

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Shares	Fair Value
WARRANTS—(continued)		
Hemisphere Media Group, Inc. Expiration: April 2018 Exercise Price: \$6.00	142,626	\$ 169,725
Hennessy Capital Acquisition Corp. Expiration: March 2019 Exercise Price: \$5.75	65,223	22,828
Imperial Holdings, Inc. Expiration: October 2019 Exercise Price: \$10.75	8	0
Integrated Drilling Equipment Holdings Corp. Expiration: December 2017 Exercise Price: \$11.50	205,929	412
KBS Fashion Group Ltd. Expiration: January 2018 Exercise Price: \$11.50 (h)	400,000	60,000
Levy Acquisition Corp. Expiration: January 2018 Exercise Price: \$11.50	26,866	9,940
Net Element, Inc. Expiration: October 2017 Exercise Price: \$7.50	159,476	7,974
Preferred Apartment Communities Expiration: March 2017 Exercise Price: \$9.00 (c)(f)	6,083	61
Pingtan Marine Enterprise Ltd. Expiration: February 2018 Exercise Price: \$12.00 (h)	52,798	6,600
Prime Acquisition Corp. Expiration: March 2016 Exercise Price: \$5.00 (h)	50,142	4,763
RLJ Entertainment, Inc. Expiration: October 2017 Exercise Price: \$12.00	436,744	43,674
ROI Acquisition Corp II Expiration: September 2018 Exercise Price: \$11.50	57,484	15,038
Silver Eagle Acquisition Corp. Expiration: July 2018 Exercise Price: \$11.50	9,016	4,508

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

Special Opportunities Fund, Inc.—

Portfolio of investments—December 31, 2014

	Shares	Fair Value
WARRANTS—(continued)		
Tecnoglass, Inc.		
Expiration: December 2016		
Exercise Price: \$8.00 (h)	45,477	\$ 116,421
Wheeler Real Estate Investment Trust, Inc.		
Expiration: December 2018		
Exercise Price: \$4.75 (c)(f)	84,211	0
Expiration: April 2019		
Exercise Price: \$5.50	15,702	4,240
Total Warrants (Cost \$741,168)		619,673
RIGHTS—0.02%		
Garnero Group Acquisition Co. (a)(h)		
Total Rights (Cost \$52,421)	139,951	41,985
MONEY MARKET FUNDS—11.23%		
Fidelity Institutional Government Portfolio—Class I, 0.010% (e)		
	9,670,137	9,670,137
Fidelity Institutional Tax-Exempt Portfolio—Class I, 0.010% (e)		
	9,670,137	9,670,137
Total Money Market Funds (Cost \$19,340,274)		19,340,274
Total Investments (Cost \$172,309,366)—108.03%		186,033,369
Liabilities in Excess of Other Assets—(8.03)%		(13,830,233)
TOTAL NET ASSETS—100.00%		\$ 172,203,136

Percentages are stated as a percent of net assets.

(a) Non-income producing security.

(b) The coupon rates shown represent the rates at December 31, 2014.

(c) Fair valued securities. The total market value of these securities was \$17,421,520, representing 10.12% of net assets.

(d) Default or other conditions exist and security is not presently accruing income.

(e) The rate shown represents the 7-day yield at December 31, 2014.

(f) Illiquid security. The total market value of these securities was \$17,230,866, representing 10.01% of net assets.

(g) Security currently undergoing a full liquidation with all proceeds paid out to shareholders.

(h) Foreign-issued security.

(i) Restricted security.

(j) All or a portion of this security is pledged as collateral for securities sold short.

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

Special Opportunities Fund, Inc.—

Schedule of Securities Sold Short—December 31, 2014

	Shares	Value
First American Financial Corp.	37,285	\$ 1,263,962
Total Securities Sold Short (Proceeds \$1,003,898)		\$ 1,263,962

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

Special Opportunities Fund, Inc.—

Statement of assets and liabilities—December 31, 2014

Assets:	
Investments, at value (Cost \$172,309,366)	\$ 186,033,369
Cash	201,940
Dividends and interest receivable	2,150,733
Receivable for investments sold	355,477
Deposits at brokers	764,897
Other assets	37,711
Total assets	189,544,127
Liabilities:	
Securities sold short, at value (proceeds \$1,003,898)	1,263,962
Distributions payable common	15,044,872
Payable for investments purchased	702,848
Payable to Adviser	152,883
Payable to Custodian	7,234
Accrued expenses and other liabilities	169,192
Total liabilities	17,340,991
Net assets applicable to common shareholders	\$ 172,203,136
Net assets applicable to common shareholders:	
Common stock—\$0.001 par value per common share; 199,995,800 shares authorized; 10,165,454 shares issued and outstanding, 13,568,364 shares held in treasury	\$ 345,575,187
Cost of shares held in treasury	(191,865,432)
Accumulated undistributed net investment loss	(567,161)
Accumulated net realized gain from investment activities	5,597,855
Net unrealized appreciation (depreciation) on:	
Investments	13,724,003
Securities Sold Short	(260,064)
Foreign Currencies	(1,252)
Net assets applicable to common shareholders	\$ 172,203,136
Net asset value per common share (\$172,203,136 applicable to 10,165,454 common shares outstanding)	\$ 16.94

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

Special Opportunities Fund, Inc.—

Statement of operations

	For the year ended December 31, 2014
Investment income:	
Dividends(1)	\$ 4,249,183
Interest	472,813
Total investment income	4,721,996
Expenses:	
Investment advisory fees	1,806,824
Legal fees and expenses	185,556
Directors' fees and expenses	135,017
Administration fees and expenses	134,500
Insurance fees	55,175
Accounting fees and expenses	52,637
Dividend expenses	51,175
Audit fees	48,999
Compliance fees and expenses	46,886
Custody fees and expenses	41,659
Reports and notices to shareholders	31,597
Stock exchange listing fees	29,818
Transfer agency fees and expenses	19,976
Other expenses	4,016
Total expenses	2,643,835
Less: Fee waivers by investment advisor	(143,573)
Net expenses	2,500,262
Net investment income	2,221,734
Net realized and unrealized gains from investment activities:	
Net realized gain (loss) from:	
Investments	12,349,852
Short transactions	(177,412)
Distributions received from investment companies	5,138,314
Net realized gain on investments	17,310,754
Change in net unrealized appreciation (depreciation) on:	
Investments	(7,041,879)
Short transactions	(260,064)
Foreign currency translation	(2,122)
Net realized and unrealized gains from investment activities	10,006,689
Net increase in net assets applicable to common shareholders resulting from operations	\$ 12,228,423

(1) Net of \$11,224 in foreign withholding tax.

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

Special Opportunities Fund, Inc.—

Statements of changes in net assets applicable to common shareholders

	For the year ended December 31, 2014	For the year ended December 31, 2013
From operations:		
Net investment income	\$ 2,221,734	\$ 7,624,212
Net realized gain (loss) before income taxes from:		
Investments	12,349,852	5,660,766
Short Transactions	(177,412)	598,975
Distributions received from investment companies	5,138,314	2,268,945
Foreign currency translation	—	(73,025)
Net realized gain before income taxes	17,310,754	8,455,661
Net change in unrealized appreciation (depreciation) on:		
Investments and foreign currency	(7,044,001)	11,400,145
Short Transactions	(260,064)	—
Net increase in net assets resulting from operations	12,228,423	27,480,018
Distributions paid to preferred shareholders:		
Net investment income	—	(1,123,393)
Total dividends and distributions paid to preferred shareholders	—	(1,123,393)
Net increase in net assets applicable to common shareholders resulting from operations	12,228,423	26,356,625
Distributions paid to common shareholders:		
Net investment income	(1,931,436)	(7,768,104)
Net realized gains from investment activities	(13,113,436)	(7,838,724)
Total dividends and distributions paid to common shareholders	(15,044,872)	(15,606,828)
Capital Stock Transactions (Note 4)		
Offering cost adjustment from issuance of preferred stock	—	73,965
Conversion of preferred stock to common stock	37,205,024	30,000
Reinvestment of distributions to common stockholders	5,740,113	3,962,090
Total capital stock transactions	42,945,137	4,066,055
Net increase in net assets applicable to common shareholders	40,128,688	14,815,852
Net assets applicable to common shareholders:		
Beginning of year	132,074,448	117,258,596
End of year	\$ 172,203,136	\$ 132,074,448
Accumulated undistributed net investment income (loss)	\$ (567,161)	\$ 129,360

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

Special Opportunities Fund, Inc.—

Financial highlights

Selected data for a share of common stock outstanding throughout each period is presented below:

Net asset value, beginning of period
Net investment income(2)
Net realized and unrealized gains (losses) from investment activities
Total from investment operations
Dilutive effect of conversions of preferred shares to common shares
Dilutive effect of reinvestment of distributions by common shareholders
Common share equivalent of dividends paid to preferred shareholders from:
Net investment income
Dividends and distributions paid to common shareholders from:
Net investment income
Net realized gains from investment activities
Total dividends and distributions paid to common shareholders
Net asset value, end of period
Market value, end of period
Total net asset value return(3)
Total market price return(4)
Ratio to average net assets attributable to common shares:
Total expenses, net of fee waivers by investment advisor and administrator
including interest, dividends on short positions, and tax expense
Total expenses, before fee waivers by investment advisor and administrator
including interest, dividends on short positions, and tax expense
Total expenses, net of fee waivers by investment advisor and administrator
excluding interest expense, and dividends on short positions
Ratio to net investment income to average net assets before waiver
Ratio to net investment income to average net assets after waiver
Supplemental data:
Net assets applicable to common shareholders, end of period (000's)
Liquidation value of preferred stock (000's)
Portfolio turnover
Preferred Stock:
Total Shares Outstanding
Asset coverage per share of preferred shares, end of period

Financial highlights (continued)

For the years ended December 31,

2014		2013		2012		2011		2010	
\$ 18.70		\$ 17.22		\$ 16.01		\$ 16.42		\$ 14.26	
0.22		0.92		0.34		0.22	(1)	0.04	(1)
1.02		3.00		1.92		(0.10)	)	2.15	
1.24		3.92		2.26		0.12		2.19	
(1.44)	)	0.00	(8)	—		—		—	
(0.08)	)	(0.07)	)	(0.03))	—		—	
—		(0.16)	)	(0.07))	—		—	
(0.19)	)	(1.10)	)	(0.23)	)	(0.26)	)	(0.03))
(1.29)	)	(1.11)	)	(0.72)	)	(0.27))	—	
(1.48)	)	(2.21)	)	(0.95)	)	(0.53)	)	(0.03))
\$ 16.94		\$ 18.70		\$ 17.22		\$ 16.01		\$ 16.42	
\$ 15.37		\$ 17.45		\$ 15.01		\$ 14.50		\$ 14.75	
(1.01)	)%	21.98	%	13.72	%	0.85	%	15.36	%
(3.59)	)%	31.27	%	10.05	%	1.89	%	4.90	%
1.42	%(5)	2.66	%(5)	2.54	%(5)(7)	1.51	%(5)	1.50	%(5)
1.51	%(5)	2.66	%(5)	2.54	%(5)(7)	1.51	%(5)	1.67	%(5)
1.40	%(6)	1.83	%(6)	1.82	%(6)	1.51	%(6)	1.50	%(6)
1.18	%(2)	5.66	%(2)	2.41	%(2)	1.32	%(2)	0.26	%(2)
1.27	%(2)	5.66	%(2)	2.41	%(2)	1.32	%(2)	0.26	%(2)
\$ 172,203		\$ 132,074		\$ 117,259		\$ 106,864		\$ 109,631	
\$ —		\$ 37,424		\$ 37,454		\$ —		\$ —	
59	%	58	%	62	%	55	%	73	%
N/A		748,486		749,086		N/A		N/A	
N/A		\$ 226		\$ 207		N/A		N/A	

Special Opportunities Fund, Inc.—

Financial highlights (continued)

- (1) Calculated using the average shares method.
- (2) Recognition of investment income by the Fund is affected by the timing and declaration of dividends by the underlying investment companies in which the Fund invests.
- (3) Total net asset value return is calculated assuming a \$10,000 purchase of common stock at the current net asset value on the first day of each period reported and a sale at the current net asset value on the last day of each period reported, and assuming reinvestment of dividends and other distributions at the net asset value on the payable date 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. Total investment return based on net asset value is hypothetical as investors can not purchase or sell Fund shares at net asset value but only at market prices. 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.
- (4) Total market price return is calculated assuming a \$10,000 purchase of common stock at the current market price on the first day of each period reported and a sale at the current market price on the last day of each period reported, and assuming reinvestment of dividends and other distributions to common shareholders 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. Total investment return does not reflect brokerage commissions and has not been annualized for the period of less than one year. 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.
- (5) Does not include expenses of the investment companies in which the Fund invests.
- (6) Does not include expenses of the investment companies in which the Fund invests, interest expenses, or dividends on short positions.
- (7) The ratio of expenses to average net assets includes tax expense. The before waiver and expense reimbursement and after waiver and expense reimbursement ratios excluding tax expense were 2.18% and 2.18%, respectively.
- (8) Less than 0.5 cents per share.

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

Special Opportunities Fund, Inc.—

Notes to financial statements

Note 1

Organization and significant accounting policies

Special Opportunities Fund, Inc. (formerly, Insured Municipal Income Fund Inc.) (the “Fund”) was incorporated in Maryland on February 18, 1993, and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, as a closed-end diversified management investment company. Effective December 21, 2009, the Fund changed its name to the Special Opportunities Fund, Inc. and changed its investment objective to total return. There can be no assurance that the Fund’s investment objective will be achieved. The Fund’s previous investment objective was to achieve a high level of current income that was exempt from federal income tax, consistent with the preservation of capital.

The Fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standard Codification Topic 946 “Financial Services—Investment Companies”.

In the normal course of business, the Fund may enter into contracts that contain a variety of representations or that provide indemnification for certain liabilities. The Fund’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

The preparation of financial statements in accordance with Accounting Principles Generally Accepted in the United States of America requires the Fund’s management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

Valuation of investments—The Fund calculates its net asset value based on the current market value for its portfolio securities. The Fund obtains market values for its securities from independent pricing sources and broker-dealers. Independent pricing sources may use last reported sale prices or if not available the most recent bid price, current market quotations or valuations from computerized “matrix” systems that derive values based on comparable securities. A matrix system incorporates parameters such as security quality, maturity and coupon, and/or research and evaluations by its staff, including review of broker-dealer market price quotations, if available, in determining the valuation of the portfolio securities. If a market value is not available from an independent pricing source or a broker-dealer for a particular security, that security is valued at fair value as determined in good faith by or under the direction of the Fund’s Board of Directors (the “Board”). Various factors may be

Special Opportunities Fund, Inc.—

Notes to financial statements

reviewed in order to make a good faith determination of a security's fair value. The auction rate preferred securities are valued at cost, unless other observable market events occur. The purchase price, or cost, of these securities is arrived at through an arms length transaction between a willing buyer and seller in the secondary market and is indicative of the value on the secondary market. Current transactions in similar securities in the marketplace are evaluated. Factors for other securities may include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded similar or related securities; conversion or exchange rights on the security; related corporate actions; and changes in overall market conditions. If events occur that materially affect the value of securities between the close of trading in those securities and the close of regular trading on the New York Stock Exchange, the securities may be fair valued. The amortized cost method of valuation, which approximates market value, generally is used to value short-term debt instruments with sixty days or less remaining to maturity, unless the Board or its delegate determines that this does not represent fair value.

The Fund has adopted fair valuation accounting standards that establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various input and valuation techniques used in measuring fair value. Fair value inputs are summarized in the three broad levels listed below:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

Level 2—Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or

Special Opportunities Fund, Inc.—

Notes to financial statements

unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The significant unobservable inputs used in fair value measurement of the Fund's investment companies, corporate bonds, and promissory notes, are (1) cost and (2) indicative bids or price ranges from dealers, brokers, or market makers. Significant changes in any of these inputs in isolation may result in a change in fair value measurement.

In accordance with procedures established by the Fund's Board of Directors, the Adviser shall initially value non-publicly-traded securities (for which a current market value is not readily available) at their acquisition cost less related expenses, where identifiable, unless and until the Adviser determines that such value does not represent fair value.

The Adviser sends a memorandum to the Chairman of the Valuation Committee with respect to any non-publicly-traded securities that are valued using a method other than cost detailing the reason, factors considered, and impact on the Fund's NAV. If the Chairman determines that such fair valuation(s) require the involvement of the Valuation Committee, a special meeting of the Valuation Committee is called as soon as practicable to discuss such fair valuation(s). The Valuation Committee of the Board consists of at least two non-interested Directors, as defined by the Investment Company Act of 1940.

In addition to special meetings, the Valuation Committee meets prior to each regular quarterly Board meeting. At each quarterly meeting, the Adviser delivers a written report (the "Quarterly Report") regarding any recommendations of fair valuation during the past quarter, including fair valuations which have not changed. The Valuation Committee reviews the Quarterly Report, discusses the valuation of the fair valued securities with appropriate levels of representatives from the Adviser's management, and approves the valuation of fair valued securities.

The Valuation Committee also reviews other interim reports as necessary.

The following is a summary of the fair valuations according to the inputs used as of December 31, 2014 in valuing the Fund's investments:

Special Opportunities Fund, Inc.—

Notes to financial statements

Quoted Prices in Active Markets	Significant Other Observable Inputs	Unobservable Inputs	&#16
for Identical Investments			