

TRI-CONTINENTAL CORP
Form N-CSR
March 05, 2013

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 811-00266

Tri-Continental Corporation

(Exact name of registrant as specified in charter)

225 Franklin Street, Boston, Massachusetts 02110

(Address of principal executive offices) (Zip code)

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Scott R. Plummer

5228 Ameriprise Financial Center

Minneapolis, MN 55474

(Name and address of agent for service)

Registrant's telephone number, including area code: 1-612-671-1947

Date of fiscal year end: December 31

Date of reporting period: December 31, 2012

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

Annual Report

December 31, 2012

Tri-Continental Corporation

Tri-Continental Corporation

Letter to Stockholders

Dear Stockholders,

We are pleased to present the annual stockholder report for Tri-Continental Corporation (the Fund). The report includes the Fund's investment results, a discussion with the Fund's portfolio managers, and a portfolio of investment and financial statements as of December 31, 2012.

The Fund's Common Stock gained 16.24%, based on net asset value, and 16.77%, based on market price, for the 12 months ended December 31, 2012. The Fund's benchmark, the S&P 500 Index, returned 16.00% during the same period.

During 2012, the Fund paid four distributions, in accordance with its earned distribution policy, that aggregated \$0.60 per share of Common Stock of the Fund. Distributions are based upon amounts distributed by underlying portfolio companies owned by the Fund. The Fund has paid dividends on its Common Stock for 68 consecutive years.

The addition of the flexible capital and income strategy in the management of the Fund has helped the dividend yield on the Fund, as it was implemented during the year.

The Fund will hold its 83rd Annual Meeting of Stockholders on April 17, 2013 in Minneapolis, MN.

Information about the Fund, including daily pricing, current performance, Fund holdings, stockholder reports, the most current prospectus for the Fund, distributions and other information can be found at columbiamanagement.com under the Closed-End Funds tab.

On behalf of the Board, we would like to thank you for your support of Tri-Continental Corporation.

Regards,

Stephen R. Lewis

Chairman of the Board

Annual Report 2012

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The views expressed in this report reflect the current views of the respective parties. These views are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, so actual outcomes and results may differ significantly from the views expressed. These views are subject to change at any time based upon economic, market or other conditions and the respective parties disclaim any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Columbia Fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any particular Columbia Fund. References to specific securities should not be construed as a recommendation or investment advice.

Tri-Continental Corporation

Performance Overview

Performance Summary

- > Tri-Continental Corporation (the Fund) Common Stock gained 16.24% based on net asset value and 16.77% based on market price for the 12 months ended December 31, 2012.
- > The Fund's benchmark, the S&P 500 Index, returned 16.00% for the same 12-month period.
- > Both the Fund's quantitative strategy and its flexible capital and income strategy contributed positively to the Fund's results for the period.

Average Annual Returns As Of: 12/31/2012

	Inception	1 Year	5 Years	10 Years
Market Price	01/05/29	16.77	-0.65	5.95
Net Asset Value	01/05/29	16.24	0.61	5.83
S&P 500 Index		16.00	1.66	7.10

The performance information shown represents past performance and is not a guarantee of future results. The investment return and principal value of your investment will fluctuate so that your shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information shown. You may obtain performance information current to the most recent month-end by visiting columbiamanagement.com.

Returns reflect changes in market price or net asset value, as applicable, and assume reinvestment of distributions. Returns do not reflect the deduction of taxes that investors may pay on distributions or the sale of shares.

The S&P 500 Index, an unmanaged index, measures the performance of 500 widely held, large-capitalization U.S. stocks and is frequently used as a general measure of market performance.

Indices are not available for investment, are not professionally managed and do not reflect sales charges, fees, brokerage commissions, taxes or other expenses of investing. Securities in the fund may not match those in an index.

Price Per Share

	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Market price (\$)	16.00	16.22	15.47	15.92
Net asset value (\$)	18.77	18.96	18.02	18.67

Distributions Paid Per Common Share^(a)

Payable date	Per share amount (\$)
March 29, 2012	0.105
June 28, 2012	0.150
September 27, 2012	0.155
December 27, 2012	0.190

(a) Preferred Stockholders were paid dividends totaling \$2.50 per share.

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The net asset value of the Fund's shares may not always correspond to the market price of such shares. Common stock of many closed-end funds frequently trade at a discount from their net asset value. The Fund is subject to stock market risk, which is the risk that stock prices overall will decline over short or long periods, adversely affecting the value of an investment in the Fund.

Manager Discussion of Fund Performance

Tri-Continental Corporation (the Fund) Common Stock advanced 16.24% based on net asset value and 16.77% based on market price for the 12-month period ended December 31, 2012. The Fund outperformed its benchmark, the S&P 500 Index, which gained 16.00% for the same period. Both the Fund's quantitative strategy and its flexible capital and income strategy contributed positively to the Fund's results for the period.

Significant Performance Factors

In 2012, the U.S. equity market had its best year since 2009, with the S&P 500 Index delivering strong gains for the year. During the year, investors vacillated between a conservative risk-off attitude and an aggressive risk-on attitude, depending on the latest U.S. economic news, the tenor of the fiscal cliff negotiations and the state of the European Union, among other factors. Through it all, investors were cheered by slow but steady improvement in the U.S. economic outlook, particularly the housing market's rebound.

Against this backdrop, investors generally favored attributes typically associated with riskier stocks. For example, in 2012, S&P 500 Index stocks with the highest risk profiles, as measured by beta, outperformed stocks with the lowest risk profiles; stocks that did not pay a dividend outperformed stocks with the highest dividend yields; and the 20% of S&P 500 Index stocks with the greatest earnings variability outperformed the 20% of S&P 500 Index stocks with the most stable earnings. Finally, smaller stocks within the S&P 500 Index performed better than larger stocks within the index for the year.

The Fund is managed in two distinct segments. One segment is managed using quantitative models to select stocks. The other portion of the Fund uses a flexible capital and income strategy to invest across a company's investable capital structure, including stocks, bonds and convertible securities. At the end of 2012, each segment accounted for approximately 50% of the Fund's portfolio and both segments contributed positively to the Fund's results for the fiscal year.

Valuation Measures Add to Quantitative Results

Within the quantitatively managed segment of the Fund, the team uses computer-based models to analyze stocks within sectors. While keeping sector weights close to those of the benchmark, the models select stocks by focusing on metrics.

The metrics for the stock selection model are divided into three broad categories: *valuation* (fundamental measures such as earnings and cash flow relative to market values), *catalyst* (price momentum and business momentum) and *quality* (quality of earnings and financial strength).

The stock selection model worked reasonably well in 2012, led by the stocks that appear inexpensive relative to their peers. The 20% of S&P 500 Index stocks with the highest scores on the model's valuation measures outperformed the 20% of stocks with the lowest scores by over 10% for the year. The catalyst measures also performed reasonably well throughout the year, although that outperformance was confined to stocks with the highest quintile (20%) of catalyst scores. Investors appeared to favor companies that sustained their earnings growth and raised earnings expectations during 2012.

Not surprisingly, given the market's preference for riskier stock characteristics during the period, the quality measures had mixed results for 2012. Although there were very small differences between the performance of the top-ranked and bottom-ranked stocks, the 20% of stocks with the lowest quality scores outperformed the 20% of stocks with the highest quality scores, while the middle group lagged the overall return of S&P 500 Index during the period.

Portfolio Management

Brian Condon, CFA

David King, CFA

Oliver Buckley

Yan Jin

Top Ten Holdings (%)

(at December 31, 2012)

Apple, Inc.	3.0
Pfizer, Inc.	2.2
JPMorgan Chase & Co.	2.1
Chevron Corp.	2.1
Verizon Communications, Inc.	2.1
Microsoft Corp.	2.0
Philip Morris International, Inc.	1.8
BlackRock, Inc.	1.8
Amgen, Inc.	1.6
ConocoPhillips	1.6

Percentages indicated are based upon total investments (excluding Money Market Funds).

For further detail about these holdings, please refer to the section entitled Portfolio of Investments.

Fund holdings are as of the date given, are subject to change at any time, and are not recommendations to buy or sell any security.

Tri-Continental Corporation

Manager Discussion of Fund Performance *(continued)***Portfolio Breakdown (%)**
(at December 31, 2012)

Common Stocks	68.6
Consumer Discretionary	6.2
Consumer Staples	6.9
Energy	7.5
Financials	11.2
Health Care	8.1
Industrials	7.4
Information Technology	12.3
Materials	3.2
Telecommunication Services	3.0
Utilities	2.8
Convertible Bonds	12.1
Consumer Discretionary	1.8
Consumer Staples	0.3
Energy	0.2
Financials	1.4
Health Care	3.2
Industrials	1.7
Materials	0.9
Telecommunication	2.6
Convertible Preferred Stocks	5.5
Consumer Discretionary	0.3
Consumer Staples	0.5
Energy	0.7
Financials	2.1
Industrials	1.0
Utilities	0.9
Corporate Bonds & Notes	11.9
Consumer Discretionary	2.7
Consumer Staples	0.4
Energy	1.1
Financials	1.0
Health Care	1.2
Industrials	2.0
Materials	0.8
Telecommunication	2.2
Utilities	0.5
Limited Partnerships	0.0^(a)
Money Market Funds	1.9
Total	100.0

Percentages indicated are based upon total investments. The Fund's portfolio composition is subject to change.

(a) Rounds to less than 0.1%.

Within the quantitative segment, the Fund's positioning in the energy, information technology and materials sectors had the most positive effect on performance relative to the benchmark, while also delivering positive absolute returns for the year. Conversely, the consumer discretionary, utilities and industrials sectors detracted from the Fund's relative performance for the year. Despite the unfavorable effect on relative return, the Fund's consumer discretionary and industrials holdings delivered positive absolute performance, while its utilities holdings had a negative absolute return for the year.

Equity Emphasis Benefits Flexible Capital and Income Segment

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Within the flexible capital and income segment of the portfolio, the Fund's holdings of high-yield bonds had a favorable effect on results, particularly bonds issued by telecommunications giant Sprint. An emphasis on equities was also advantageous as equities generally outperformed bonds in 2012. Within the segment, none of the Fund's equity holdings suffered significant losses for the year. Furthermore, near year end, the Fund enjoyed a large gain from its holdings of Home Depot as investors grew more enthusiastic about housing-related companies.

A focus on yield led to mixed results within the Fund's convertible bond holdings. Exposure to homebuilders and the preferred stocks of banks had a positive effect, while some small positions in energy and mining performed poorly, detracting from the Fund's results.

The Fund's flexible capital and income strategy was largely responsible for the Fund's solid dividend growth during 2012.

Changes to the Fund's Portfolio

Within the quantitative portfolio segment, our stock selection models led us to purchase Cisco Systems, TJX and Prudential Financial, while leading us to sell Intel, UnitedHealth Group and Exelon. Regardless of the market environment, we strive to select stocks that we believe will outperform their industry peers.

Within the flexible capital and income segment, our baseline positioning, under normal circumstances, is approximately one-third allocated to stocks, one-third allocated to corporate bonds and one-third allocated to convertible bonds. During 2012, the stock weighting was modestly above our baseline, while the bond weighting was below baseline and the allocation to convertible securities was neutral. There were no positioning changes of note within this segment of the Fund's portfolio during the period.

Outlook for the Fund's Multi-Strategy Approach

Within the quantitative segment, our strategy is based on individual stock selection using computer models. Consequently, we do not rely on macroeconomic scenarios or market outlooks to make security selections. We do not try to predict when equities, as an asset class, will perform well or when they will perform poorly. Instead, we stay fully invested at all times. We will work to continually enhance our quantitative models and will focus portfolio holdings on our three themes of valuation, catalyst and quality.

In our view, investors have continued to focus on top-down comparisons of asset classes, rather than bottom-up comparisons of specific securities. As long as this trend persists, we believe our strategy has more opportunities to exploit inefficiencies in the financial markets.

Portfolio of Investments

December 31, 2012

(Percentages represent value of investments compared to net assets)

Common Stocks 68.3%

Issuer	Shares	Value (\$)
Consumer Discretionary 6.1%		
Automobiles 0.4%		
Ford Motor Co.	420,000	5,439,000
Hotels, Restaurants & Leisure 0.4%		
Darden Restaurants, Inc.	115,000	5,183,050
Media 2.5%		
Comcast Corp., Class A	380,626	14,227,800
DIRECTV ^(a)	212,600	10,664,016
Discovery Communications, Inc., Class A ^(a)	61,200	3,884,976
DISH Network Corp., Class A	30,200	1,099,280
Total		29,876,072
Multiline Retail 0.2%		
Macy's, Inc.	62,600	2,442,652
Specialty Retail 2.6%		
Gap, Inc. (The)	293,700	9,116,448
Home Depot, Inc. (The)	32,850	2,031,772
Ross Stores, Inc.	175,900	9,524,985
TJX Companies, Inc.	268,400	11,393,580
Total		32,066,785
Total Consumer Discretionary		75,007,559

Consumer Staples 6.8%

Beverages 0.2%		
Coca-Cola Enterprises, Inc.	97,666	3,098,942
Food & Staples Retailing 2.3%		
CVS Caremark Corp.	47,100	2,277,285
Kroger Co. (The)	398,894	10,379,222
Safeway, Inc.	161,800	2,926,962
Wal-Mart Stores, Inc.	185,529	12,658,644
Total		28,242,113
Food Products 1.3%		
Campbell Soup Co.	266,600	9,301,674
Kellogg Co.	110,000	6,143,500

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Total		15,445,174
Household Products 0.6%		
Kimberly-Clark Corp.	14,800	1,249,564
Procter & Gamble Co. (The)	90,000	6,110,100
Total		7,359,664
Tobacco 2.4%		
Lorillard, Inc.	61,364	7,159,338
Philip Morris International, Inc.	263,600	22,047,504
Total		29,206,842
Total Consumer Staples		83,352,735
Common Stocks (continued)		
	Issuer	Shares
		Value (\$)
Energy 7.5%		
Energy Equipment & Services 0.6%		
Diamond Offshore Drilling, Inc.	38,000	2,582,480
National Oilwell Varco, Inc.	58,737	4,014,674
Total		6,597,154
Oil, Gas & Consumable Fuels 6.9%		
Apache Corp.	72,000	5,652,000
Chevron Corp.(b)	233,342	25,233,604
ConocoPhillips	325,958	18,902,305
Exxon Mobil Corp.	122,011	10,560,052
Royal Dutch Shell PLC, ADR	130,000	8,963,500
Tesoro Corp.	111,000	4,889,550
Valero Energy Corp.	303,361	10,350,677
Total		84,551,688
Total Energy		91,148,842
Financials 11.1%		
Capital Markets 2.3%		
Ares Capital Corp.	350,000	6,125,000
BlackRock, Inc.	101,300	20,939,723
State Street Corp.	20,000	940,200
Total		28,004,923
Commercial Banks 1.0%		
Cullen/Frost Bankers, Inc.	110,000	5,969,700
Fifth Third Bancorp	104,200	1,582,798
Huntington Bancshares, Inc.	740,000	4,728,600
Total		12,281,098
Consumer Finance 0.7%		
Discover Financial Services	171,096	6,595,751
SLM Corp.	91,200	1,562,256
Total		8,158,007

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Diversified Financial Services 3.3%

Citigroup, Inc.	370,000	14,637,232
JPMorgan Chase & Co.	581,657	25,575,458

Total 40,212,690

Insurance 2.8%

ACE Ltd.	81,000	6,463,800
Aflac, Inc.	193,031	10,253,806
Lincoln National Corp.	27,700	717,430
MetLife, Inc.	30,100	991,494
Prudential Financial, Inc.	188,800	10,068,704
Travelers Companies, Inc. (The)	85,000	6,104,700

Total 34,599,934

The accompanying Notes to Financial Statements are an integral part of this statement.

Tri-Continental Corporation

Portfolio of Investments *(continued)*

December 31, 2012

Common Stocks *(continued)*

Issuer	Shares	Value (\$)
Real Estate Investment Trusts (REITs) 1.0%		
Simon Property Group, Inc.	81,386	12,866,313
Total Financials		136,122,965

Health Care 8.1%**Biotechnology 1.5%**

Amgen, Inc.	219,700	18,964,504
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Health Care Equipment & Supplies 0.2%

Boston Scientific Corp. ^(a)	352,100	2,017,533
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Health Care Providers & Services 0.7%

AmerisourceBergen Corp.	65,800	2,841,244
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Cardinal Health, Inc.	34,000	1,400,120
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Humana, Inc.	32,500	2,230,475
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McKesson Corp.	17,300	1,677,408
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Total		8,149,247
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Pharmaceuticals 5.7%

Bristol-Myers Squibb Co.	346,700	11,298,953
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Eli Lilly & Co.	248,748	12,268,252
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Johnson & Johnson	134,000	9,393,400
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Merck & Co., Inc.	256,800	10,513,392
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Pfizer, Inc.	1,037,965	26,032,162
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Total		69,506,159
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Total Health Care		98,637,443
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Industrials 7.4%**Aerospace & Defense 2.7%**

General Dynamics Corp.	34,600	2,396,742
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Lockheed Martin Corp.	50,323	4,644,310
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Northrop Grumman Corp.	148,500	10,035,630
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Raytheon Co.	286,300	16,479,428
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Total		33,556,110
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Air Freight & Logistics 0.4%

United Parcel Service, Inc., Class B	61,741	4,552,164
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Airlines 0.2%

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Southwest Airlines Co.	184,000	1,884,160
Commercial Services & Supplies 0.5%		
Republic Services, Inc.	212,500	6,232,625
Electrical Equipment 0.1%		
Emerson Electric Co.	20,800	1,101,568
Industrial Conglomerates 1.1%		
Danaher Corp.	115,100	6,434,090
General Electric Co.	338,589	7,106,983
Total		13,541,073

Common Stocks (continued)

Issuer	Shares	Value (\$)
Machinery 1.6%		
Illinois Tool Works, Inc.	146,900	8,932,989
Ingersoll-Rand PLC	13,700	657,052
Parker Hannifin Corp.	37,600	3,198,256
Stanley Black & Decker, Inc.	88,000	6,509,360
Total		19,297,657
Professional Services 0.3%		
Dun & Bradstreet Corp. (The)	46,000	3,617,900
Road & Rail 0.5%		
CSX Corp.	310,000	6,116,300
Total Industrials		89,899,557

Information Technology 12.3%

Communications Equipment 1.2%

Cisco Systems, Inc.	755,400	14,843,610
Computers & Peripherals 3.7%		
Apple, Inc.	66,700	35,553,101
Diebold, Inc.	200,000	6,122,000
EMC Corp. ^(a)	132,000	3,339,600
Total		45,014,701

Internet Software & Services 0.1%

Google, Inc., Class A ^(a)	1,500	1,064,055
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IT Services 2.5%

Automatic Data Processing, Inc.	105,000	5,986,050
International Business Machines Corp.	4,708	901,817
Mastercard, Inc., Class A	27,000	13,264,560
Visa, Inc., Class A	64,400	9,761,752

Total		29,914,179
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Semiconductors & Semiconductor Equipment 1.6%

Analog Devices, Inc.	150,000	6,309,000
Intel Corp.	308,539	6,365,160
NVIDIA Corp.	593,800	7,297,802

Total		19,971,962
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Software 3.2%

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Microsoft Corp.	902,277	24,117,864
Oracle Corp.	170,200	5,671,064
VMware, Inc., Class A ^(a)	100,300	9,442,242
Total		39,231,170
Total Information Technology		150,039,677

The accompanying Notes to Financial Statements are an integral part of this statement.

Portfolio of Investments *(continued)*

December 31, 2012

Common Stocks *(continued)*

	Issuer	Shares	Value (\$)
Materials 3.2%			
Chemicals 2.6%			
	CF Industries Holdings, Inc.		