Small Cap Premium & Dividend Income Fund, Inc.
Form N-CSR
March 06, 2009

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 811-21746

Name of Fund: Small Cap Premium & Dividend Income Fund Inc. (RCC)

Fund Address: P.O. Box 9011
Princeton, NJ 08543-9011

Name and address of agent for service: Mitchell M. Cox, Chief Executive Officer, Small Cap Premium & Dividend Income Fund Inc., 4 World Financial Center, 6th Floor, New York, New York 10080.

Registrant s telephone number, including area code: (877) 449-4742

Date of fiscal year end: 12/31/2008

Date of reporting period: 12/31/2008

Item 1 Report to Stockholders

Small Cap Premium & Dividend Income Fund Inc.

Annual Report

December 31, 2008

Fund Summary as of December 31, 2008

Fund Information

Symbol on New York Stock Exchange (NYSE)	RCC
Initial Offering Date	July 29, 2005
Yield on Closing Market Price as of December 31, 2008 ($8.67)*	23.07%
Current Semi-Annual Distribution per share of Common Stock**	$1.00
Current Annualized Distribution per share of Common Stock**	$2.00

* Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

** The distribution is not constant and is subject to change. A portion of the distribution may be deemed a tax return of capital or net realized gain at fiscal year end.

The table below summarizes the changes in the Fund s market price and net asset value for the twelve-month period:

	12/31/08 (a)	12/31/07	Change (b)	High	Low
Market Price (c)	$8.67	$15.74	(44.92%)	$17.07	$7.04
Net Asset Value	$9.55	$17.19	(44.44%)	$17.20	$8.59

(a) For the year, the Common Stock of the Fund had a total investment return of (34.04%) based on net asset value per share and (34.60%) based on market price per share, assuming reinvestment of dividends. For the same period, the Fund s unmanaged reference index, the Russell 2000® Index, had a total investment return of (33.79%). The reference index has no expenses associated with performance.

(b) Does not include reinvestment of dividends.

(c) Primary Exchange Price, NYSE.

Portfolio Information

Ten Largest Equity Holdings	Percent of Net Assets
Ralcorp Holdings, Inc.	0.4%
Myriad Genetics, Inc.	0.4
Alexion Pharmaceuticals, Inc.	0.3
Waste Connections, Inc.	0.3
Realty Income Corp.	0.3

Piedmont Natural Gas Co.	0.3
OSI Pharmaceuticals, Inc.	0.3
Comstock Resources, Inc.	0.3
ITC Holdings Corp.	0.3
Westar Energy, Inc.	0.3

Five Largest Industries	**Percent of Net Assets**
Banks: Outside New York City	7.9%
Real Estate Investment Trusts (REITs)	5.7
Computer Services Software & Systems	5.5
Biotechnology Research & Production	3.8
Services: Commercial	3.7

Sector Representation	**Percent of Long-Term Investments**
Financial Services	24.5%
Health Care	15.2
Consumer Discretionary	15.0
Technology	12.5
Materials & Processing	8.4
Producer Durables	7.4
Utilities	5.5
Auto & Transportation	3.9
Other Energy	3.8
Consumer Staples	3.3
Other	0.3
Integrated Oils	0.2

For Fund portfolio compliance purposes, the Fund s industry and sector classifications refer to any one or more of the industry and sector sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry and sector sub-classifications for reporting ease.

A Summary From Your Fund s Portfolio Managers

We are pleased to provide you with this shareholder report for Small Cap Premium & Dividend Income Fund Inc. The Fund is advised by IQ Investment Advisors LLC and sub-advised by BlackRock Investment Management, LLC.

The investment objectives of Small Cap Premium & Dividend Income Fund Inc. (the Fund) are to provide shareholders with a high level of income, with a secondary goal of capital appreciation. The Fund pursues its investment objectives principally through a two-part strategy. First, the Fund will invest in a statistically selected sample of stocks included in the Russell 2000® Index (the Index) and/or other investments that have economic characteristics similar to the securities that comprise the Index, which may include futures, forward, swap and option contracts based on the Index, as well as other investment funds with a composition similar to that of the Index. Second, the Fund will write (sell) call options on the Index or on exchange-traded funds (ETFs) which seek to track the performance of the Index with respect to some or all of the value of its assets. There can be no assurance that the Fund will achieve its investment objectives.

For the year ended December 31, 2008, the Fund had a total investment return as set forth in the table below, based on the change per share in net asset value of $17.19 to $9.55. For the same period, the Fund s unmanaged reference index, the Russell 2000 Index, had a total return as shown below. All of the Fund and index information presented includes the reinvestment of any dividends or distributions. Distribution information may be found in the Notes to Financial Statements, Note 5.

Period	**Fund***	**Russell 2000 Index****	**Difference**
Fiscal year ended December 31, 2008	(34.04%)	(33.79%)	(0.25%)
Since inception (July 29, 2005) through December 31, 2008	(21.99%)	(23.18%)	1.19%

* Fund performance information is net of expenses.

** The reference index has no expenses associated with performance.

For more detail with regard to the Fund s total investment return based on a change in the per share market value of the Fund s Common Stock (as measured by the trading price of the Fund s shares on the New York Stock Exchange), please refer to the Financial Highlights section of this report.

As a closed-end fund, the Fund s shares may trade in the secondary market at a premium or discount to the Fund s net asset value. As a result, total investment returns based on changes in the market value of the Fund s Common Stock can vary significantly from total investment returns based on changes in the Fund s net asset value.

Jonathan A. Clark
Portfolio Manager

Debra L. Jelilian
Portfolio Manager

Jeffrey L. Russo, CFA
Portfolio Manager

January 23, 2009

We are pleased to announce that Jonathan Clark has assumed a new role within BlackRock effective February 2, 2009. As such, Mr. Kyle McClements has been named Portfolio Manager of Small Cap Premium & Dividend Income Fund Inc., and is responsible for the day-to-day management of the portfolio along with Ms. Jelilian and Mr. Russo. Mr. McClements has been a Director of BlackRock since 2006 and Vice President thereof from 2005 to 2006. Prior to that Mr. McClements was Vice President at State Street Research from 2004 to 2005.

Russell 2000 is a registered trademark of the Frank Russell Company.

Summary Schedule of Investments as of December 31, 2008

This summary schedule of investments is presented to help investors focus on the Fund s principal holdings. It includes the Fund s 50 largest holdings and any other investment of any issuer that exceeds 1% of the Fund s net assets. Other Securities represent all issues not required to be disclosed under the rules adopted by the Securities and Exchange Commission. In addition, the summary schedule of investments allows the adviser certain efficiencies. As such, any cost savings in report production or printing are passed on to the Fund and, ultimately to Fund shareholders. A complete schedule of investments is available without charge, upon request, by calling 1-877-449-4742 or on the Securities and Exchange Commission s website at http://www.sec.gov.

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Advertising Agencies	Other Securities		$ 347,293	0.3%
Aerospace	Curtiss-Wright Corp.	7,500	250,425	0.2
	Moog, Inc. Class A (a)	7,100	259,647	0.2
	Teledyne Technologies, Inc. (a)	5,900	262,845	0.2
	Other Securities		704,806	0.6
			1,477,723	1.2
Agriculture, Fishing & Ranching	Other Securities		139,606	0.1
Air Transport	Other Securities		1,533,180	1.2
Aluminum	Other Securities		56,300	0.0
Auto Parts: After Market	Other Securities		113,863	0.1
Auto Parts: Original Equipment	Other Securities		241,998	0.2
Auto, Trucks & Parts	Other Securities		142,370	0.1
Banks: New York City	Other Securities		160,664	0.1
Banks: Non U.S. Banks	Other Securities		61,748	0.0
Banks: Outside New York City	FirstMerit Corp.	13,800	284,142	0.2
	UMB Financial Corp.	5,200	255,528	0.2
	Westamerica Bancorp.	4,700	240,405	0.2
	Other Securities		9,394,787	7.3
			10,174,862	7.9
Beverage: Brewers (Wineries)	Other Securities		45,440	0.0
Beverage: Soft Drinks	Other Securities		233,172	0.2
Biotechnology Research & Production	Alexion Pharmaceuticals, Inc. (a) (b)	12,900	466,851	0.3
	Myriad Genetics, Inc. (a)	7,400	490,324	0.4
	OSI Pharmaceuticals, Inc. (a)	9,600	374,880	0.3
	Other Securities		3,570,572	2.8
			4,902,627	3.8

Building Materials	Other Securities		773,286	0.6
Building: Cement	Other Securities		18,480	0.0
Building: Heating & Plumbing	Other Securities		102,351	0.1
Building: Miscellaneous	Other Securities		222,386	0.2
Building: Roofing & Wallboard	Other Securities		112,710	0.1
Cable Television Services	Other Securities		170,843	0.1
Casinos & Gambling	Other Securities		676,258	0.5
Chemicals	Other Securities		1,778,429	1.4
Coal	Other Securities		141,388	0.1
Commercial Information Services	Other Securities		152,085	0.1
Communications & Media	Other Securities		39,648	0.0
Communications Technology	Other Securities		3,432,285	2.7
Computer Services Software & Systems	Concur Technologies, Inc. (a)	7,300	239,586	0.2
	Sybase, Inc. (a)	13,000	322,010	0.3
	Other Securities		6,474,217	5.0
			7,035,813	5.5

Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Computer Technology	Other Securities		$ 1,255,938	1.0%
Construction	EMCOR Group, Inc. (a)	11,300	253,459	0.2
	Other Securities		503,344	0.4
			756,803	0.6
Consumer Electronics	Other Securities		759,944	0.6
Consumer Products	Other Securities		678,125	0.5
Containers & Packaging: Metals & Glass	Other Securities		296,724	0.2
Containers & Packaging: Paper & Plastic	Other Securities		81,012	0.1
Cosmetics	Other Securities		271,625	0.2
Diversified Financial Services	Other Securities		937,007	0.7
Diversified Materials & Processing	Clarcor, Inc.	8,500	282,030	0.2
	Other Securities		1,041,319	0.8
			1,323,349	1.0
Drug & Grocery Store Chains	Other Securities		906,975	0.7
Drugs & Pharmaceuticals	Onyx Pharmaceuticals, Inc. (a)	9,420	321,787	0.3
	Valeant Pharmaceuticals International (a)	10,800	247,320	0.2
	Other Securities		3,195,747	2.5
			3,764,854	3.0
Education Services	Other Securities		638,150	0.5
Electrical & Electronics	Other Securities		483,635	0.4
Electrical Equipment & Components	Other Securities		1,301,321	1.0
Electrical: Household Appliance	Other Securities		76,126	0.1
Electronics	Other Securities		613,276	0.5
Electronics: Instruments, Gauges & Meters	Other Securities		90,711	0.1
Electronics: Medical Systems	Other Securities		1,555,621	1.2
Electronics: Other	Other Securities		15,820	0.0

Electronics: Semi-Conductors/Components	Other Securities		1,920,357	1.5
Electronics: Technology	Other Securities		733,407	0.6
Energy Equipment	Other Securities		60,005	0.0
Energy Miscellaneous	Other Securities		928,958	0.7
Engineering & Contracting Services	Other Securities		504,173	0.4
Entertainment	Other Securities		223,041	0.2
Finance Companies	Other Securities		167,909	0.1
Finance: Small Loan	Other Securities		128,127	0.1
Financial Data Processing Services & Systems	Other Securities		1,022,164	0.8
Financial Information Services	Other Securities		339,945	0.3
Financial Miscellaneous	Other Securities		942,105	0.7
Foods	Flowers Foods, Inc.	12,600	306,936	0.3
	Ralcorp Holdings, Inc. (a)	9,300	543,120	0.4
	Other Securities		1,686,834	1.3
			2,536,890	2.0
Forest Products	Other Securities		184,530	0.1
Forms & Bulk Printing Services	Other Securities		113,439	0.1
Funeral Parlors & Cemeteries	Other Securities		43,645	0.0

Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Glass	Other Securities		$ 50,764	0.0%
Gold	Other Securities		351,033	0.3
Health Care Facilities	Psychiatric Solutions, Inc. (a)	9,400	261,790	0.2
	Other Securities		450,955	0.4
			712,745	0.6
Health Care Management Services	AMERIGROUP Corp. (a)	9,100	268,632	0.2
	Other Securities		1,508,175	1.2
			1,776,807	1.4
Health Care Services	Other Securities		1,044,554	0.8
Homebuilding	Other Securities		266,725	0.2
Hotel/Motel	Other Securities		83,767	0.1
Household Furnishings	Other Securities		275,106	0.2
Identification Control & Filter Devices	Other Securities		907,341	0.7
Industrial Products	Other Securities		64,491	0.1
Insurance: Life	Other Securities		552,614	0.4
Insurance: Multi-Line	Montpelier Re Holdings Ltd.	15,700	263,603	0.2
	Platinum Underwriters Holdings Ltd.	8,000	288,640	0.2
	Other Securities		974,245	0.8
			1,526,488	1.2
Insurance: Property-Casualty	Aspen Insurance Holdings Ltd.	14,000	339,500	0.3
	ProAssurance Corp. (a)	5,500	290,290	0.2
	Validus Holdings Ltd.	10,800	282,528	0.2
	Other Securities		2,569,165	2.0
			3,481,483	2.7
Investment Management Companies	Other Securities		629,634	0.5
Jewelry, Watches & Gemstones	Other Securities		164,793	0.1
Lead & Zinc	Other Securities		26,790	0.0

Leisure Time	Other Securities		503,593	0.4
Machine Tools	Other Securities		27,627	0.0
Machinery & Engineering	Other Securities		137,170	0.1
Machinery: Agricultural	Other Securities		92,401	0.1
Machinery: Construction & Handling	Other Securities		127,659	0.1
Machinery: Engines	Other Securities		173,754	0.1
Machinery: Industrial/Specialty	Other Securities		1,059,529	0.8
Machinery: Oil Well Equipment & Services	Other Securities		1,032,817	0.8
Machinery: Specialty	Other Securities		110,763	0.1
Manufactured Housing	Other Securities		67,562	0.1
Manufacturing	Other Securities		110,149	0.1
Medical & Dental Instruments & Supplies	Bio-Rad Laboratories, Inc. Class A (a)	3,200	240,992	0.2
	Immucor, Inc. (a)	11,750	312,315	0.2
	Owens & Minor, Inc.	6,700	252,255	0.2
	Thoratec Corp. (a)	8,900	289,161	0.2
	Other Securities		3,421,520	2.7
			4,516,243	3.5
Medical Services	Magellan Health Services, Inc. (a)	6,600	258,456	0.2
	Other Securities		377,620	0.3
			636,076	0.5

Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Metal Fabricating	Other Securities		$ 1,231,045	1.0%
Metals & Minerals Miscellaneous	Compass Minerals International, Inc.	5,300	310,898	0.3
	Other Securities		405,559	0.3
			716,457	0.6
Miscellaneous Business & Consumer Discretionary	Other Securities		136,667	0.1
Miscellaneous Consumer Staples	Other Securities		4,320	0.0
Miscellaneous Health Care	Other Securities		40,880	0.0
Miscellaneous Materials & Commodities	Other Securities		224,276	0.2
Miscellaneous Materials & Processing	Other Securities		178,443	0.1
Miscellaneous Producer Durables	Other Securities		71,537	0.1
Miscellaneous Technology	Other Securities		102,315	0.1
Multi-Sector Companies	Other Securities		433,291	0.3
Office Furniture & Business Equipment	Other Securities		408,312	0.3
Oil: Crude Producers	Comstock Resources, Inc. (a)	7,700	363,825	0.3
	Other Securities		2,136,056	1.7
			2,499,881	2.0
Oil: Integrated Domestic	Other Securities		127,964	0.1
Oil: Integrated International	Other Securities		75,144	0.1
Paints & Coatings	Other Securities		187,494	0.1
Paper	Other Securities		545,384	0.4
Plastics	Other Securities		32,552	0.0
Pollution Control & Environmental Services	Other Securities		375,088	0.3
Power Transmission Equipment	Other Securities		207,594	0.2
Printing & Copying Services	Other Securities		236,912	0.2

Production Technology Equipment	Other Securities		1,255,303	1.0
Publishing: Miscellaneous	Other Securities		152,323	0.1
Publishing: Newspapers	Other Securities		88,265	0.1
Radio & TV Broadcasters	Other Securities		200,192	0.2
Railroad Equipment	Westinghouse Air Brake Technologies Corp.	7,900	314,025	0.2
	Other Securities		69,465	0.1
			383,490	0.3
Railroads	Other Securities		150,975	0.1
Real Estate	Other Securities		344,337	0.3
Real Estate Investment Trusts (REITs)	Anthracite Capital, Inc. (c)	9,800	21,854	0.0
	Highwoods Properties, Inc.	10,700	292,752	0.2
	Realty Income Corp.	17,100	395,865	0.3
	Senior Housing Properties Trust	19,200	344,064	0.3
	Washington Real Estate Investment Trust (b)	8,700	246,210	0.2
	Other Securities		5,963,577	4.7
			7,264,322	5.7
Recreational Vehicles & Boats	Other Securities		193,736	0.2
Rental & Leasing Services: Commercial	Other Securities		182,084	0.1
Rental & Leasing Services: Consumer	Other Securities		522,891	0.4
Restaurants	Wendy s	66,926	330,614	0.2
	Other Securities		1,399,453	1.1
			1,730,067	1.3

Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Retail	Other Securities		$ 3,414,996	2.7%
Savings & Loan	First Niagara Financial Group, Inc.	19,300	312,081	0.2
	NewAlliance Bancshares, Inc.	18,300	241,011	0.2
	Other Securities		1,387,613	1.1
			1,940,705	1.5
Securities Brokerage & Services	Knight Capital Group, Inc. Class A (a)	15,900	256,785	0.2
	Other Securities		502,761	0.4
			759,546	0.6
Services: Commercial	Waste Connections, Inc. (a)	13,100	413,567	0.3
	Watson Wyatt Worldwide, Inc.	7,000	334,740	0.3
	Other Securities		4,007,540	3.1
			4,755,847	3.7
Shipping	Other Securities		760,726	0.6
Shoes	Other Securities		858,449	0.7
Steel	Other Securities		57,280	0.0
Sugar	Other Securities		27,246	0.0
Telecommunications Equipment	Other Securities		838,386	0.6
Textile Products	Other Securities		65,448	0.1
Textiles Apparel Manufacturers	Other Securities		829,384	0.6
Tires & Rubber	Other Securities		108,421	0.1
Tobacco	Other Securities		351,157	0.3
Toys	Marvel Entertainment, Inc. (a)	8,200	252,150	0.2
	Other Securities		112,048	0.1
			364,198	0.3
Transportation Miscellaneous	Other Securities		338,618	0.3
Truckers	Other Securities		906,570	0.7
Utilities: Electrical	ITC Holdings Corp.	8,300	362,544	0.3

	Westar Energy, Inc.	17,100	350,721	0.2
	Other Securities		2,427,249	1.9
			3,140,514	2.4
Utilities: Gas Distributors	New Jersey Resources Corp.	6,800	267,580	0.2
	Nicor, Inc.	7,400	257,076	0.2
	Piedmont Natural Gas Co.	12,000	380,040	0.3
	WGL Holdings, Inc.	8,000	261,520	0.2
	Other Securities		789,417	0.6
			1,955,633	1.5
Utilities: Telecommunications	Other Securities		1,301,980	1.0
Utilities: Water	Other Securities		443,250	0.3
Wholesalers	Other Securities		313,965	0.2
	Total Common Stocks (Cost $194,516,705)		124,288,857	96.8

Summary Schedule of Investments (continued)

Industry	Investment Companies	Shares	Value	Percent of Net Assets
	BlackRock Kelso Capital Corp. (c)	1,800	$ 17,748	0.0%
	Other Securities		163,525	0.2
	Total Investment Companies (Cost $376,674)		181,273	0.2

	Warrants (d)		
Energy Miscellaneous	Other Securities	0	0.0
	Total Warrants (Cost $0)	0	0.0

Short-Term Securities	Maturity Date	Yield	Face Amount		
Time Deposits					
State Street Bank & Trust Co.	1/02/09	0.01%	$ 7,710,576	7,710,576	6.0
	Total Short-Term Securities (Cost $7,710,576)			7,710,576	6.0
	Total Investments Before Options Written (Cost $202,603,955*)			132,180,706	103.0

	Options Written	Number of Contracts		
Call Options Written	Russell 2000 Index, expiring January 2009 at USD 470	500	(1,727,500)	(1.4)
	Russell 2000 Index, expiring January 2009 at USD 500	750	(1,218,750)	(0.9)
	Total Options Written (Premiums Received $3,635,363)		(2,946,250)	(2.3)
Total Investments Net of Options Written (Net Cost $198,968,592)			129,234,456	100.7

Liabilities in Excess of Other Assets	(845,696)	(0.7)
Net Assets	$ 128,388,760	100.0%

* The cost and unrealized appreciation (depreciation) of investments as of December 31, 2008, as computed for federal income tax purposes, were as follows:

Aggregate cost	$ 115,221,727
Gross unrealized appreciation	$ 17,946,124
Gross unrealized depreciation	(987,145)
Net unrealized appreciation	$ 16,958,979

(a) Non-income producing security.

(b) All or a portion of security held as collateral in connection with open financial futures contracts.

(c) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	Purchase Cost	Sales Cost	Realized Loss	Dividend Income
Anthracite Capital, Inc.	$ 10,597	$ 22,844	$ (9,160)	$ 9,569
BlackRock Kelso Capital Corp.	$ 7,832			$ 2,279

(d) Warrants entitle the Fund to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.

For Fund portfolio compliance purposes, the Fund s industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Industries are shown as a percent of net assets. These industry classifications are unaudited.

Financial futures contracts purchased as of December 31, 2008 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Appreciation
50	E-Mini Russell 2000	March 2009	$ 2,427,562	$ 61,938

Summary Schedule of Investments (concluded)

Effective January 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the fair value of investments, which are as follows:

Level 1 price quotations in active markets/exchanges for identical securities

Level 2 other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the Fund s own assumption used in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Fund s policy regarding valuation of investments and other significant accounting policies, please refer to Note 1(a) of the Notes to Financial Statements.

The following table summarizes the inputs used as of December 31, 2008 in determining the fair valuation of the Fund s investments:

Valuation Inputs	Investments in Securities	Other Financial Instruments* Assets	Other Financial Instruments* Liabilities
Level 1	$ 124,470,130	$ 61,938	$ (2,946,250)
Level 2	7,710,576		
Level 3			
Total	$ 132,180,706	$ 61,938	$ (2,946,250)

* Other financial instruments are futures and options.

See Notes to Financial Statements.

Statement of Assets, Liabilities and Capital

As of December 31, 2008

Assets		
Investments in unaffiliated securities, at value (identified cost $202,472,489)		$ 132,141,104
Investments in affiliated securities, at value (identified cost $131,466)		39,602
Receivables:		
Dividends	$ 193,157	
Securities sold	97,080	
Variation margin	71,500	
Interest	2	361,739
Prepaid expenses		450
Total assets		132,542,895
Liabilities		
Options written, at value (premiums received $3,635,363)		2,946,250
Payables:		
Dividends and distributions to shareholders	1,083,953	
Investment advisory fees	15,144	1,099,097
Accrued expenses		108,788
Total liabilities		4,154,135
Net Assets		
Net assets		$ 128,388,760
Capital		
Common Stock, par value $.001 per share, 100,000,000 shares authorized		$ 13,438
Paid-in capital in excess of par		216,268,013
Undistributed investment income net	$ 328,380	
Accumulated realized capital losses net	(18,548,873)	
Unrealized depreciation net	(69,672,198)	
Total accumulated losses net		(87,892,691)
Total capital Equivalent to $9.55 per share based on 13,437,785 shares of Common Stock outstanding (market price $8.67)		$ 128,388,760

See Notes to Financial Statements.

Statement of Operations

For the Year Ended December 31, 2008

Investment Income		
Dividends (including $11,848 from affiliates and net of $524 foreign withholding tax)		$ 2,327,672
Interest		379,605
Total income		2,707,277
Expenses		
Investment advisory fees	$ 1,775,907	
Accounting services	86,632	
Professional fees	83,511	
Directors fees and expenses	63,725	
Custodian fees	44,593	
Transfer agent fees	35,258	
Repurchase offer	33,958	
Printing and shareholder reports	30,063	
Listing fees	23,750	
Insurance fees	16,592	
Licensing fees	10,837	
Other	14,037	
Total expenses		2,218,863
Investment income net		488,414
Realized & Unrealized Gain (Loss) Net		
Realized gain (loss) on:		
Investments net (including $9,160 loss from affiliates)	4,883,912	
Financial futures contracts net	(9,240,180)	
Options written net	2,054,428	(2,301,840)
Change in unrealized appreciation/depreciation on:		
Investments net	(73,669,015)	
Financial futures contracts net	(11,223)	
Options written net	(532,637)	(74,212,875)
Total realized and unrealized loss net		(76,514,715)
Net Decrease in Net Assets Resulting from Operations		$ (76,026,301)

See Notes to Financial Statements.

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets:	**For the Year Ended December 31, 2008**	**2007**
Operations		
Investment income net	$ 488,414	$ 1,245,783
Realized gain (loss) net	(2,301,840)	20,192,200
Change in unrealized appreciation/depreciation net	(74,212,875)	(16,220,844)
Net increase (decrease) in net assets resulting from operations	(76,026,301)	5,217,139
Dividends & Distributions to Shareholders		
Investment income net	(926,191)	(1,099,977)
Realized gain net		(21,655,076)
Tax return of capital	(26,156,104)	(4,501,255)
Net decrease in net assets resulting from dividends and distributions to shareholders	(27,082,295)	(27,256,308)
Common Stock Transactions		
Adjustment of offering costs resulting from the issuance of Common Stock		135,048
Net redemption of Common Stock resulting from a repurchase offer (includes $62,348 and $3,451 of repurchase fees, respectively)	(3,055,064)	(924,375)
Value of shares issued to Common Stock shareholders in reinvestment of dividends		1,527,886
Net increase (decrease) in net assets resulting from Common Stock transactions	(3,055,064)	738,559
Net Assets		
Total decrease in net assets	(106,163,660)	(21,300,610)
Beginning of year	234,552,420	255,853,030
End of year*	$ 128,388,760	$ 234,552,420
* Undistributed investment income net	$ 328,380	$ 732,199

See Notes to Financial Statements.

Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements.	For the Year Ended December 31, 2008	2007	2006	For the Period July 29, 2005[a] to December 31, 2005
Per Share Operating Performance				
Net asset value, beginning of period	$ 17.19	$ 18.80	$ 18.16	$ 19.10
Investment income net[b]	.04	.09	.08	.04
Realized and unrealized gain (loss) net	(5.68)[c]	.29[c]	2.56[c]	(.12)
Total from investment operations	(5.64)	.38	2.64	(.08)
Less dividends and distributions from:				
Investment income net	(.07)	(.08)	(.23)	(.03)
Realized gain net		(1.59)	(1.67)	
Tax return of capital	(1.93)	(.33)	(.10)	(.80)
Total dividends and distributions	(2.00)	(2.00)	(2.00)	(.83)
Offering costs resulting from the issuance of Common Stock		.01		(.03)
Net asset value, end of period	$ 9.55	$ 17.19	$ 18.80	$ 18.16
Market price per share, end of period	$ 8.67	$ 15.74	$ 19.49	$ 16.09
Total Investment Return[d]				
Based on net asset value per share	(34.04%)	2.63%	15.40%	(.14%)[e]
Based on market price per share	(34.60%)	(9.36%)	35.03%	(15.51%)[e]
Ratios to Average Net Assets				
Expenses, net of reimbursement	1.12%	1.03%	1.09%	1.07%[f]
Expenses	1.12%	1.05%	1.09%	1.07%[f]
Investment income net	.25%	.49%	.41%	.56%[f]

Supplemental Data				
Net assets, end of period (in thousands)	$ 128,389	$ 234,552	$ 255,853	$ 327,008
Portfolio turnover	21%	15%	26%	3%

[a] Commencement of operations.

[b] Based on average shares outstanding.

[c] Includes repurchase fees, which are less than $.01 per share.

[d] Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

[e] Aggregate total investment return.

[f] Annualized.

See Notes to Financial Statements.

Notes to Financial Statements

1. Significant Accounting Policies:

Small Cap Premium & Dividend Income Fund Inc. (the Fund) is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end management investment company with a fixed term of approximately five years. The expected termination date of the Fund is on or about July 21, 2010.The Fund s financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund s Common Stock shares are listed on the New York Stock Exchange (NYSE) under the symbol RCC. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments Equity securities that are held by the Fund that are traded on stock exchanges or the NASDAQ Global Market are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price for long positions, and at the last available asked price for short positions. In cases where equity securities are traded on more than one exchange, the securities are valued on the exchange designated as the primary market by or under the authority of the Board of Directors of the Fund. Long positions traded in the over-the-counter (OTC) market, NASDAQ Capital Market or Bulletin Board are valued at the last available bid price or yield equivalent obtained from one or more dealers or pricing services approved by the Board of Directors of the Fund. Short positions traded in the OTC market are valued at the last available asked price. Portfolio securities that are traded both in the OTC market and on an exchange are valued according to the broadest and most representative market.

Exchange-traded options are valued at the mean between the last bid and ask prices at the close of the options market in which the options trade. Options traded in the OTC market are valued at the last asked price (options written) or the last bid price (options purchased). The value of swaps, including interest rate swaps, caps and floors, will be determined by reference to the value of the components when such components consist of securities for which market quotations are available. In the absence of obtainable quotations, swaps will be valued by obtaining dealer quotations. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their last sale price as of the close of such exchanges. Obligations with remaining maturities of 60 days or less are valued at amortized cost unless the investment adviser believes that this method no longer produces fair valuations.

Repurchase agreements are valued at cost plus accrued interest. The Fund employs pricing services to provide certain securities prices for the Fund. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including valuations furnished by the pricing services retained by the Fund, which may use a matrix system for valuations. The procedures of a pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Fund s Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors of the Fund.

Generally, trading in U.S. government securities, money market instruments and certain fixed income securities, is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund s shares are determined as of such times. Overnight Time Deposits are valued at the amount deposited each day. Occasionally, events affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund s net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities may be valued at their fair value as determined in good faith by the Fund s Board of Directors or by the investment adviser using a pricing service and/or procedures approved by the Fund s Board of Directors.

(b) Real Estate Investment Trusts (REITs) A portion of distributions received from REITs may constitute a return of capital. During the year an amount, based upon prior experience and guidance from the REITs is reclassified from dividend income and recorded as an adjustment to basis of the REIT holdings. The adjustment is a reduction in basis and is reflected in either unrealized appreciation (depreciation) or realized gain (loss).

(c) Derivative financial instruments The Fund may engage in various portfolio investment strategies both to enhance its returns or as a proxy for a direct investment in securities underlying the Fund s index. Losses may arise due to changes in the value of the contract due to an unfavorable change in the price of the underlying security or index, or if the counterparty does not perform under the contract. The

Notes to Financial Statements (continued)

counterparty, for certain instruments, may pledge cash or securities as collateral.

Options The Fund writes call options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an options expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received). Written options are non-income producing investments.

Financial futures contracts The Fund may purchase or sell financial futures contracts and options on such financial futures contracts. Financial futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits, and maintains as collateral, such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

(d) Income taxes It is the Fund s policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) requires an analysis of tax positions taken or to be taken on a tax return and whether such positions are more likely than not to be sustained upon examination based on their technical merit. To the extent they would not be sustained, tax expense (and related interest and penalties) would be recognized for financial statement reporting purposes. Management has evaluated the application of FIN 48 to the Fund, and has determined that FIN 48 does not have a material impact on the Fund s financial statements. The Fund files U.S. and various state tax returns. To the best of the Fund s knowledge, no income tax returns are currently under examination. All tax years of the Fund are open at this time.

(e) Security transactions and investment income Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income is recorded on the ex-dividend dates. Interest income is recognized on the accrual basis.

(f) Dividends and distributions Dividends and distributions paid by the Fund are recorded on the ex-dividend dates. Portions of the distributions paid by the Fund during the years ended December 31, 2008 and December 31, 2007 were characterized as a tax return of capital.

(g) Offering expenses Direct expenses relating to the public offering of the Fund s Common Stock were charged to capital at the time of issuance of the shares. Any adjustments to estimates of offering costs were recorded to capital.

(h) Recent accounting pronouncement In March 2008, Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161), was issued. FAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity s results of operations and financial position. Disclosures required by FAS 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The impact on the Fund s financial statement disclosures, if any, is currently being assessed.

(i) Reclassification Accounting principles generally accepted in the United States of America require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, $33,958 has been reclassified to paid-in capital in excess of par from undistributed net investment income as a result of a permanent difference attributable to non-deductible expenses. This reclassification has no effect on net assets or net asset values per share.

Notes to Financial Statements (continued)

2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory and Management Agreement with IQ Investment Advisors LLC (IQ Advisors), an indirect, wholly owned subsidiary of Merrill Lynch & Co., Inc. (ML & Co.). IQ Advisors is responsible for the investment advisory, management and administrative services to the Fund. In addition, IQ Advisors provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate equal to .90% of the average daily value of the Fund s net assets plus borrowings for leverage and other investment purposes.

In addition, IQ Advisors has entered into a Subadvisory Agreement with BlackRock Investment Management, LLC (the Subadviser), an indirect, wholly owned subsidiary of BlackRock, Inc. (BlackRock). Pursuant to the agreement, the Subadviser provides certain investment advisory services to IQ Advisors with respect to the Fund. For such services, IQ Advisors pays the Subadviser a monthly fee at an annual rate of ..39% of the average daily value of the Fund s net assets plus borrowings for leverage and other investment purposes. There is no increase in the aggregate fees paid by the Fund for these services.

IQ Advisors has entered into an Administration Agreement with Princeton Administrators, LLC (the Administrator). The Administration Agreement provides that IQ Advisors pays the Administrator a fee from its investment advisory fee at an annual rate equal to .12% of the average daily value of the Fund s net assets plus borrowings for leverage and other investment purposes for the performance of administrative and other services necessary for the operation of the Fund. There is no increase in the aggregate fees paid by the Fund for these services. The Administrator is an indirect, wholly owned subsidiary of BlackRock. ML & Co. is a substantial owner of BlackRock.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, an affiliate of IQ Advisors, received $7,974 in commissions on the execution of portfolio security transactions for the Fund for the year ended December 31, 2008.

Certain officers of the Fund are officers and/or directors of IQ Advisors, ML & Co., BlackRock and/or their affiliates.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended December 31, 2008 were $35,370,300 and $47,631,337, respectively.

Transactions in options written for the year ended December 31, 2008 were as follows:

	Number of Contracts	Premiums Received
Outstanding call options written, at beginning of year	1,500	$ 3,235,500
Options written	22,356	36,642,123
Options closed	(22,606)	(36,242,260)
Outstanding call options written, at end of year	1,250	$ 3,635,363

4. Common Stock Transactions:

The Fund is authorized to issue 100,000,000 shares of stock, par value $.001 per share, all of which were initially classified as Common Stock. The Board of Directors is authorized, however, to classify and reclassify any unissued shares of Common Stock without approval of the holders of Common Stock.

Shares issued and outstanding during the year ended December 31, 2008 decreased by 206,725 as a result of a repurchase offer. Shares issued and outstanding during the year ended December 31,2007 increased by 82,012 as a result of dividend and distribution reinvestments and decreased by 49,300 as a result of a repurchase offer.

Subject to the approval of the Board of Directors, the Fund will make offers to repurchase its shares at annual (approximately 12-month) intervals. The shares tendered in the repurchase offer will be subject to a repurchase fee retained by the Fund to compensate the Fund for expenses directly related to the repurchase offer.

With regard to repurchase fees, IQ Advisors will reimburse the Fund for the cost of expenses paid in excess of 2% of the value of the shares that are repurchased.

5. Distributions to Shareholders:

The tax character of distributions paid during the years ended December 31, 2008 and December 31, 2007 was as follows:

	12/31/2008	12/31/2007
Distributions paid from:		
Ordinary income	$ 926,191	$ 18,128,392
Long-term capital gains		4,626,661
Tax return of capital	26,156,104	4,501,255
Total distributions	$ 27,082,295	$ 27,256,308

Notes to Financial Statements (concluded)

As of December 31, 2008, the components of accumulated losses on a tax basis were as follows:

Undistributed ordinary income net		
Undistributed long-term capital gains net		
Total undistributed earnings net		
Capital loss carryforward	$	(55,567,793)*
Unrealized losses net		(32,324,898)**
Total accumulated losses net	$	(87,892,691)

* As of December 31, 2008, the Fund had a net capital loss carry-forward of $55,567,793, all of which expires in 2016. This amount will be available to offset like amounts of any future taxable gains.

** The difference between book-basis and tax-basis net unrealized losses is attributable primarily to the realization for tax purposes of unrealized gains (losses) on certain financial futures contracts and options, the deferral of post-October capital losses for tax purposes, the realization for tax purposes of unrealized gains (losses) on certain securities that are part of a straddle and other book/tax temporary differences.

6. Subsequent Events:

Effective January 1, 2009, ML & Co., IQ Advisors parent, became a wholly owned subsidiary of Bank of America Corporation (the Transaction).

On January 23, 2009, a special meeting of stockholders was reconvened from December 19, 2008 to vote on a new investment advisory and management agreement and a new investment subadvisory agreement (together the New Agreements) to prevent any potential disruption in IQ Advisors and the subadviser s ability to continue to provide services to the Fund in connection with the Transaction. ML & Co. had informed the Board of Directors of the Fund that it did not believe the Transaction would result in an assignment of the Fund s current investment advisory and management agreement and current investment subadvisory agreement (together, the Current Agreements) under the 1940 Act, but that it was possible that the Transaction could be determined to result in such an assignment, which would cause the automatic termination of each Current Agreement.

Each of the New Agreements was approved by stockholders and became effective on January 24, 2009. From January 1 to January 23, 2009, the Fund operated under an interim investment advisory and management agreement and an interim investment subadvisory agreement that were previously approved by the Board of Directors of the Fund pursuant to Rule 15a-4 under the 1940 Act.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Small Cap Premium & Dividend Income Fund Inc.

We have audited the accompanying statement of assets, liabilities and capital of Small Cap Premium & Dividend Income Fund Inc. (the Fund), including the summary schedule of investments, as of December 31, 2008, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2008, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Small Cap Premium & Dividend Income Fund Inc. as of December 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Princeton, NJ
February 27, 2009

Important Tax Information (Unaudited)

The following information is provided with respect to the taxable ordinary income portion of the distribution paid by Small Cap Premium & Dividend Income Fund, Inc. to shareholders of record on June 23, 2008 and December 19, 2008:

Interest-Related Dividends for Non-U.S. Residents	12.20%*

* Represents the portion of the taxable ordinary income dividends eligible for exemption from U.S. withholding tax for nonresident aliens and foreign corporations.

Approval of New Advisory Agreements and New Subadvisory Agreements

On September 15, 2008, Merrill Lynch & Co., Inc. (Merrill Lynch), the parent company of IQ Investment Advisors LLC (IQ Advisors or the Adviser), announced that it had entered into a definitive Agreement and Plan of Merger with Bank of America Corporation (Bank of America) whereby a wholly owned subsidiary of Bank of America would be merged with and into Merrill Lynch (the Transaction). Merrill Lynch informed the Board of Directors of each of the funds advised by IQ Advisors (the IQ Funds or the Funds) that it did not believe the Transaction would result in an assignment of the Funds current investment advisory and management agreements (the Current Advisory Agreements) and current investment subadvisory agreements (the Current Subadvisory Agreements) (together, the Current Agreements) under the Investment Company Act of 1940, as amended (the 1940 Act), but that it was possible that the Transaction could be determined to result in such an assignment, which would cause the automatic termination of each Current Agreement.

In anticipation of the completion of the Transaction, the Boards of Directors of each of the Funds (the Board) met in person on November 11, 2008 (the Meeting) for purposes of, among other things, considering whether it would be in the best interests of the Funds and their stockholders to approve new investment advisory and management agreements between IQ Advisors and each of the Funds (the New Advisory Agreements) and new investment subadvisory agreements between IQ Advisors and the respective subadviser to each Fund (the New Subadvisory Agreements) (together, the New Agreements) that would take effect upon the closing of the Transaction. The Board also approved interim investment advisory and management agreements between IQ Advisors and each of the Funds (the Interim Advisory Agreements) and interim subadvisory agreements between IQ Advisors and the respective subadviser to each Fund (the Interim Subadvisory Agreements) (together, the Interim Agreements) that would take effect for a maximum of 150 days following the closing of the Transaction only in the event that stockholders have not approved the respective New Agreements prior to such time. The Board considered substantially the same factors in approving the Interim Agreements as were considered in approving the New Agreements.

The Transaction was approved by the stockholders of Merrill Lynch on December 5, 2008. Effective January 1, 2009, Merrill Lynch became a wholly owned subsidiary of Bank of America. The stockholders of the Fund approved the New Agreements on January 23, 2009.

The following discussion summarizes the information considered and the conclusions made by the Board in approving the New Agreements.

In considering the approval of the New Advisory Agreement between IQ Advisors and each Fund, the Directors received and discussed various materials provided to them in advance of the Meeting, which included, among other things, a copy of the form of New Advisory Agreement, the materials the Directors had received in connection with their consideration and approval of the continuation of the Current Advisory Agreement for each Fund (other than for MLP & Strategic Equity Fund Inc. (MLP Fund)), at the June 5, 2008 Board meeting, and additional materials presented at the November 11, 2008 Board meeting in connection with the New Advisory Agreements, including information from Lipper, Inc. (Lipper) with respect to MLP Fund, due diligence materials from IQ Advisors and a report on the Transaction and its potential impact on the services provided to the Funds. In addition, the Directors considered materials received at previous meetings of the Board regarding the Funds.

In considering whether to approve the New Advisory Agreements, the Directors reviewed materials from counsel to the Funds and from IQ Advisors including: (i) information concerning the services rendered to the Funds by IQ Advisors and its affiliates; (ii) information concerning the revenues and expenses incurred by IQ Advisors and its affiliates from the operation of the Funds; (iii) a memorandum outlining the legal duties of the Directors under the 1940 Act; and (iv) information from Lipper comparing each Fund s fee rate for advisory and administrative services to those of other closed-end funds chosen by Lipper. Each New Advisory Agreement was considered separately by the Directors.

The Directors considered and discussed, among other things, the following factors in approving the New Advisory Agreements and Interim Advisory Agreements:

(a) Nature, Extent and Quality of Services Provided by IQ Advisors and its Affiliates In connection with their consideration of each New Advisory Agreement, the Directors considered representations by IQ Advisors that there would be no diminution in the services to be rendered to the Funds by IQ Advisors as a result of the Transaction. The Directors noted that representatives of IQ Advisors stated that they did not anticipate any change in their personnel responsible for providing services to the Funds.

In reviewing each New Advisory Agreement, the Directors focused on the services that IQ Advisors has provided to each Fund. The Directors considered the size and experience of IQ Advisors staff, its use of technology, and the degree to

Approval of New Advisory Agreements and New Subadvisory Agreements (continued)

which IQ Advisors exercises supervision over the actions of each Fund s respective subadviser. In connection with the investment advisory services provided, the Directors took into account detailed discussions they had with officers of IQ Advisors at the November 11, 2008 Board meeting and at prior Board meetings regarding the management of each Fund s investments in accordance with each Fund s stated investment objective and policies and the types of transactions entered into on behalf of each Fund.

In addition to the investment advisory services provided to the Funds, the Directors considered that IQ Advisors and its affiliates also provide administrative services, stockholder services, oversight of Fund accounting, marketing services, assistance in meeting legal and regulatory requirements and other services necessary for the operation of the Funds. In particular, the Directors reviewed the compliance and administrative services provided to the Funds by IQ Advisors, including its oversight of each Fund s day-to-day operations and its oversight of Fund accounting. The Directors noted that IQ Advisors has access to administrative, legal and compliance resources that help ensure a high level of quality in the compliance and administrative services provided to the Funds. The Directors also considered each Fund s compliance history.

The Directors noted the representations of IQ Advisors that the Transaction would have no adverse effect on the resources and strengths of IQ Advisors in managing the Funds. The Directors then discussed the anticipated financial condition of IQ Advisors and its affiliates following the Transaction. The Directors noted statements from representatives of IQ Advisors that the financial position of IQ Advisors and its affiliates is not expected to be negatively affected by the Transaction. The Directors also considered representations from IQ Advisors that the Transaction is not expected to impact IQ Advisors compliance personnel or compliance procedures. Based on the discussions held and the materials presented at the Board meetings held on November 11, 2008 and June 5, 2008 and other prior Board meetings, the Directors determined that the Transaction would not likely cause an adverse change in the nature, extent and quality of the services to be provided by IQ Advisors under the New Advisory Agreements and that they expect that the quality of such services will continue to be of high quality and beneficial to the Funds.

(b) Investment Performance of each Fund and IQ Advisors The Directors considered the history, experience, resources and strengths of IQ Advisors and its affiliates in developing and implementing the investment strategies used by each Fund. The Directors also considered the innovative nature of each Fund. The Directors noted the specialized nature of each Fund s investment strategy and the inherent limitations in comparing a Fund s investment performance to that of another investment company. The Directors reviewed the investment performance of each Fund that is currently operating and, where applicable, compared such performance to the performance of a relevant reference index. The Directors discussed the degree to which each such Fund was achieving its investment objective. In particular, the Directors noted that the Funds generally performed as expected and met their respective investment objectives. As a result of their discussions and review, the Directors concluded that the performance of each currently operating Fund was satisfactory.

(c) Costs of Services Provided and Profits Realized by IQ Advisors and its Affiliates from the Relationship with each Fund In reviewing the New Advisory Agreements, the Directors referred to the materials presented and discussions held in connection with their consideration of the continuation of the Current Advisory Agreement for each respective Fund (other than for MLP Fund) at the June 5, 2008 Board meeting, and additional materials presented at the November 11, 2008 Board meeting in connection with the New Agreements for all Funds. At the June 5, 2008 meeting, the Directors reviewed and considered a memorandum from IQ Advisors regarding the methodology used by IQ Advisors in allocating its costs regarding the operations of the Funds and calculating each Fund s profitability, including MLP Fund, to IQ Advisors and its affiliates. At the June 5, 2008 meeting, the Directors also reviewed a report detailing IQ Advisors profitability. After considering their discussion with IQ Advisors at the June 5, 2008 meeting and further discussions at the November 11, 2008 meeting and reviewing IQ Advisors memorandum and report, the Directors concluded that there continued to be a reasonable basis for the allocation of costs and the determination of profitability. The Directors considered the cost of the services provided by IQ Advisors to each Fund and the revenue derived by IQ Advisors and its affiliates. The Directors took into account discussions that they had with representatives of IQ Advisors at the June 5, 2008 Board meeting regarding its general level of profitability (if any), and the profits derived by its affiliate, BlackRock, Inc., from operating the Funds. The Directors also considered the direct and indirect benefits derived by other IQ Advisors affiliates, including Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), from the establishment of the Funds, including the underwriting arrangements relating to the initial distribution of Fund shares. The Directors considered federal court decisions discussing an investment adviser s profitability and profitability levels considered to be reasonable in those decisions. The Directors concluded that any profits made by IQ Advisors and its affiliates (including BlackRock, Inc. and MLPF&S) are acceptable in relation to the nature, extent and

Approval of New Advisory Agreements and New Subadvisory Agreements (continued)

quality of services provided. The Directors also concluded that each Fund continued to benefit from such services provided by IQ Advisors affiliates.

(d) Extent to which Economies of Scale would be Realized as a Fund Grows and Whether Fee Levels would Reflect such Economies of Scale In considering the extent to which economies of scale might be realized if the assets of a Fund were to increase and whether there should be changes in the advisory fee rate or structure in order to enable a Fund to participate in these economies of scale, the Directors referred to the materials presented and discussions held in connection with their considerations at the June 5, 2008 Board meeting and additional materials presented at the November 11, 2008 Board meeting in connection with the New Advisory Agreements. The Directors noted that because each Fund is a closed-end fund, any increase in asset levels generally would have to come from appreciation through investment performance. The Directors also noted that each Fund, other than Dow 30^{SM} Premium & Dividend Income Fund Inc. (Dow 30 Premium), NASDAQ Premium Income & Growth Fund Inc. (NASDAQ Premium), Dow 30^{SM} Enhanced Premium & Income Fund Inc. (Dow 30 Enhanced), MLP Fund and S&P 500® Covered Call Fund Inc. (Covered Call), is an interval fund that periodically allows stockholders to tender their shares to the Fund and that such tender offers reduce the amount of Fund assets.

Taking into account the totality of the information and materials provided to them at Board meetings held November 11, 2008 and June 5, 2008 and at other prior Board meetings, the Directors determined that no changes were currently necessary to each Fund s fee structure.

(e) Comparison of services rendered and fees paid to those under other investment advisory contracts, such as contracts of the same and other investment advisers or other clients The Directors considered representations by IQ Advisors that there would be no change in the advisory fee paid by each Fund to IQ Advisors under the New Advisory Agreements as a result of the Transaction. In considering the compensation to be paid to IQ Advisors, noting that no changes to such compensation from that payable under the Current Advisory Agreements were proposed, the Directors referred to the materials presented and discussions held in connection with their considerations at the June 5, 2008 Board meeting and additional materials presented at the November 11, 2008 Board meeting in connection with the New Advisory Agreements. The Directors noted that in connection with such considerations it had received and reviewed a comparison of both the services rendered and the fees paid under the Current Advisory Agreements to the contracts of other investment advisers with respect to other closed-end registered investment companies. In particular, the Directors noted that it evaluated each Fund s contractual fee rate for advisory and administrative services as compared to the contractual fee rate of other closed-end funds chosen by Lipper. In connection with its consideration of the New Advisory Agreement for MLP Fund, the Directors noted that it had received and reviewed fee comparison data from Lipper at the November 11, 2008 Board meeting. The Directors noted that each Fund s contractual advisory fee rate at a common asset level was equal to or lower than the median fee rate of its Lipper comparison funds.

Taking into account the totality of the information and materials provided to them at the Board meetings held on November 11, 2008 and June 5, 2008, and at other prior Board meetings, the Directors concluded that the advisory fee rates proposed under each New Advisory Agreement were reasonable for the services being rendered and in comparison to the data reflected in the Lipper materials.

(f) Conclusion The Directors examined the totality of the information they were provided at the November 11, 2008 and June 5, 2008 Board meetings and did not identify any single factor discussed previously as controlling. The Directors concluded that the terms of each New Advisory Agreement were fair and reasonable, that IQ Advisors fees are reasonable for the services provided to each Fund, and that each New Advisory Agreement should be approved and recommended to stockholders.

Approval of New Investment Subadvisory Agreements

The Directors discussed the approval of New Subadvisory Agreements between IQ Advisors and BlackRock Investment Management, LLC (BlackRock), as subadviser to S&P 500® GEARED Fund Inc. (S&P GEARED) and Small Cap Premium & Dividend Income Fund Inc. (Small Cap); Oppenheimer Capital LLC (Oppenheimer), as subadviser to Covered Call and Enhanced S&P 500® Covered Call Fund Inc. (Enhanced Covered Call); Nuveen HydePark Group, LLC (Nuveen HydePark), as subadviser to Dow 30, Dow 30 Enhanced, NASDAQ Premium and Defined Strategy Fund Inc. (Defined Strategy); Fiduciary Asset Management, LLC (FAMCO), as subadviser to MLP Fund; and Nuveen Asset Management (NAM), as subadviser to Global Income & Currency Fund Inc. (Global Income) (each, a Subadviser and, collectively, the Subadvisers). The Directors also discussed the approval of Interim Subadvisory Agreements between IQ Advisors and the Subadvisers of each of the Funds, which would go into effect for a maximum of 150 days following the closing of the Transaction only in the event that

Approval of New Advisory Agreements and New Subadvisory Agreements (continued)

stockholders have not approved the respective New Subadvisory Agreement prior to such time.

In considering the approval of the New Subadvisory Agreement between IQ Advisors and each Subadviser, the Directors received and discussed various materials provided to them in advance of the meetings which included, among other things, a copy of the form of New Subadvisory Agreement, the materials the Directors had received in connection with their consideration and approval of the continuation of the Current Subadvisory Agreements for each Fund (other than for MLP Fund) at the June 5, 2008 Board meeting, and additional materials presented at the November 11, 2008 Board meeting in connection with the New Agreements, including due diligence materials from IQ Advisors and a report and presentation on the Transaction and its potential impact on the services provided to the Funds. In addition, the Directors considered materials received at previous meetings of the Directors regarding the Funds.

In considering whether to approve the New Subadvisory Agreements, the Directors reviewed materials from counsel to the Funds and from IQ Advisors and the Subadvisers including, as applicable: (i) information concerning the services rendered to the Funds by the Subadvisers; (ii) information concerning the revenues and expenses incurred by the Subadvisers from the operation of the Funds; (iii) a memorandum outlining the legal duties of the Directors under the 1940 Act; and (iv) information from Lipper comparing each Fund s fee rate for advisory and administrative services to those of other closed-end funds chosen by Lipper. Each New Subadvisory Agreement was considered separately by the Directors.

The Directors considered and discussed, among other things, the following factors in approving the New Subadvisory Agreements and Interim Subadvisory Agreements:

(a) Nature, Extent and Quality of Services Provided by the Subadvisers In reviewing the New Subadvisory Agreements, the Directors referred to the materials presented and discussions held in connection with their consideration of the continuation of the Current Subadvisory Agreement for each respective Fund (other than MLP Fund) at the June 5, 2008 Board meeting, and additional materials presented at the November 11, 2008 Board meeting in connection with the New Advisory Agreements. The Directors focused on the experience of the Subadvisers in managing registered funds. The Directors considered the reputation and investment experience of the Subadvisers and their investment professionals who have served as portfolio managers and would continue to serve as portfolio managers. The Directors noted that it had met with officers of IQ Advisors and members of each Subadviser s portfolio management team to discuss the management of each Fund s investments at recent Board meetings. The Directors took into account the annual due diligence investment review of each Subadviser to a currently operating Fund and the report presented at a prior meeting that concluded that each such Subadviser has thus far executed its respective Fund s investment strategies in accordance with the Fund s objectives and general expectations. The Directors noted that it had discussed each Fund s investment strategy with representatives from the respective Subadviser, including discussions regarding the premises underlying the Fund s investment strategy, its efficacy and potential risks. The Directors also considered the favorable history, reputation and background of each Subadviser and its personnel, and the substantial experience of such Subadviser s portfolio management team. The Directors considered the compliance program of each Subadviser and the report of the chief compliance officer of the Funds. Following consideration of this information, and based on management presentations during the November 11, 2008 and June 5, 2008 Board meetings, the Directors concluded that the nature, extent and quality of services provided to each Fund by the applicable Subadviser under the Current Subadvisory Agreement were of a high quality and would continue to benefit the respective Fund. The Directors considered that the same services would be provided by the same personnel pursuant to the New Subadvisory Agreements.

(b) Investment Performance of each Fund and each Subadviser The Directors had received and considered information about the investment performance of each Fund that is currently operating in light of its stated investment objective and made the determinations discussed above under Investment Performance of each Fund and IQ Advisors. As a result of their discussions and review, the Directors concluded that the performance of each currently operating Fund was satisfactory.

(c) Cost of Services Provided and Profits Realized by each Subadviser from the Relationship with each respective Fund The Directors considered the profitability to BlackRock, a subsidiary of BlackRock, Inc., by serving as Subadviser to two Funds and from its relationship with IQ Advisors based on the information discussed above under Costs of Services Provided and Profits Realized by IQ Advisors and its Affiliates from the Relationship with each Fund. Based on such information, the Directors concluded that BlackRock s profits were acceptable in relation to the nature, extent and quality of services provided. The Directors noted that profitability data was not provided with respect to the other Subadvisers of the Funds and concluded that such data was unnecessary because such subadvisory arrangements were entered into at arm s length between IQ Advisors and

Approval of New Advisory Agreements and New Subadvisory Agreements (concluded)

each such Subadviser (including NAM and Nuveen HydePark, with which subadvisory arrangements were originally negotiated prior to the investment in their parent company by an affiliate of IQ Advisors). The Directors then considered the potential direct and indirect benefits to each Subadviser and its affiliates from their relationship with each of their respective Funds, including the reputational benefits from managing the Funds. The Directors concluded that the potential benefits to each Subadviser were consistent with those obtained by other subadvisers in similar types of arrangements.

(d) Extent to which Economies of Scale would be Realized as a Fund Grows and Whether Fee Levels would Reflect such Economies of Scale The Directors received and considered information about potential economies of scale at the November 11, 2008 and June 5, 2008 Board meetings and made the determinations discussed above under Extent to which Economies of Scale would be Realized as a Fund Grows and Whether Fee Levels would Reflect such Economies of Scale.

Taking into account the totality of the information and materials provided to them at the November 11, 2008, June 5, 2008, and at other prior Board meetings, the Directors determined that no changes were currently necessary to each Fund s fee structure.

(e) Comparison of services rendered and fees paid to those under other subadvisory contracts, such as contracts of the same and other investment advisers or other clients The Directors considered representations by IQ Advisors that there would be no change in the allocation of the fees between IQ Advisors and Subadvisers in relation to the services provided by a Subadviser, as a result of the Transaction. In considering the compensation to be paid to the Subadvisers, noting that no changes to such compensation from that payable under the Current Subadvisory Agreements were proposed, the Directors referred to the materials presented and discussions held in connection with their consideration of the continuation of the Current Subadvisory Agreement for the respective Fund (other than for MLP Fund), and additional materials presented at the November 11, 2008 Board meeting in connection with the New Advisory Agreements. The Directors noted that, in connection with such considerations, the Directors had received and reviewed fee comparison data from Lipper (which included information regarding the fees paid by certain investment advisers to subadvisers of peer funds), and concluded that such information continued to be relevant to their current deliberations. The Directors received and reviewed fee comparison data from Lipper for MLP Fund at the November 11, 2008 Board meeting. In reviewing that data, the Directors noted that the subadvisory fee with respect to each Fund was at a level that continued to be reasonable and similar to that of comparable funds.

The Directors discussed the services rendered by each Subadviser and determined that such services were consistent with those provided by subadvisers generally and sufficient for the management of the Funds. Taking into account the totality of the information and materials provided to them at the Board meetings held on November 11, 2008 and June 5, 2008 and at other prior Board meetings, among other things, the fact that the subadvisory fees were negotiated by IQ Advisors on an arm s length basis, the Directors concluded that the subadvisory fees proposed under each New Subadvisory Agreement continued to be reasonable for the services being rendered.

(f) Conclusion The Directors examined the totality of the information they were provided at the November 11, 2008 and June 5, 2008 Board meetings and did not identify any single factor discussed previously as controlling. The Directors concluded that the terms of each New Subadvisory Agreement were fair and reasonable, that the Subadvisers fees are reasonable for the services provided to each Fund, and that each New Subadvisory Agreement should be approved and recommended to stockholders.

Automatic Dividend Reinvestment Plan

How the Plan Works The Fund offers a Dividend Reinvestment Plan (the Plan) under which distributions paid by the Fund are automatically reinvested in additional shares of Common Stock of the Fund. The Plan is administered on behalf of the shareholders by BNY Mellon Shareowner Services (the Plan Agent). Under the Plan, whenever the Fund declares a distribution, participants in the Plan will receive the equivalent in shares of Common Stock of the Fund. The Plan Agent will acquire the shares for the participant s account either (i) through receipt of additional unissued but authorized shares of the Fund (newly issued shares) or (ii) by purchase of outstanding shares of Common Stock on the open market on the New York Stock Exchange or elsewhere. If, on the distribution payment date, the Fund s net asset value per share is equal to or less than the market price per share plus estimated brokerage commissions (a condition often referred to as a market premium), the Plan Agent will invest the distribution amount in newly issued shares. If the Fund s net asset value per share is greater than the market price per share (a condition often referred to as a market discount), the Plan Agent will invest the distribution amount by purchasing on the open market additional shares. If the Plan Agent is unable to invest the full distribution amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any uninvested portion in newly issued shares. The shares acquired are credited to each shareholder s account. The amount credited is determined by dividing the dollar amount of the distribution by either (i) when the shares are newly issued, the net asset value per share on the date the shares are issued or (ii) when shares are purchased in the open market, the average purchase price per share.

Participation in the Plan Participation in the Plan is automatic, that is, a shareholder is automatically enrolled in the Plan when he or she purchases shares of Common Stock of the Fund unless the shareholder specifically elects not to participate in the Plan. Shareholders who elect not to participate will receive all distributions in cash. Shareholders who do not wish to participate in the Plan, must advise the Plan Agent in writing (at the address set forth below) that they elect not to participate in the Plan. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by writing to the Plan Agent.

Benefits of the Plan The Plan provides an easy, convenient way for shareholders to make additional, regular investments in the Fund. The Plan promotes a long-term strategy of investing at a lower cost. All shares acquired pursuant to the Plan receive voting rights. In addition, if the market price plus commissions of the Fund s shares is above the net asset value, participants in the Plan will receive shares of the Fund for less than they could otherwise purchase them and with a cash value greater than the value of any cash distribution they would have received. However, there may not be enough shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

Plan Fees There are no enrollment fees or brokerage fees for participating in the Plan. The Plan Agent s service fees for handling the reinvestment of distributions are paid for by the Fund. However, brokerage commissions may be incurred when the Fund purchases shares on the open market and shareholders will pay a pro rata share of any such commissions.

Tax Implications The automatic reinvestment of distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such distributions. Therefore, income and capital gains may still be realized even though shareholders do not receive cash. If, when the Fund s shares are trading at a market premium, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of the discount from the market value (which may not exceed 5% of the fair market value of the Fund s shares) could be viewed as a taxable distribution. If the discount is viewed as a taxable distribution, it is also possible that the taxable character of this discount would be allocable to all the shareholders, including shareholders who do not participate in the Plan. Thus, shareholders who do not participate in the Plan might be required to report as ordinary income a portion of their distributions equal to their allocable share of the discount.

Contact Information All correspondence concerning the Plan, including any questions about the Plan, should be directed to the Plan Agent at BNY Mellon Shareowner Services, P.O. Box 358035, Pittsburgh, PA 15252-8035, Telephone: 877-296-3711.

Proxy Results

During the six-month period ended December 31, 2008, the shareholders of Small Cap Premium & Dividend Income Fund Inc. voted on the following proposals. On December 19, 2008, a special meeting of shareholders was adjourned with respect to the proposals until January 23, 2009, at which time they were approved. A description of the proposals and number of shares voted are as follows:

	Shares Voted For	Shares Voted Against	Shares Voted Abstain
To approve a new investment advisory and management agreement for the Fund.	6,602,180	166,950	174,030
To approve a new investment subadvisory agreement for the Fund.	6,590,426	168,049	184,685

Directors and Officers

Name	Address & Year of Birth	Position(s) Held With Fund***	Length of Time Served**	Principal Occupation(s) During Past 5 Years	Number of IQ Advisors-Affiliate Advised Funds and Portfolios Overseen by Director	Other Public Directorships Held by Director
Non-Interested Directors*						
Paul Glasserman	P.O. Box 9095 Princeton, NJ 08543-9095 1962	Director & Chairperson of the Board	2005 to present	Professor, Columbia University Business School since 1991; Senior Vice Dean since July 2004.	10	None
Steven W. Kohlhagen	P.O. Box 9095 Princeton, NJ 08543-9095 1947	Director & Chairperson of the Audit Committee	2005 to present	Retired financial industry executive since August 2002.	10	Ametek, Inc.
William J. Rainer	P.O. Box 9095 Princeton, NJ 08543-9095 1946	Director	2005 to present	Retired securities and futures industry executive; Chairman and Chief Executive Officer, OneChicago, LLC, a designated contract market (2001 November 2004); Former Chairman, Commodity Futures Trading Commission.	10	None
Laura S. Unger	P.O. Box 9095 Princeton, NJ 08543-9095 1961	Director & Chairperson of the Nominating & Corporate Governance Committee	2007 to present	Independent Consultant since 2002; Commentator, Nightly Business Report since 2005; Senior Advisor, Marwood Group (2005 2007); Regulatory Expert for CNBC (2002 2003).	10	CA, Inc. (software) and Ambac Financial Group, Inc.