

SPECIAL OPPORTUNITIES FUND, INC.  
Form N-CSRS  
September 02, 2011

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  
Brooklyn Capital Management, 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: 12/31/2011

Date of reporting period: 1/1/2011-6/30/2011

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Item 1. Reports to Stockholders.

Special Opportunities Fund, Inc.  
Semi-Annual Report  
For the six months ended  
June 30, 2011

Special Opportunities Fund, Inc.

August 10, 2011

Dear Fellow Shareholders:

In the first half of 2011 the S&P 500 Index rose by 6.02% while the net asset value of Special Opportunities Fund advanced 6.15%.

So much for the past. I would be remiss if I ignored the severe correction that has occurred since June 30th. In my last semi-annual letter, I said: “While greed may be the order of the day, fear can raise its ugly head at any time.” With the caveat that things could change dramatically by the time shareholders receive this letter, fear has rather suddenly become the dominant emotion driving investors. As indicated in the table below, the first week of August was one of the worst in recent history for the stock market, capped by the downgrading of our Treasury debt.

|                  | Week of<br>8/1/11 – 8/5/11 | Period of<br>6/30/11 – 8/5/11 | Year to Date<br>(as of 8-5-11) |
|------------------|----------------------------|-------------------------------|--------------------------------|
| SPE (NAV Change) | -5.79%                     | -4.37%                        | 0.00%                          |
| S&P 500          | -7.15%                     | -9.04%                        | -3.56%                         |

As these statistics suggest, we are risk averse. Thus, we tend to outperform in down or choppy markets. On the other hand, we expect to underperform the stock market when it booms, as was the case in the second half of 2010. For the most part, we eschew any attempt to predict markets. Instead, we focus on trying to find investments where we think we have an edge. By seeking out and exploiting inefficiencies in the marketplace, we hope to generate above average returns over time for our Fund with reduced risk. We also will use activism when necessary to try to unlock the value of our investments. This strategy has worked quite well for us in the past and we see no reason to alter it.

The opposite approach is to try to predict where the market will be in the near future and to buy or sell securities based upon that prediction. Maybe a few investment managers can do that consistently but we don’t know any of them. This year has been a prime example of how hard it is to translate predictions of geopolitical and macroeconomic developments into investment profits. Assume that on January 1, 2011 our crystal ball told us that the major world events between then and July 31, 2011 would be:

1. Greece will be on the precipice of bankruptcy (with Spain, Portugal, Ireland and Italy, like dominos, facing a similar fate).
2. Turmoil, regime change, and violence will take place in a number of autocratic Middle Eastern countries including Egypt, Libya, Iran and Syria.

Special Opportunities Fund, Inc.

3. Japan will suffer one of the most powerful earthquakes in history. As a result, there will be severe damage to infrastructure and factories supplying everything from high-tech components to steel. Around 4.4 million households in northeastern Japan will be left without electricity and explosions will occur at several nuclear reactors.

4. Unemployment in the United States will languish at more than 9%. It will remain difficult for businesses to get credit and home buyers to get a mortgage. The price of gold will exceed \$1,600 per ounce.

5. The United States will come closer to defaulting on its debt than at any time in its history and may suffer a credit downgrade.

If we had to choose on January 1, 2011 between buying and selling short an S&P 500 index fund, what should we have done? Obviously, sell short. But, on July 31, 2011, the Index was still up 3.9%. Go figure!

Of course, no one could have known all these things. But, even if one could, there is no guarantee that such knowledge will be profitable to an investment manager. Beating the market is always tough – even if one is pretty sure what major events will occur. True, the market has deteriorated rapidly since the beginning of August – but that could easily have happened after the Japanese earthquake. The bottom line is that securities markets are inherently unpredictable. That is why we are generally agnostic about making forecasts. To reiterate, we just try to invest where we think we have an edge and use activism when necessary to try to unlock the value of our investments.

The primary reason we have outperformed during the recent market decline is our significant weighting in special purpose acquisition companies (SPACs) and auction rate preferred stock (ARPs) issued by closed-end funds. Both of these are low risk securities whose prices are usually unaffected by world events.

Despite the recent selloff, we see a bright future for Special Opportunities Fund. I personally purchased 5,000 shares of our Fund on August 8th, a day when the S&P 500 Index fell more than 6.6%. As typically happens when the market falls rapidly, discounts of closed-end funds widened. We took advantage of this phenomenon to purchase some of these funds. Whether the market rises or falls, we hope to gain “alpha” when their discounts narrow, as they inevitably have done in the past after that sort of panic selling runs its course. That is consistent with our philosophy that getting an edge – not trying to predict market moves – is the best way to beat the market over the long term without incurring undue risk.

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 6/30/11

| Net asset value returns          | 6 Months | 1 Year | Since<br>1/25/10 | 5 years* | 10 years* |
|----------------------------------|----------|--------|------------------|----------|-----------|
| Special Opportunities Fund, Inc. | 6.15%    | 24.02% | 15.31%           | 7.27%    | 5.94%     |
| Market price returns             |          |        |                  |          |           |
| Special Opportunities Fund, Inc. | 6.03%    | 22.34% | 12.72%           | 8.38%    | 6.86%     |
| Index returns                    |          |        |                  |          |           |
| S&P 500 Index                    | 6.02%    | 30.69% | 16.21%           | 2.94%    | 2.72%     |

Share price as of 6/30/11

|                 |         |
|-----------------|---------|
| Net asset value | \$17.44 |
| Market price    | \$15.64 |

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 6/30/11(1)

|                                       | Value         | Percent |   |
|---------------------------------------|---------------|---------|---|
| Investment Companies                  | \$77,210,386  | 66.32   | % |
| Common Stocks                         | 24,611,546    | 21.14   |   |
| Money Market Funds                    | 7,022,288     | 6.03    |   |
| Corporate Bonds                       | 4,477,500     | 3.85    |   |
| Structured Life Settlement Notes      | 1,092,193     | 0.94    |   |
| Warrants                              | 621,934       | 0.53    |   |
| Convertible Bonds                     | 350,000       | 0.30    |   |
| Rights                                | 0             | 0.00    |   |
| Total Investments                     | \$115,385,847 | 99.11   | % |
| Other Assets in Excess of Liabilities | 1,035,587     | 0.89    | % |
| Total Net Assets                      | \$116,421,434 | 100.00  | % |

(1) As a percentage of net assets.

## Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2011 (unaudited)

|  | Shares    | Value       |
|--|-----------|-------------|
| INVESTMENT COMPANIES—66.32%  |           |             |
| Closed-End Funds—48.18%  |           |             |
| Adams Express Company  | 276,839   | \$3,083,986 |
| Alpine Global Premier Properties Fund  | 324,890   | 2,335,959   |
| American Strategic Income Portfolio II                                       | 30,640    | 282,501     |
| American Strategic Income Portfolio III                                      | 24,405    | 193,532     |
| Bancroft Fund, Ltd.  | 41,401    | 722,033     |
| BlackRock Credit Allocation Income Trust II, Inc.                            | 25,000    | 253,750     |
| BlackRock Credit Allocation Income Trust IV                                  | 119,353   | 1,493,106   |
| Boulder Growth & Income Fund, Inc.   | 316,668   | 2,052,009   |
| Boulder Total Return Fund, Inc. (a)  | 184,149   | 3,036,617   |
| DWS RREEF Real Estate Fund, Inc. (a)(c)(f)(g)                                | 126,913   | 11,803      |
| DWS RREEF Real Estate Fund II, Inc. (a)(c)(f)(g)                             | 201,612   | 28,830      |
| First Opportunity Fund, Inc. (a)   | 279,106   | 2,009,563   |
| First Trust Strategic High Income Fund III                                   | 104,298   | 471,427     |
| Gabelli Global Multimedia Trust, Inc.  | 421,652   | 3,360,566   |
| The GDL Fund   | 52,932    | 709,818     |
| The Greater China Fund, Inc.   | 15,694    | 199,314     |
| H&Q Life Sciences Investors  | 10,334    | 128,762     |
| The Ibero-America Fund, Inc.   | 66,469    | 505,829     |
| Korea Equity Fund, Inc. (a)  | 10,361    | 150,235     |
| Liberty All-Star Equity Fund, Inc.   | 1,033,355 | 5,342,444   |
| Liberty All-Star Growth Fund, Inc.   | 369,360   | 1,639,958   |
| LMP Capital and Income Fund, Inc.  | 85,386    | 1,171,496   |
| Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund | 42,550    | 680,375     |
| Macquarie Global Infrastructure Total Return Fund, Inc.                      | 80,776    | 1,500,010   |
| Morgan Stanley Asia Pacific Fund, Inc.                                       | 20,234    | 344,990     |
| Neuberger Berman Real Estate Securities Income Fund, Inc.                    | 6,520     | 28,036      |
| The New Ireland Fund, Inc.   | 171,024   | 1,465,676   |
| Nuveen Multi-Strategy Income and Growth Fund 2                               | 38,528    | 352,146     |
| Royce Focus Trust, Inc.  | 17,500    | 136,500     |
| Royce Micro-Cap Trust, Inc.  | 440,426   | 4,351,409   |
| Royce Value Trust, Inc.  | 348,093   | 5,193,548   |
| Shelton Greater China Fund (a)   | 104,840   | 795,736     |
| SunAmerica Focused Alpha Growth Fund, Inc.                                   | 195,557   | 4,061,719   |
| SunAmerica Focused Alpha Large-Cap Fund, Inc.                                | 5,676     | 108,412     |
| Tri-Continental Corporation  | 387,319   | 5,782,672   |
| TS&W/Claymore Tax-Advantaged Balanced Fund                                   | 128,418   | 1,460,113   |





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Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2011 (unaudited)

|   | Shares  | Value                    |
|---|---------|--------------------------|
| INVESTMENT COMPANIES—(continued)  |         |                          |
| Closed-End Funds—(continued)  |         |                          |
| The Zweig Total Return Fund, Inc.                                       | 189,862 | \$ 643,632<br>56,088,512 |
| Auction Rate Preferred Securities—15.44% (b)(c)                         |         |                          |
| BlackRock California Municipal 2018 Term Trust - Series M7, 0.183%      | 100     | 2,250,000                |
| BlackRock Municipal 2018 Term Trust - Series W7, 0.152%                 | 100     | 2,250,000                |
| BlackRock Municipal Bond Trust - Series R7, 0.152%                      | 75      | 1,687,500                |
| BlackRock Municipal Bond Trust - Series T7, 0.152%                      | 75      | 1,687,500                |
| BlackRock Municipal Income Quality Trust - Series F7, 0.183%            | 60      | 1,350,000                |
| BlackRock MuniHoldings Fund, Inc. - Series C, 1.266%                    | 25      | 562,500                  |
| BlackRock MuniHoldings Fund II, Inc. - Series A, 0.152%                 | 50      | 1,125,000                |
| BlackRock MuniHoldings New York Quality Fund, Inc. - Series B, 0.152%   | 1       | 22,500                   |
| BlackRock MuniHoldings New York Quality Fund, Inc. - Series D, 0.183%   | 21      | 472,500                  |
| BlackRock MuniHoldings New York Quality Fund, Inc. - Series E, 0.152%   | 1       | 22,500                   |
| BlackRock New York Municipal Bond Trust - Series T7, 0.152%             | 52      | 1,170,000                |
| Federated Premier Intermediate Municipal Income Fund - Series A, 0.110% | 132     | 2,825,625                |
| Invesco Quality Municipal Investment Trust - Series A, 0.077%           | 53      | 2,226,000                |
| Nuveen California Dividend Advantage Municipal Fund - Series TH, 0.152% | 8       | 200,000                  |
| Western Asset Premier Bond Fund - Series M, 0.140%                      | 6       | 120,000<br>17,971,625    |
| Business Development Company—2.70%                                      |         |                          |
| Capital Southwest Corporation   | 1,468   | 135,452                  |
| Equus Total Return, Inc. (a)  | 78,138  | 187,531                  |
| MVC Capital, Inc.   | 163,994 | 2,169,641                |
| Prospect Capital Corporation  | 65,047  | 657,625<br>3,150,249     |
| Total Investment Companies (Cost \$68,897,001)                          |         | 77,210,386               |
| COMMON STOCKS—21.14%  |         |                          |
| Motor Vehicles & Passenger Car Bodies—0.21%                             |         |                          |
| General Motors Company (a)  | 8,193   | 248,739                  |
| Pharmaceuticals Preparations—0.07%                                      |         |                          |
| Myrexis, Inc. (a)   | 21,925  | 78,492                   |
| Real Estate Investment Trusts—0.46%                                     |         |                          |
| Gyrodyne Company of America, Inc. (a)                                   | 7,900   | 537,200                  |



## Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2011 (unaudited)

|   | Shares              | Value        |
|---|---------------------|--------------|
| COMMON STOCKS—(continued)   |                     |              |
| Retail-Auto Dealers & Gasoline Stations—0.96%                       |                     |              |
| Casey's General Stores, Inc.  | 25,316              | \$ 1,113,904 |
| Special Purpose Acquisition Vehicle—19.44%                          |                     |              |
| Australia Acquisition Corporation (a)                               | 250,000             | 2,425,000    |
| Azteca Acquisition Corporation (a)(h)                               | 189,924             | 1,899,240    |
| Cazador Acquisition Corporation, Ltd. (a)                           | 200,000             | 1,924,000    |
| China Growth Equity Investment, Ltd. (a)(h)                         | 52,798              | 527,980      |
| China VantagePoint Acquisition Company (a)(i)                       | 27,130              | 161,424      |
| Empeiria Acquisition Corporation (a)(h)                             | 175,560             | 1,752,089    |
| FlatWorld Acquisition Corporation (a)(h)                            | 105,702             | 1,055,963    |
| Global Cornerstone Holdings, Ltd. (a)(h)                            | 115,935             | 1,153,553    |
| Global Eagle Acquisition Corporation (a)                            | 54,028              | 510,024      |
| Hicks Acquisition Company II, Inc. (a)                              | 200,000             | 1,916,000    |
| JWC Acquisition Corporation (a)                                     | 300,000             | 2,886,000    |
| L&L Acquisition Corporation (a)(h)                                  | 100,000             | 990,000      |
| Lone Oak Acquisition Corporation (a)                                | 81,430              | 655,512      |
| Prime Acquisition Corporation (a)                                   | 51,442              | 485,612      |
| RLJ Acquisition, Inc. (a)   | 251,000             | 2,384,500    |
| SCG Financial Acquisition Corporation (a)(h)                        | 129,338             | 1,306,314    |
| Universal Business Payment Solutions Acquisition Corporation (a)(h) | 100,000             | 600,000      |
|   |                     | 22,633,211   |
| Total Common Stocks (Cost \$23,359,740)                             |                     | 24,611,546   |
|   | Principal<br>Amount |              |
| CORPORATE BONDS—3.85%   |                     |              |
| Washington Mutual, Inc.   |                     |              |
| 0.000%, 09/17/2012 (d)  | \$ 3,000,000        | 3,015,000    |
| 5.250%, 09/15/2017 (d)  | 1,300,000           | 1,462,500    |
| Total Corporate Bonds (Cost \$4,450,531)                            |                     | 4,477,500    |
| CONVERTIBLE BONDS—0.30%   |                     |              |
| RB Foods, Inc.  |                     |              |
| 12.000%, 11/18/2011 (c)   | 350,000             | 350,000      |
| Total Convertible Bonds (Cost \$350,000)                            |                     | 350,000      |

## Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2011 (unaudited)

|   | Principal<br>Amount | Value       |
|---|---------------------|-------------|
| STRUCTURED LIFE SETTLEMENT NOTES—0.94%                    |                     |             |
| Cedar Lane Series A-2 Notes (c)(f)                        | \$1,092,193         | \$1,092,193 |
| Total Structured Life Settlement Notes (Cost \$1,092,193) |                     | 1,092,193   |
|   | Shares              |             |
| WARRANTS—0.53%  |                     |             |
| Australia Acquisition Corporation                         |                     |             |
| Expiration: October 2015                                  | 250,000             | 115,000     |
| Exercise Price: \$11.50 (a)                               |                     |             |
| Cazador Acquisition Corporation, Ltd.                     |                     |             |
| Expiration: October 2015                                  | 228,491             | 91,396      |
| Exercise Price: \$7.50 (a)                                |                     |             |
| FlatWorld Acquisition Corporation                         |                     |             |
| Expiration: September 2012                                | 30,248              | 3,025       |
| Exercise Price: \$11.00 (a)                               |                     |             |
| Hicks Acquisition Company II, Inc.                        |                     |             |
| Expiration: July 2017                                     | 200,000             | 100,000     |
| Exercise Price: \$12.00 (a)                               |                     |             |
| JWC Acquisition Corporation                               |                     |             |
| Expiration: November 2015                                 | 150,000             | 112,500     |
| Exercise Price: \$11.50 (a)                               |                     |             |
| Prime Acquisition Corporation                             |                     |             |
| Expiration: March 2016                                    | 51,442              | 30,351      |
| Exercise Price: \$7.50 (a)                                |                     |             |
| RLJ Acquisition, Inc.                                     |                     |             |
| Expiration: February 2016                                 | 353,462             | 169,662     |
| Exercise Price: \$12.00 (a)                               |                     |             |
| Total Warrants (Cost \$582,340)                           |                     | 621,934     |
| RIGHTS—0.00%  |                     |             |
| Zion Oil & Gas, Inc. (a)                                  | 1,485               | 0           |
| Total Rights (Cost \$2,140)                               |                     | 0           |

Special Opportunities Fund, Inc.—

Portfolio of investments—June 30, 2011 (unaudited)

|  | Shares    | Value          |
|--|-----------|----------------|
| MONEY MARKET FUNDS—6.03%   |           |                |
| Fidelity Institutional Government Portfolio - Class I, 0.01% (e) | 3,511,543 | \$3,511,543    |
| Fidelity Institutional Tax-Exempt Portfolio - Class I, 0.01% (e) | 3,510,745 | 3,510,745      |
| Total Money Market Funds (Cost \$7,022,288)                      |           | 7,022,288      |
| Total Investments (Cost \$105,756,233)—99.11%                    |           | 115,385,847    |
| Other Assets in Excess of Liabilities—0.89%                      |           | 1,035,587      |
| TOTAL NET ASSETS—100.00%   |           | \$ 116,421,434 |

Percentage are stated as a percent of net assets.

(a)Non-income producing security.

(b)The coupon rates shown represent the rates at June 30, 2011.

(c)Fair valued securities. The total market value of these securities was \$19,454,451, representing 16.71% 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 June 30, 2011.

(f)Illiquid security.

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

(h)Each unit consists of one share of common stock and one warrant.

(i)Each unit consists of one share of common stock, one half of a non-transferrable warrant and one half of a transferrable warrant.

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

Special Opportunities Fund, Inc.—

Statement of assets and liabilities—June 30, 2011 (unaudited)

|   |                |
|---|----------------|
| Assets:   |                |
| Investments, at value (cost—\$105,756,233)  | \$ 115,385,847 |
| Cash  | 44,066         |
| Dividends and interest receivable   | 39,361         |
| Receivable for investments sold   | 3,356,795      |
| Other assets  | 4,695          |
| Total assets  | 118,830,764    |
| Liabilities:  |                |
| Payable for investments purchased   | 2,147,329      |
| Payable to Adviser  | 93,510         |
| Payable to directors  | 179            |
| Accrued expenses and other liabilities  | 168,312        |
| Total liabilities   | 2,409,330      |
| Net assets applicable to common shareholders  | \$ 116,421,434 |
| Net assets applicable to common shareholders:   |                |
| Common stock—\$0.001 par value per common share; 199,995,800 shares authorized; 6,676,450 shares issued and outstanding | \$ 104,136,008 |
| Accumulated undistributed net investment income   | 914,348        |
| Accumulated net realized gain from investment activities  | 1,741,464      |
| Net unrealized appreciation of investments  | 9,629,614      |
| Net assets applicable to common shareholders  | \$ 116,421,434 |
| Net asset value per common share (\$116,421,434 applicable to 6,676,450 common shares outstanding)                      | \$ 17.44       |

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

## Special Opportunities Fund, Inc.—

## Statement of operations

|   | For the six<br>months ended<br>June 30, 2011<br>(unaudited) |
|---|---|
| Investment income:  |   |
| Dividends   | \$ 1,439,335  |
| Interest  | 65,214  |
| Total investment income   | 1,504,549   |
| Expenses:   |   |
| Investment advisory fees  | 561,160   |
| Professional fees and expenses  | 109,614   |
| Directors' fees and expenses  | 54,747  |
| Administration fees and expenses  | 44,707  |
| Compliance fees and expenses  | 18,328  |
| Accounting fees and expenses  | 17,953  |
| Reports and notices to shareholders   | 14,706  |
| Insurance fees  | 13,058  |
| Stock exchange listing fees   | 12,439  |
| Transfer agency fees and expenses   | 7,008   |
| Custody fees and expenses   | 6,551   |
| Other expenses  | 3,718   |
| Total expenses  | 863,989   |
| Net investment income   | 640,560   |
| Net realized and unrealized gains from investment activities:                             |   |
| Net realized gains from:  |   |
| Investments   | 5,381,048   |
| Distributions received from investment companies  | 5,537   |
| Net change in unrealized appreciation of investments                                      | 763,055   |
| Net realized and unrealized gains from investment activities                              | 6,149,640   |
| Net increase in net assets applicable to common<br>shareholders resulting from operations | \$ 6,790,200  |

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

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## Special Opportunities Fund, Inc.—

## Statement of cash flows

|  | For the six<br>months ended<br>June 30, 2011<br>(unaudited) |
|--|---|
| Cash flows from operating activities:  |   |
| Net increase in net assets applicable to common shareholders   | \$ 6,790,200  |
| Adjustments to reconcile net increase in net assets applicable to common shareholders<br>resulting from operations to net cash provided by operating activities: |   |
| Purchases of investments   | (41,305,571 )   |
| Proceeds from sales of investments   | 43,340,399  |
| Net purchases and sales of short-term investments  | (2,033,167 )  |
| Amortization and accretion of premium and discount   | 40,421  |
| Decrease in dividends and interest receivable  | 376,030   |
| Increase in receivable for investments sold  | (3,008,515 )  |
| Decrease in other assets   | 13,068  |
| Increase in payable for investments purchased  | 1,953,921   |
| Increase in payable to Adviser   | 1,885   |
| Decrease in payable to directors   | (492 )  |
| Increase in accrued expenses and other liabilities   | 19,896  |
| Net realized gains from investments  | (5,381,048 )  |
| Net change in unrealized appreciation of investments   | (763,055 )  |
| Net cash provided by operating activities  | 43,972  |
| Cash:  |   |
| Beginning of period  | 94  |
| End of period  | \$ 44,066   |

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 six<br>months ended<br>June 30, 2011<br>(unaudited) | For the<br>year ended<br>December 31, 2010 |
|---|---|--|
| From operations:  |   |  |
| Net investment income   | \$ 640,560  | \$ 288,602                                 |
| Net realized gains from investments and<br>distributions received from investment companies | 5,386,585   | 4,381,868                                  |
| Net change in unrealized appreciation of investments  | 763,055   | 8,866,559                                  |
| Dividends paid to common shareholders from:   |   |  |
| Net investment income   | —   | (200,293 )                                 |
| Net realized gains from investment activities   | —   | —  |
| Total dividends and distributions paid to common shareholders                               | —   | (200,293 )                                 |
| Capital Share Transactions (Note 5)   |   |  |
| Repurchase of common stock through tender offer   | —   | (197,838,117 )                             |
| Net decrease in net assets from capital share transactions                                  | —   | (197,838,117 )                             |
| Net increase (decrease) in net assets applicable to common shareholders                     | 6,790,200   | (184,501,381 )                             |
| Net assets applicable to common shareholders:   |   |  |
| Beginning of period   | 109,631,234   | 294,132,615                                |
| End of period   | \$ 116,421,434  | \$ 109,631,234                             |
| Accumulated undistributed net investment income   | \$ 914,348  | \$ 273,788                                 |

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

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## Special Opportunities Fund, Inc.—

## Financial highlights

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

|  | For the six<br>months ended<br>June 30, 2011<br>(unaudited) |         |
|--|---|---------|
| Net asset value, beginning of period   | \$ 16.42  |         |
| Net investment income  | 0.10  | (1)(2)  |
| Net realized and unrealized gains (losses) from investment activities  | 0.92  |         |
| Common share equivalent of dividends and distributions<br>paid to auction preferred shareholders from:                                   |   |         |
| Net investment income  | —   |         |
| Net realized gains from investment activities  | —   |         |
| Total dividends and distributions paid to auction preferred shareholders   | —   |         |
| Net increase (decrease) from operations  | 1.02  |         |
| 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   | \$ 17.44  |         |
| Market value, end of period  | \$ 15.64  |         |
| Total net asset value return(3)  | 6.15  | %       |
| Total market price return(4)   | 6.03  | %       |
| Ratio to average net assets attributable to common shares:   |   |         |
| Total expenses, net of fee waivers by investment advisor and<br>administrator including interest expense and fees on floating rate notes | 1.54  | %(5)(7) |
| Total expenses, before fee waivers by investment advisor and<br>administrator including interest expense and fees on floating rate notes | 1.54  | %(5)(7) |
| Total expenses, net of fee waivers by investment advisor and<br>administrator excluding interest expense and fees on floating rate notes | 1.54  | %(5)(7) |
| Net investment income before dividends paid to auction preferred shareholders  | 1.14  | %(2)(5) |
| Dividends paid to auction preferred shareholders from net investment income  | —   |         |
| Net investment income available to common shareholders   | 1.14  | %(2)(5) |
| Supplemental data:   |   |         |
| Net assets applicable to common shareholders, end of period (000's)  | \$ 116,421  |         |
| Portfolio turnover   | 37  | %       |
| Asset coverage per share of auction preferred shares, end of period  | \$ —  |         |

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| For the<br>year ended<br>December 31,<br>2010 |        | For the nine<br>months ended<br>December 31,<br>2009 |         | For the years ended March 31, |         |           |         |           |     |           |   |
|---|--------|--|---------|-------------------------------|---------|-----------|---------|-----------|-----|-----------|---|
|   |        |  |         | 2009                          | 2008    | 2007      | 2006    |           |     |           |   |
| \$ 14.26                                      |        | \$ 13.05   |         | \$13.71                       | \$14.96 | \$14.70   | \$14.93 |           |     |           |   |
| 0.04  | (1)(2) | 0.52   | (1)     | 0.88                          | (1)     | 0.97      | (1)     | 0.94      | (1) | 0.90      |   |
| 2.15  |        | 1.24   |         | (0.70)                        | )       | (1.22)    | )       | 0.33      |     | 0.02      |   |
| —   |        | (0.02)   | )       | (0.25)                        | )       | (0.39)    | )       | (0.34)    | )   | (0.22)    | ) |
| —   |        | —  |         | —                             |         | (0.01)    | )       | (0.02)    | )   | (0.07)    | ) |
| —   |        | (0.02)   | )       | (0.25)                        | )       | (0.40)    | )       | (0.36)    | )   | (0.29)    | ) |
| 2.19  |        | 1.74   |         | (0.07)                        | )       | (0.65)    | )       | 0.91      |     | 0.63      |   |
| (0.03)  | )      | (0.53)   | )       | (0.59)                        | )       | (0.58)    | )       | (0.62)    | )   | (0.65)    | ) |
| —   |        | —  |         | —                             |         | (0.02)    | )       | (0.03)    | )   | (0.21)    | ) |
| (0.03)  | )      | (0.53)   | )       | (0.59)                        | )       | (0.60)    | )       | (0.65)    | )   | (0.86)    | ) |
| \$ 16.42                                      |        | \$ 14.26   |         | \$13.05                       |         | \$14.96   |         | \$14.70   |     | \$14.93   |   |
| \$ 14.75                                      |        | \$ 14.09   |         | \$11.37                       |         | \$12.38   |         | \$13.48   |     | \$13.02   |   |
| 15.36   | %      | 13.51  | %       | (0.39)                        | )%      | (4.52)    | )%      | 6.31      | %   | 4.29      | % |
| 4.90  | %      | 29.00  | %       | (3.32)                        | )%      | (3.86)    | )%      | 8.83      | %   | 9.51      | % |
| 1.50  | %(7)   | 1.03   | %(5)(6) | 1.73                          | %(6)    | 1.18      | %       | 1.25      | %   | 1.39      | % |
| 1.67  | %(7)   | 1.92   | %(5)(6) | 2.62                          | %(6)    | 1.88      | %       | 1.88      | %   | 1.90      | % |
| 1.50  | %(7)   | 0.99   | %(5)    | 1.59                          | %       | 1.18      | %       | 1.25      | %   | 1.39      | % |
| 0.26  | %(2)   | 5.00   | %(5)    | 6.71                          | %       | 6.66      | %       | 6.32      | %   | 5.95      | % |
| —   |        | 0.20   | %(5)    | 1.87                          | %       | 2.68      | %       | 2.31      | %   | 1.48      | % |
| 0.26  | %(2)   | 4.80   | %(5)    | 4.84                          | %       | 3.98      | %       | 4.01      | %   | 4.47      | % |
| \$ 109,631                                    |        | \$ 294,133   |         | \$269,266                     |         | \$282,886 |         | \$308,552 |     | \$303,315 |   |
| 73  | %      | 7  | %       | 27                            | %       | 30        | %       | 39        | %   | 57        | % |
| \$ —  |        | \$ —   |         | \$136,860                     |         | \$117,354 |         | \$123,465 |     | \$122,218 |   |

Special Opportunities Fund, Inc.—

Financial highlights

- (1) Calculated using the average shares method.
- (2) Recognition of net 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) Annualized.
- (6) Interest expense represents interest and fees on short term floating rate notes issued in conjunction with inverse floating rate securities. Interest income from such transactions was included in income from investment operations.
- (7) Does not include expenses of the investment companies in which the Fund invests.

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

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Special Opportunities Fund, Inc.—

Notes to financial statements (unaudited)

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.

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 Standards Codification Topic 105 Generally Accepted Accounting Principals 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. In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements. 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 normally 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 reviewed in order to make a good faith determination of a security’s fair value.

Special Opportunities Fund, Inc.—

Notes to financial statements (unaudited)

The auction rate preferred securities and the structured life settlement notes 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 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.

## Special Opportunities Fund, Inc.—

## Notes to financial statements (unaudited)

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 following is a summary of the fair valuations according to the inputs used as of June 30, 2011 in valuing the Fund's investments:

|                                  | Quoted Prices<br>in<br>Active Markets     | Significant<br>Other<br>Observable<br>Inputs | Unobservable<br>Inputs | Total          |
|----------------------------------|---|--|------------------------|----------------|
|                                  | for Identical<br>Investments<br>(Level 1) | (Level 2)                                    | (Level 3)              |                |
| Investment Companies             | \$ 59,198,128                             | \$ 40,633                                    | \$ 17,971,625          | \$77,210,386   |
| Common Stocks                    | 11,191,506                                | 13,420,040                                   | —                      | 24,611,546     |
| Corporate Bonds                  | —   | 4,477,500                                    | —                      | 4,477,500      |
| Convertible Bonds                | —   | —  | 350,000                | 350,000        |
| Structured Life Settlement Notes | —   | —  | 1,092,193              | 1,092,193      |
| Warrants                         | 145,351                                   | 476,583                                      | —                      | 621,934        |
| Rights                           | —   | 0  | —                      | 0              |
| Money Market Funds               | 7,022,288                                 | —  | —                      | 7,022,288      |
| Total                            | \$ 77,557,273                             | \$ 18,414,756                                | \$ 19,413,818          | \$ 115,385,847 |

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

|  |               |
|--|---------------|
| Balance as of December 31, 2010                  | \$ 19,966,625 |
| Accrued discounts / premiums                     | —             |
| Realized gain (loss)                             | 642,437       |
| Change in unrealized appreciation (depreciation) | 831,438       |
| Purchases  | 3,295,625     |
| Sales  | (5,322,307 )  |
| Transfers in and / or out of Level 3             | —             |
| Balance as of June 30, 2011                      | \$ 19,413,818 |

There were transfers from Level 1 to Level 2 of \$2,979,963 using market value as of June 30, 2011. The transfers were due to lack of trading volume on June 30, 2011. There were transfers from Level 2 to Level 1 of \$2,425,000 using market value as of June 30, 2011. The transfers were due to increased trading volume on June 30, 2011. Transfers between levels are recognized at the end of the reporting period.





Special Opportunities Fund, Inc.—

Notes to financial statements (unaudited)

In May 2011, the FASB issued ASU No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements” in GAAP and the International Financial Reporting Standards (“IFRSs”). ASU No. 2011-04 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. Management is currently evaluating the impact of these amendments and does not believe they will have a material impact on the Company’s financial statements.

Concentration risk—The Fund invested 15.44% of its net assets in auction rate preferred securities as of June 30, 2011. An active market for auction rate preferred securities does not exist. There is no guarantee that the Fund could receive the fair value price for these securities if it tried to sell them in the secondary market.

Investment transactions and investment income—Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions are calculated using the identified cost method. Interest income is recorded on an accrual basis. Discounts are accreted and premiums are amortized as adjustments to interest income and the identified cost of investments.

Dividends and distributions—Dividends from net investment income and distributions of net realized capital gains, if any, will be declared and paid at least annually. Dividends and distributions to common shareholders are recorded on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains was determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles. These “book/tax” differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification.

Note 2

Investment adviser and administrator

Effective October 19, 2009, the Board appointed Brooklyn Capital Management, LLC (“Brooklyn”) as the interim investment adviser to the Fund. At a Special Meeting of Shareholders held on December 10, 2009, shareholders approved an investment advisory agreement between the Fund and Brooklyn. In accordance with the investment advisory agreement, the Fund is obligated to pay Brooklyn a monthly investment advisory fee at an annual rate of 1.00% of the Fund’s average weekly net assets. The Fund entered into an administrative services

Special Opportunities Fund, Inc.—

Notes to financial statements (unaudited)

agreement (the “Administration Agreement”) with U.S. Bancorp Fund Services, LLC (the “Administrator”), which was effective on October 19, 2009.

Note 3

Auction preferred shares

The Fund was subject to certain restrictions relating to the APS. Failure to comply with these restrictions could have precluded the Fund from declaring any distributions to common shareholders or repurchasing common shares and/or could have triggered the mandatory redemption of APS at liquidation value.

All APS were redeemed in October 2009.

Note 4

Purchases and sales of securities

For the six months ended June 30, 2011, aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$41,305,571 and \$43,340,399, respectively. The Fund did not have any purchases or sales of U.S. government securities during the six months ended June 30, 2011.

Note 5

Capital share transactions

The Fund did not have any capital share transactions during the six months ended June 30, 2011. During the year ended December 31, 2010, a total of 13,951,912 shares or approximately 67.63% of the Fund’s outstanding common shares were validly tendered pursuant to a tender offer approved by the Board. All such shares were accepted for payment at a price of \$14.18 per share (99.5% of the NAV per common share of \$14.25).

Note 6

Federal tax status

The Fund intends to distribute its income and to comply with the other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income taxes is required. In addition, by distributing during each calendar year substantially all of its net investment income, net realized capital gains and certain other amounts, if any, the Fund would not to be subject to a federal excise tax.

Special Opportunities Fund, Inc.—

Notes to financial statements (unaudited)

The tax character of distributions paid during the fiscal year ended December 31, 2010 and the nine months ended December 31, 2009 were as follows:

|                          | For the<br>year ended<br>December 31,<br>2010 | For the nine<br>months ended<br>December 31, 2009 | For the year ended<br>March 31, 2009 |
|--------------------------|---|---|--------------------------------------|
| Distributions paid from: |   |   |                                      |
| Tax-exempt income        | \$ 184,078                                    | \$ 11,378,171                                     | \$ 17,283,881                        |
| Ordinary income          | 16,215  | —   | 2,066                                |
| Total distributions paid | \$ 200,293                                    | \$ 11,378,171                                     | \$ 17,285,947                        |

The Fund designated as long-term capital gain dividends, pursuant to Internal Revenue Code Section 852(b)(3), the amount necessary to reduce the earnings and profits for the Fund related to net capital gains to zero for the year ended December 31, 2010.

The following information is presented on an income tax basis as of December 31, 2010:

|  |                |
|--|----------------|
| Tax cost of investments                                  | \$ 100,417,267 |
| Unrealized appreciation                                  | 9,242,232      |
| Unrealized depreciation                                  | (375,673 )     |
| Net unrealized appreciation                              | 8,866,559      |
| Undistributed ordinary income                            | 273,788        |
| Undistributed long-term gains                            | —              |
| Total distributable earnings                             | 273,788        |
| Other accumulated losses and other temporary differences | (3,645,121 )   |
| Total accumulated losses                                 | 5,495,226      |

At December 31, 2010, the Fund had a net capital loss carryforward of \$3,645,121. This loss carryforward is available as a reduction, to the extent provided in the regulations, of any future net realized capital gains and will expire on December 31, 2016. To the extent that such losses are used to offset future net realized capital gains, it is probable these gains will not be distributed.

In accordance with U.S. Treasury regulations, the Fund may elect to defer realized capital losses arising after October 31, 2010. Such losses are treated for tax purposes as arising on January 1, 2011. The Fund did not defer any realized capital losses.

The Fund did not have any permanent “book/tax” differences for the year ended December 31, 2010.

For the year ended December 31, 2010, the Fund did not have any liabilities for any unrecognized tax positions. The Fund recognizes interest and penalties, if any, related to unrecognized tax positions as income tax expense in the Statement of



Special Opportunities Fund, Inc.—

Notes to financial statements (unaudited)

operations. During the year ended December 31, 2010, the Fund did not incur any interest or penalties.

Each of the tax years in the two year period ended March 31, 2009, the nine months ended December 31, 2009 and the year ended December 31, 2010 remains subject to examination by the Internal Revenue Service and state taxing authorities.

On December 22, 2010, The Regulated Investment Company Modernization Act of 2010 (the “Modernization Act”) was signed by The President. The Modernization Act is the first major piece of legislation affecting Regulated Investment Companies (“RICs”) since 1986 and it modernizes several of the federal income and excise tax provisions related to RICs. Some highlights of the enacted provisions are as follows:

New capital losses may now be carried forward indefinitely, and retain the character of the original loss. Under pre-enactment law, capital losses could be carried forward for eight years, and carried forward as short-term capital, irrespective of the character of the original loss.

The Modernization Act contains simplification provisions, which are aimed at preventing disqualification of a RIC for “inadvertent” failures of the asset diversification and/or qualifying income tests. Additionally, the Modernization Act exempts RICs from the preferential dividend rule, and repealed the 60-day designation requirement for certain types of pay-through income and gains.

Finally, the Modernization Act contains several provisions aimed at preserving the character of distributions made by a fiscal year RIC during the portion of its taxable year ending after October 31 or December 31, reducing the circumstances under which a RIC might be required to file amended Forms 1099 to restate previously reported distributions.

Except for the simplification provisions related to RIC qualification, the Modernization Act is effective for taxable years beginning after December 22, 2010. The provisions related to RIC qualification are effective for taxable years for which the extended due date of the tax return is after December 22, 2010.

Special Opportunities Fund, Inc.—

General information (unaudited)

The Fund

Special Opportunities Fund, Inc. (the “Fund”) is a diversified, closed-end management investment company whose common shares trade on the New York Stock Exchange (“NYSE”). The Fund’s NYSE trading symbol is “SPE.” On April 21, 2010 the Fund’s symbol changed from “PIF” to “SPE.” Comparative net asset value and market price information about the Fund is available weekly in various publications.

Annual meeting of shareholders held on September 22, 2011

The Fund will be holding an annual meeting of shareholders on September 22, 2011 to vote on the following matters:

- (1) To elect six directors to serve until the annual meeting of stockholders in 2012 and until their successors are elected and qualify or until they resign or are otherwise removed;
- (2) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Additional tax information

For the fiscal year ended December 31, 2010, certain dividends paid by the Fund may be subject to a maximum tax rate of 15%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Fund did not declare any dividends from ordinary income that were designated as qualified dividend income.

For corporate shareholders, the Fund did not have any ordinary income distributions that qualified for the corporate dividends received deduction for the fiscal year ended December 31, 2010.

The Fund did not have any taxable ordinary income distributions that were designated as short-term capital gain distributions under Internal Revenue Section 871(k)(2)(C).

Quarterly Form N-Q portfolio schedule

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (“SEC”) for the first and third quarters of each fiscal year on Form N-Q. The Fund’s Forms N-Q are available on the SEC’s Web site at <http://www.sec.gov>. The Fund’s Forms N-Q may be reviewed and copied at the SEC’s Public Reference Room in Washington, D.C. Information on the operation of the SEC’s Public Reference Room may be obtained by calling 1-800-SEC-0330. Additionally, you may obtain copies of Forms N-Q from the Fund upon request by calling 1-877-607-0414.

Special Opportunities Fund, Inc.—

General information (unaudited)

Proxy voting policies, procedures and record

You may obtain a description of the Fund's (1) proxy voting policies, (2) proxy voting procedures and (3) information regarding how the Fund voted any proxies related to portfolio securities during the most recent 12-month period ended June 30 for which an SEC filing has been made, without charge, upon request by contacting the Fund directly at 1-877-607-0414, or on the EDGAR Database on the SEC's Web site (<http://www.sec.gov>).



Special Opportunities Fund, Inc.—

## Supplemental information (unaudited)

The following table sets forth the directors and officers of the Fund, his name, address, age, position with the Fund, term of office and length of service with the Fund, principal occupation or employment during the past five years and other directorships held at June 30, 2011.

| Name, Address and Age*       | Position(s) Held with the Fund                            | Term of Office and Length of Time Served | Principal Occupation During the Past Five Years   | Number of Portfolios in Fund Complex Overseen by Director** | Other Directorships held by Director  |
|------------------------------|---|--|---|---|---|
| <b>INTERESTED DIRECTOR</b>   |   |  |   |   |   |
| Andrew Dakos***<br>(45)      | President<br>as of<br>October<br>2009.                    | 1 year;<br>Since<br>2009                 | Principal and Chief Compliance Officer of the Adviser; Principal of the general partner of several private investment partnerships in the Bulldog Investors group of funds. | 1   | Director, Mexico Equity and Income Fund, Inc.; Director, Brantley Capital Corporation.                    |
| Phillip Goldstein***<br>(66) | Chairman<br>and<br>Secretary<br>as of<br>October<br>2009. | 1 year;<br>Since<br>2009                 | Principal of the Adviser; Principal of the general partner of several private investment partnerships in the Bulldog Investors group of funds.                              | 1   | Chairman, Mexico Equity and Income Fund, Inc.; Chairman, Brantley Capital Corporation; Director, ASA Ltd. |
| Gerald Hellerman****<br>(73) | Chief Compliance Officer                                  | 1 year;<br>Since<br>2009                 | Managing Director of Hellerman Associates (a financial and corporate consulting firm).  | 1   | Director, Mexico Equity and Income Fund, Inc.; Director,  |

and Chief  
Financial  
Officer as of  
January  
2010.

Brantley Capital  
Corporation;  
Director, MVC  
Capital, Inc.;  
Director, Old  
Mutual Absolute  
Return and  
Emerging  
Managers Fund  
Complex  
(consisting of  
six funds).

Special Opportunities Fund, Inc.—

Supplemental information (unaudited)

| Name, Address and Age*    | Position(s) Held with the Fund | Term of Office and Length of Time Served | Principal Occupation During the Past Five Years   | Number of Portfolios in Fund Complex Overseen by Director** | Other Directorships held by Director  |
|---------------------------|--------------------------------|--|---|---|---|
| INDEPENDENT DIRECTORS     |                                |  |   |   |   |
| James Chadwick<br>(38)    | —                              | 1 year;<br>Since<br>2009                 | Managing Director of Opus Partners, LLC (private equity firm); Managing Director of Harlingwood Equity Partners LP; Managing Partner of Chadwick Capital Management.                      | 1   | None  |
| Ben Harris<br>(42)        | —                              | 1 year;<br>Since<br>2009                 | Chief Financial Officer and General Counsel of NHI II, LLC and NBC Bancshares, LLC; Investment Professional of MVC Capital, Inc. and The Tokarz Group Advisers, LLC.                      | 1   | None  |
| Charles C. Walden<br>(67) | —                              | 1 year;<br>Since<br>2009                 | President and Owner of Sound Capital Associates, LLC (consulting firm); Chief Investment Officer of Knights of Columbus (fraternal benefit society selling life insurance and annuities). | 1   | Lead Trustee, Third Avenue Funds (fund complex consisting of five funds and one variable series trust). |

OFFICERS

|                         |   |                          |   |     |     |
|-------------------------|---|--------------------------|---|-----|-----|
| Andrew Dakos***<br>(45) | President<br>as of<br>October<br>2009.                              | 1 year;<br>Since<br>2009 | Principal and Chief<br>Compliance<br>Officer of the Adviser;<br>Principal<br>of the general partner of<br>several<br>private investment<br>partnerships<br>in the Bulldog Investors<br>group<br>of funds. | n/a | n/a |
| Rajeev Das<br>(42)      | Vice-<br>President<br>and<br>Treasurer<br>as of<br>October<br>2009. | 1 year;<br>Since<br>2009 | Principal, Bulldog<br>Investors, a<br>group of Investment<br>Funds;<br>Managing member of the<br>General Partner of<br>Opportunity<br>Income Plus L.P., an<br>investment<br>fund.                         | n/a | n/a |

Special Opportunities Fund, Inc.—

Supplemental information (unaudited)

| Name, Address and Age*       | Position(s) Held with the Fund   | Term of Office and Length of Time Served | Principal Occupation During the Past Five Years  | Number of Portfolios in Fund Complex Overseen by Director** | Other Directorships held by Director |
|------------------------------|--|--|--|---|--------------------------------------|
| Phillip Goldstein***<br>(66) | Chairman and Secretary as of October 2009.                               | 1 year; Since 2009                       | Principal of the Adviser; Principal of the general partner of several private investment partnerships in the Bulldog Investors group of funds. | n/a   | n/a                                  |
| Gerald Hellerman****<br>(73) | Chief Compliance Officer and Chief Financial Officer as of January 2010. | 1 year; Since 2009                       | Managing Director of Hellerman Associates (a financial and corporate consulting firm).   | n/a   | n/a                                  |

\*The address for all directors and officers is c/o Special Opportunities Fund, Inc., 615 East Michigan Street, Milwaukee, WI 53202.

\*\* The Fund Complex is comprised of only the Fund.

\*\*\* Messrs. Dakos and Goldstein are each considered an “interested person” of the Fund within the meaning of the 1940 Act because of their affiliation with Brooklyn Capital Management, LLC, the Adviser and their positions as officers of the Fund.

\*\*\*\* Mr. Hellerman is considered an “interested person” of the Fund within the meaning of the 1940 Act because he serves as the Fund’s Chief Compliance Officer and Chief Financial Officer. Mr. Hellerman is not affiliated with Brooklyn Capital Management, LLC.

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Investment Adviser  
Brooklyn Capital Management, LLC  
Park 80 West  
250 Pehle Avenue, Suite 708  
Saddle Brook, NJ 07663

Administrator and Fund Accountant  
U.S. Bancorp Fund Services, LLC  
615 East Michigan Street  
Milwaukee, WI 53202

Custodian  
U.S. Bank, N.A.  
Custody Operations  
1555 North RiverCenter Drive, Suite 302  
Milwaukee, WI 53212

Transfer Agent and Registrar  
American Stock Transfer & Trust Company, LLC  
59 Maiden Lane  
New York, NY 10038

Fund Counsel  
Blank Rome LLP  
The Chrysler Building  
405 Lexington Avenue  
New York, NY 10174

Special Opportunities Fund, Inc.  
1-877-607-0414  
[www.specialopportunitiesfundinc.com](http://www.specialopportunitiesfundinc.com)





Item 2. Code of Ethics.

Not applicable for semi-annual reports.

Item 3. Audit Committee Financial Expert.

Not applicable for semi-annual reports.

Item 4. Principal Accountant Fees and Services.

Not applicable for semi-annual reports.

Item 5. Audit Committee of Listed Registrants.

The Audit Committee is comprised of Mr. James Chadwick, Mr. Ben H. Harris and Mr. Charles C. Walden.

Item 6. Investments.

Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this Form.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable for semi-annual reports.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Not applicable for semi-annual reports.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

The following purchases were made by or on behalf of the registrant or any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of shares of the registrant’s equity securities that are registered by the Registrant pursuant to Section 12 of the Exchange Act made in the period covered by this report.

| Period                                | (a)<br>Total Number of<br>Shares (or<br>Units)<br>Purchased | (b)<br>Average Price<br>Paid per Share<br>(or Unit) | (c)<br>Total Number of<br>Shares (or<br>Units)<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum Number<br>(or Approximate<br>Dollar Value) of<br>Shares (or<br>Units) that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|---------------------------------------|---|---|---|--|
| January 1, 2011 to January 31, 2011   | N/A   | N/A   | N/A   | N/A  |
| February 1, 2011 to February 28, 2011 | N/A   | N/A   | N/A   | N/A  |
| March 1, 2011 to March 31, 2011       | N/A   | N/A   | N/A   | N/A  |

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|                                 |     |     |     |     |
|---------------------------------|-----|-----|-----|-----|
| April 1, 2011 to April 30, 2011 | N/A | N/A | N/A | N/A |
| May 1, 2011 to May 31, 2011     | N/A | N/A | N/A | N/A |
| June 1, 2011 to June 30, 2011   | N/A | N/A | N/A | N/A |
| Total                           | N/A | N/A | N/A | N/A |

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors.

Item 11. Controls and Procedures.

- (a) The Registrant's President and Chief Financial Officer have reviewed the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as of a date within 90 days of the filing of this report, as required by Rule 30a-3(b) under the Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934. Based on their review, such officers have concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in this report is appropriately recorded, processed, summarized and reported and made known to them by others within the Registrant and by the Registrant's service provider.
- (b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a) (1) Any code of ethics or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy Item 2 requirements through filing an exhibit. Not applicable.
- (2) A separate certification for each principal executive and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- (3) Any written solicitation to purchase securities under Rule 23c-1 under the Act sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. None.
- (b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
-

SIGNATURES

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

(Registrant) Special Opportunities Fund, Inc.

By (Signature and Title) /s/Andrew Dakos  
Andrew Dakos, President

Date August 29, 2011

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

By (Signature and Title) /s/Andrew Dakos  
Andrew Dakos, President

Date August 29, 2011

By (Signature and Title) /s/Gerald Hellerman  
Gerald Hellerman, Chief Financial Officer

Date September 2, 2011