

Edgar Filing: Small Cap Premium & Dividend Income Fund, Inc. - Form N-CSRS

Small Cap Premium & Dividend Income Fund, Inc.
Form N-CSRS
September 02, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSRS

**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: 01/01/2008 06/30/2008

Item 1 Report to Stockholders

**Small Cap Premium &
Dividend Income Fund Inc.**

Semi-Annual Report

(Unaudited)

June 30, 2008

Small Cap Premium & Dividend Income Fund Inc.

Directors and Officers

William J. Rainer, Director and Chairman of the Board
Paul Glasserman, Director and Chairman of the Audit Committee
Steven W. Kohlhagen, Director and Chairman of the Nominating and Corporate Governance Committee
Laura S. Unger, Director
Mitchell M. Cox, President
James E. Hillman, Vice President and Treasurer
Colleen R. Rusch, Vice President and Secretary
Donald C. Burke, Vice President and Assistant Treasurer
Martin G. Byrne, Chief Legal Officer
Michael J. Fuccile, Chief Compliance Officer
Justin C. Ferri, Vice President
Michael M. Higuchi, Vice President

Custodian

State Street Bank and Trust Company
P.O. Box 351
Boston, MA 02101

Transfer Agent

BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310

Fund Summary as of June 30, 2008 (Unaudited)

Fund Information

Symbol on New York Stock Exchange	RCC
Initial Offering Date	July 29, 2005
Yield on Closing Market Price as of June 30, 2008 (\$14.70)*	13.61%
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 six-month period:

	6/30/08 (a)	12/31/07	Change	High	Low
Market Price	\$ 14.70	\$ 15.74	(6.61%)	\$ 17.07	\$ 12.81
Net Asset Value	\$ 15.02	\$ 17.19	(12.62%)	\$ 17.20	\$ 14.99

(a) For the six-month period, the Common Stock of the Fund had a total investment return of (6.55%) based on net asset value per share and (.11%) 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 (9.37%). The reference index has no expenses associated with performance.

Does not include reinvestment of dividends.

Portfolio Information as of June 30, 2008

Ten Largest Equity Holdings	Percent of Net Assets
Comstock Resources, Inc.	0.3%
Penn Virginia Corp.	0.3
Energy Conversion Devices, Inc.	0.2
W-H Energy Services, Inc.	0.2
Alexion Pharmaceuticals, Inc.	0.2
GrafTech International Ltd.	0.2
EXCO Resources, Inc.	0.2
Compass Minerals International, Inc.	0.2
ITC Holdings Corp.	0.2

Five Largest Industries	Percent of Net Assets
Computer Services Software & Systems	5.0%
Real Estate Investment Trusts (REITs)	5.0
Banks: Outside New York City	4.3
Oil: Crude Producers	4.0
Services: Commercial	3.0

Sector Representation	Percent of Long-Term Investments
Financial Services	19.4%
Consumer Discretionary	15.5
Technology	13.8
Health Care	13.0
Materials & Processing	9.7
Other Energy	8.4
Producer Durables	8.1
Utilities	4.7
Auto & Transportation	4.1
Consumer Staples	2.6
Other	0.4
Integrated Oils	0.3

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.

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

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Summary Schedule of Investments as of June 30, 2008 (Unaudited)

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 each 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		\$ 842,974	0.4%
Aerospace	Curtiss-Wright Corp.	7,500	335,550	0.2
	Other Securities		1,331,569	0.6
			1,667,119	0.8
Agriculture, Fishing & Ranching	Other Securities		277,026	0.1
Air Transport	Other Securities		1,130,282	0.6
Aluminum	Other Securities		144,531	0.1
Auto Parts: After Market	Other Securities		188,509	0.1
Auto Parts: Original Equipment	Other Securities		922,922	0.5
Auto, Trucks & Parts	Other Securities		207,848	0.1
Banks: New York City	Other Securities		133,952	0.1
Banks: Outside New York City	Other Securities		8,817,690	4.3
Beverage: Brewers (Wineries)	Other Securities		65,088	0.0
Beverage: Soft Drinks	Other Securities		209,426	0.1
Biotechnology Research & Production	Alexion Pharmaceuticals, Inc. (a)	6,500	471,250	0.2
	Myriad Genetics, Inc. (a)	7,600	345,952	0.2
	OSI Pharmaceuticals, Inc. (a)	9,800	404,936	0.2
	Other Securities		4,822,552	2.3
			6,044,690	2.9
Building Materials	Other Securities		1,123,622	0.5
Building: Cement	Other Securities		26,180	0.0
Building: Heating & Plumbing	Other Securities		127,395	0.1

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Building: Miscellaneous	Other Securities		259,051	0.1
Building: Roofing & Wallboard	Other Securities		113,770	0.1
Cable Television Services	Other Securities		197,477	0.1
Casinos & Gambling	Other Securities		858,105	0.4
Chemicals	Energy Conversion Devices, Inc. (a)	6,800	500,752	0.2
	Hercules, Inc.	19,000	321,670	0.2
	Other Securities		2,794,698	1.4
			<u>3,617,120</u>	<u>1.8</u>
Coal	Other Securities		615,239	0.3
Commercial Information Services	Other Securities		349,999	0.2
Communications & Media	Other Securities		91,558	0.0
Communications Technology	Other Securities		5,008,403	2.4
Computer Services Software & Systems	Micros Systems, Inc. (a)	13,800	420,762	0.2
	Parametric Technology Corp. (a)	19,320	322,064	0.1
	Sybase, Inc. (a)	13,400	394,228	0.2
	Other Securities		9,173,548	4.5
			<u>10,310,602</u>	<u>5.0</u>
Computer Technology	Other Securities		2,011,104	1.0
Construction	EMCOR Group, Inc. (a)	11,400	325,242	0.2
	Other Securities		438,047	0.2
			<u>763,289</u>	<u>0.4</u>

Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Consumer Electronics	Take-Two Interactive Software, Inc. (a)	12,900	\$ 329,853	0.2%
	Other Securities		1,026,168	0.5
			1,356,021	0.7
Consumer Products	Tupperware Corp.	10,400	355,888	0.2
	Other Securities		660,673	0.3
			1,016,561	0.5
Containers & Packaging: Metals & Glass	Other Securities		343,718	0.2
Containers & Packaging: Paper & Plastic	Other Securities		102,223	0.0
Copper	Other Securities		202,860	0.1
Cosmetics	Other Securities		338,006	0.2
Diversified Financial Services	Other Securities		1,054,466	0.5
Diversified Materials & Processing	Acuity Brands, Inc.	6,800	326,944	0.2
	Olin Corp.	12,800	335,104	0.2
	Other Securities		1,294,854	0.6
			1,956,902	1.0
Drug & Grocery Store Chains	Other Securities		1,258,864	0.6
Drugs & Pharmaceuticals	Onyx Pharmaceuticals, Inc. (a)	9,420	335,352	0.1
	United Therapeutics Corp. (a)	3,900	381,225	0.2
	Other Securities		3,865,551	1.9
			4,582,128	2.2
Education Services	Other Securities		567,102	0.3
Electrical & Electronics	Other Securities		763,577	0.4
Electrical Equipment & Components	Other Securities		1,767,798	0.9
Electrical: Household Appliance	Other Securities		72,134	0.0
Electronics	Other Securities		940,547	0.5
Electronics: Instruments, Gauges & Meters	Other Securities		174,474	0.1

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Electronics: Medical Systems	Other Securities		1,899,483	0.9
Electronics: Other	Other Securities		14,600	0.0
Electronics: Semi-Conductors/ Components	Microsemi Corp. (a)	13,200	332,376	0.1
	Other Securities		3,413,408	1.7
			<u>3,745,784</u>	1.8
Electronics: Technology	Other Securities		1,175,358	0.6
Energy Equipment	Other Securities		165,164	0.1
Energy Miscellaneous	Penn Virginia Corp.	7,000	527,940	0.3
	Other Securities		1,696,854	0.8
			<u>2,224,794</u>	1.1
Engineering & Contracting Services	Other Securities		723,604	0.3
Entertainment	Other Securities		419,770	0.2
Finance Companies	Other Securities		253,318	0.1
Finance: Small Loan	Other Securities		181,593	0.1
Financial Data Processing Services & Systems	Other Securities		1,473,402	0.7
Financial Information Services	Other Securities		377,679	0.2
Financial Miscellaneous	Other Securities		1,366,394	0.7
Foods	Flowers Foods, Inc.	13,000	368,420	0.2
	Other Securities		2,247,681	1.1
			<u>2,616,101</u>	1.3
Forest Products	Other Securities		326,234	0.2

SMALL CAP PREMIUM & DIVIDEND INCOME FUND INC.

JUNE 30, 2008

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Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Forms & Bulk Printing Services	Other Securities		\$ 160,053	0.1%
Funeral Parlors & Cemeteries	Other Securities		104,400	0.0
Glass	Other Securities		79,184	0.0
Gold	Other Securities		475,823	0.2
Health Care Facilities	Psychiatric Solutions, Inc. (a)	9,400	355,696	0.2
	Other Securities		810,638	0.4
			1,166,334	0.6
Health Care Management Services	Other Securities		1,639,311	0.8
Health Care Services	Other Securities		1,359,255	0.6
Homebuilding	Other Securities		385,713	0.2
Hotel/Motel	Other Securities		122,441	0.1
Household Furnishings	Other Securities		520,534	0.2
Identification Control & Filter Devices	Other Securities		1,516,351	0.7
Industrial Products	Other Securities		56,850	0.0
Insurance: Life	Other Securities		674,410	0.3
Insurance: Multi-Line	Other Securities		1,979,305	1.0
Insurance: Property-Casualty	Aspen Insurance Holdings Ltd.	14,600	345,582	0.2
	Other Securities		3,148,310	1.5
			3,493,892	1.7
Investment Management Companies	Apollo Investment Corp.	23,876	342,143	0.2
	Other Securities		814,362	0.4
			1,156,505	0.6
Jewelry, Watches & Gemstones	Other Securities		303,170	0.1
Leisure Time	Other Securities		782,587	0.4

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Machine Tools	Other Securities		61,928	0.0
Machinery & Engineering	Other Securities		175,233	0.1
Machinery: Agricultural	Other Securities		250,372	0.1
Machinery: Construction & Handling	Other Securities		163,335	0.1
Machinery: Engines	Other Securities		186,305	0.1
Machinery: Industrial/Specialty	Nordson Corp.	5,700	415,473	0.2
	Woodward Governor Co.	9,900	353,034	0.2
	Other Securities		1,386,673	0.7
			<u>2,155,180</u>	<u>1.1</u>
Machinery: Oil Well Equipment & Services	Dril-Quip, Inc. (a)	5,200	327,600	0.2
	W-H Energy Services, Inc. (a)	5,200	497,848	0.2
	Other Securities		2,923,084	1.4
			<u>3,748,532</u>	<u>1.8</u>
Machinery: Specialty	Other Securities		190,627	0.1
Manufactured Housing	Other Securities		152,959	0.1
Manufacturing	Other Securities		204,526	0.1
Medical & Dental Instruments & Supplies	Owens & Minor, Inc.	6,900	315,261	0.1
	Other Securities		5,093,384	2.5
			<u>5,408,645</u>	<u>2.6</u>
Medical Services	Other Securities		814,893	0.4
Metal Fabricating	Other Securities		1,530,668	0.7

Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Metals & Minerals Miscellaneous	Compass Minerals International, Inc.	5,400	\$ 435,024	0.2%
	GrafTech International Ltd. (a)	17,400	466,842	0.2
	Other Securities		1,008,094	0.5
			1,909,960	0.9
Miscellaneous Business & Consumer Discretionary	Other Securities		41,920	0.0
Miscellaneous Consumer Staples	Other Securities		41,040	0.0
Miscellaneous Health Care	Other Securities		35,805	0.0
Miscellaneous Materials & Commodities	Other Securities		315,832	0.2
Miscellaneous Materials & Processing	Other Securities		198,741	0.1
Miscellaneous Producer Durables	Other Securities		96,975	0.0
Miscellaneous Technology	Other Securities		201,582	0.1
Multi-Sector Companies	Other Securities		615,956	0.3
Office Furniture & Business Equipment	Other Securities		635,918	0.3
Offshore Drilling	Other Securities		77,792	0.0
Oil: Crude Producers	Berry Petroleum Co. Class A	7,200	423,936	0.2
	Bill Barrett Corp. (a)	6,100	362,401	0.2
	Carrizo Oil & Gas, Inc. (a)	4,600	313,214	0.2
	Comstock Resources, Inc. (a)	7,700	650,111	0.3
	EXCO Resources, Inc. (a)	12,500	461,375	0.2
	Stone Energy Corp. (a)	4,800	316,368	0.2
	Swift Energy Co. (a)	5,200	343,512	0.2
	Other Securities		5,204,126	2.5
			8,075,043	4.0
Oil: Integrated Domestic	Other Securities		503,530	0.2
Oil: Integrated International	Other Securities		85,547	0.0
Paints & Coatings	Other Securities		338,540	0.2
Paper	Other Securities		799,337	0.4

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Plastics	Other Securities		49,036	0.0
Pollution Control & Environmental Services	Other Securities		791,512	0.4
Power Transmission Equipment	Other Securities		260,586	0.1
Printing & Copying Services	Other Securities		379,626	0.2
Production Technology Equipment	Other Securities		2,202,116	1.1
Publishing: Miscellaneous	Other Securities		380,006	0.2
Publishing: Newspapers	Other Securities		363,899	0.2
Radio & TV Broadcasters	Other Securities		462,240	0.2
Railroad Equipment	Westinghouse Air Brake Technologies Corp.	8,100	393,822	0.2
	Other Securities		149,654	0.1
			543,476	0.3
Railroads	Other Securities		168,399	0.1
Real Estate	Other Securities		518,089	0.2
Real Estate Investment Trusts (REITs)	Anthracite Capital, Inc. (b)	9,600	67,584	0.0
	Realty Income Corp.	17,100	389,196	0.2
	Senior Housing Properties Trust	16,300	318,339	0.2
	Other Securities		9,380,658	4.6
			10,155,777	5.0
Recreational Vehicles & Boats	Other Securities		318,196	0.2
Rental & Leasing Services: Commercial	Other Securities		240,846	0.1
Rental & Leasing Services: Consumer	Other Securities		586,566	0.3

SMALL CAP PREMIUM & DIVIDEND INCOME FUND INC.

JUNE 30, 2008

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Summary Schedule of Investments (continued)

Industry	Common Stocks	Shares	Value	Percent of Net Assets
Restaurants	Other Securities		\$ 2,091,853	1.0%
Retail	Aéropostale, Inc. (a)	11,400	357,162	0.2
	Other Securities		5,056,825	2.4
			5,413,987	2.6
Savings & Loan	Other Securities		1,819,796	0.9
Scientific Equipment & Suppliers	Other Securities		328,196	0.2
Securities Brokerage & Services	Other Securities		962,835	0.5
Services: Commercial	Waste Connections, Inc. (a)	11,200	357,616	0.2
	Watson Wyatt Worldwide, Inc.	7,200	380,808	0.2
	Other Securities		5,314,921	2.6
			6,053,345	3.0
Shipping	Other Securities		1,752,843	0.9
Shoes	Other Securities		1,283,951	0.6
Steel	Other Securities		558,152	0.3
Sugar	Other Securities		29,507	0.0
Telecommunications Equipment	Polycom, Inc. (a)	14,800	360,528	0.2
	Other Securities		914,240	0.4
			1,274,768	0.6
Textile Products	Other Securities		135,198	0.1
Textiles Apparel Manufacturers	The Warnaco Group, Inc. (a)	7,600	334,932	0.2
	Other Securities		1,195,322	0.6
			1,530,254	0.8
Tires & Rubber	Other Securities		241,468	0.1
Tobacco	Other Securities		445,249	0.2
Toys	Other Securities		410,650	0.2

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Transportation Miscellaneous	Other Securities		547,508	0.3
Truckers	Other Securities		1,164,481	0.6
Utilities: Cable TV & Radio	Other Securities		42,720	0.0
Utilities: Electrical	ITC Holdings Corp.	8,300	424,213	0.2
	Westar Energy, Inc.	17,900	385,029	0.2
	Other Securities		2,660,462	1.3
			<u>3,469,704</u>	<u>1.7</u>
Utilities: Gas Distributors	Nicor, Inc.	7,700	327,943	0.2
	Piedmont Natural Gas Co.	12,300	321,768	0.1
	Other Securities		1,369,395	0.7
			<u>2,019,106</u>	<u>1.0</u>
Utilities: Miscellaneous	Other Securities		237,510	0.1
Utilities: Telecommunications	TW Telecom, Inc. (a)	24,830	398,025	0.2
	Other Securities		1,726,477	0.8
			<u>2,124,502</u>	<u>1.0</u>
Utilities: Water	Other Securities		432,565	0.2
Wholesalers	Other Securities		425,365	0.2
	Total Common Stocks			
	(Cost \$200,131,506)		176,794,352	86.3

Summary Schedule of Investments (continued)

Industry	Investment Companies	Shares	Value	Percent of Net Assets
	BlackRock Kelso Capital Corp. (b)	1,400	\$ 13,244	0.0%
	Other Securities		225,567	0.1
	Total Investment Companies (Cost \$360,552)		238,811	0.1

	Short-Term Securities	Face Amount		
Time Deposits	State Street Bank & Trust Co., 1%, 7/01/08	\$ 27,559,147	27,559,147	13.5
	Total Short-Term Securities (Cost \$27,559,147)		27,559,147	13.5
	Total Investments Before Options Written (Cost \$228,051,205*)		204,592,310	99.9

	Options Written	Number of Contracts		
Call Options Written	Russell 2000 Index, expiring July 2008 at USD 750	1,000	(82,500)	(0.1)
	Russell 2000 Index, expiring July 2008 at USD 760	750	(33,750)	0.0
	Total Options Written (Premiums Received \$1,627,209)		(116,250)	(0.1)
Total Investments, Net of Options Written (Cost \$226,423,996)			204,476,060	99.8
Other Assets Less Liabilities			462,009	0.2
Net Assets			\$ 204,938,069	100.0%

* The cost and unrealized appreciation (depreciation) of investments, as of June 30, 2008, as computed for federal income tax purposes, were as follows:

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Aggregate cost	\$ 217,401,378
Gross unrealized appreciation	\$ 3,215,812
Gross unrealized depreciation	(16,024,880)
Net unrealized depreciation	\$ (12,809,068)

- (a) Non-income producing security.
- (b) 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.	\$ 7,219	\$ 18,035	\$ (6,680)	\$ 6,500
BlackRock Kelso Capital Corp.	\$ 3,714			\$ 860

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.

Financial futures contracts purchased as of June 30, 2008 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Appreciation (Depreciation)
400	Russell 2000 Index	September 2008	\$ 29,258,540	\$ (1,590,540)

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 June 30, 2008 in determining the fair valuation of the Fund's investments:

Valuation Inputs	Investments in Securities	Other Financial Instruments
Level 1	\$ 204,592,310	\$ (1,706,790)
Level 2		
Level 3		
Total	\$ 204,592,310	\$ (1,706,790)

Other financial instruments are futures and options.

See Notes to Financial Statements.

Statement of Assets, Liabilities and Capital

As of June 30, 2008 (Unaudited)

Assets

Investments in unaffiliated securities, at value (identified cost \$227,922,426)		\$	204,511,482
Investments in affiliated securities, at value (identified cost \$128,779)			80,828
Receivables:			
Securities sold	\$	30,160,488	
Dividends		191,054	
Interest		765	30,352,307
Total assets			234,944,617

Liabilities

Options written, at value (premiums received \$1,627,209)			116,250
Payables:			
Securities purchased		28,367,145	
Dividends and distributions to shareholders		972,327	
Investment advisory fees		170,146	
Variation margin		285,442	29,795,060
Accrued expenses			95,238
Total liabilities			30,006,548

Net Assets

Net assets		\$	204,938,069
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Capital

Common Stock, par value \$.001 per share, 100,000,000 shares authorized		\$	13,645
Paid-in capital in excess of par			245,512,932
Accumulated distributions in excess of investment income net	\$	(12,917,100)	
Undistributed realized capital losses net		(4,132,932)	
Unrealized appreciation net		(23,538,476)	
Total accumulated losses net			(40,588,508)
Total capital Equivalent to \$15.02 per share based on 13,644,510 shares of Common Stock outstanding (market price \$14.70)		\$	204,938,069

See Notes to Financial Statements.

Statement of Operations

For the Six Months Ended June 30, 2008 (Unaudited)

Investment Income

Dividends (including \$7,360 from affiliates and net of \$291 foreign withholding tax)	\$	912,834
Interest		294,380
Total income		<u>1,207,214</u>

Expenses

Investment advisory fees	\$	986,019
Accounting services		47,735
Professional fees		42,308
Directors' fees and expenses		32,012
Transfer agent fees		19,490
Repurchase offer		18,592
Printing and shareholder reports		16,321
Custodian fees		16,199
Listing fees		11,879
Licensing fees		5,420
Other		16,028
Total expenses		<u>1,212,003</u>
Investment income net		<u>(4,789)</u>

Realized & Unrealized Gain (Loss) Net

Realized gain (loss) on:		
Investments (including \$6,680 loss from affiliates) net	6,752,526	
Financial futures contracts net	(844,290)	
Options written net	6,205,865	12,114,101
Change in unrealized appreciation/depreciation on:		
Investments net	(26,704,661)	
Financial futures contracts net	(1,663,701)	
Options written net	289,209	(28,079,153)
Total realized and unrealized loss net		<u>(15,965,052)</u>
Net Increase in Net Assets Resulting from Operations	\$	<u>(15,969,841)</u>

See Notes to Financial Statements.

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets:	For the Six Months Ended June 30, 2008 (Unaudited)	For the Year Ended December 31, 2007
Operations		
Investment income (loss) net	\$ (4,789)	\$ 1,245,783
Realized gain net	12,114,101	20,192,200
Unrealized depreciation net	(28,079,153)	(16,220,844)
Net increase (decrease) in net assets resulting from operations	(15,969,841)	5,217,139
Dividends & Distributions to Shareholders		
Investment income net	(13,644,510)	(1,099,977)
Realized gain net		(21,655,076)
Tax return of capital		(4,501,255)
Net decrease in net assets resulting from dividends and distributions to shareholders	(13,644,510)	(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 \$3,451 of repurchase fees)		(924,375)
Value of shares issued to Common Stock shareholders in reinvestment of dividends and distributions		1,527,886
Net increase in net assets resulting from Common Stock transactions		738,559
Net Assets		
Total decrease in net assets	(29,614,351)	(21,300,610)
Beginning of period	234,552,420	255,853,030
End of period*	\$ 204,938,069	\$ 234,552,420
* Undistributed (accumulated distributions in excess of) investment income net	\$ (12,917,100)	\$ 732,199

A portion of the dividends from net investment income may be deemed a tax return of capital or net realized gain at fiscal year end.

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See Notes to Financial Statements.

SMALL CAP PREMIUM & DIVIDEND INCOME FUND INC.

JUNE 30, 2008

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Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements.	For the Six Months Ended June 30, 2008 (Unaudited)	For the Year Ended December 31,		For the Period July 29, 2005 to December 31, 2005
		2007	2006	
Per Share Operating Performance				
Net asset value, beginning of period	\$ 17.19	\$ 18.80	\$ 18.16	\$ 19.10
Investment income net***		.09	.08	.04
Realized and unrealized gain (loss) net	(1.17)	.29	2.56	(.12)
Total from investment operations	(1.17)	.38	2.64	(.08)
Less dividends and distributions:				
Investment income net	(1.00)	(.08)	(.23)	(.03)
Realized gain net		(1.59)	(1.67)	
Tax return of capital		(.33)	(.10)	(.80)
Total dividends and distributions	(1.00)	(2.00)	(2.00)	(.83)
Offering costs resulting from the issuance of Common Stock		.01		(.03)
Net asset value, end of period	\$ 15.02	\$ 17.19	\$ 18.80	\$ 18.16
Market price per share, end of period	\$ 14.70	\$ 15.74	\$ 19.49	\$ 16.09
Total Investment Return**				
Based on net asset value per share	(6.55%)	2.63%	15.40%	(.14%)
Based on market price per share	(.11%)	(9.36%)	35.03%	(15.51%)
Ratios to Average Net Assets				
Expenses	1.10%*	1.05%	1.09%	1.07%*
Expenses, net of reimbursement	1.10%*	1.03%	1.09%	1.07%*
Investment income (loss) net	.00%*	.49%	.41%	.56%*

Edgar Filing: Small Cap Premium & Dividend Income Fund, Inc. - Form N-CSRS

Supplemental Data

Net assets, end of period (in thousands)	\$	204,938	\$	234,552	\$	255,853	\$	327,008
Portfolio turnover		17%		15%		26%		3%

* Annualized.

** 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.

*** Based on average shares outstanding.

Commencement of operations.

Includes repurchase fees, which are less than \$.01 per share.

A portion of the dividends from net investment income may be deemed a tax return of capital or net realized gain at fiscal year end.

Aggregate total investment return.

Amount is less than (.01%).

Amount is less than \$(.01).

See Notes to Financial Statements.

Notes to Financial Statements (Unaudited)

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 Investment Company Act), as a diversified, closed-end management investment company with a fixed term of existence of approximately five years. 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. These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for the interim period. All such adjustments are of a normal, recurring nature. 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 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 a stock 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). Swap agreements are valued based upon quoted fair valuations received daily by the Fund from a pricing service or counterparty. 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 foreign securities, as well as 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. Foreign currency exchange rates generally will be determined as of the close of business on the NYSE. 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) Derivative financial instruments The Fund will 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 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

Notes to Financial Statements (continued)

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 option 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.

(c) 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.

(d) 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.

(e) Dividends and distributions Dividends and distributions paid by the Fund are recorded on the ex-dividend dates. For the current period ended, June 30, 2008, Fund management believes it is likely total dividends and distributions may exceed net investment income and accumulated realized capital gains, resulting in a portion of the total distribution treated as a return of capital. Portions of the distributions paid by the Fund during the year ended December 31, 2007 were characterized as a tax return of capital.

(f) 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.

(g) Recent accounting pronouncement Effective June 29, 2007, the Fund implemented Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, including investment companies, before being measured and recognized in the financial statements. Management has evaluated the application of FIN 48 to the Fund, and has determined that the adoption of 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 our knowledge, no income tax returns are currently under examination. All tax years of the Fund are open at this time.

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 which 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

Notes to Financial Statements (concluded)

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 principal owner of BlackRock.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, an affiliate of IQ Advisors, received \$4,791 in commissions on the execution of portfolio security transactions for the Fund for the six months ended June 30, 2008.

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

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended June 30, 2008 were \$31,114,314 and \$39,272,731, respectively.

Transactions in options written for the six months ended June 30, 2008 were as follows:

	Number of Contracts	Premiums Received
Outstanding call options written, at beginning of period	1,500	\$ 3,235,500
Options written	11,735	20,018,903
Options closed	(11,485)	(21,627,194)
Outstanding call options written, at end of period	1,750	\$ 1,627,209

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 six months ended June 30, 2008 remained constant. 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. Subsequent Event:

On July 18, 2008, 206,725 shares (1.52% of the shares outstanding) were repurchased by the Fund from its shareholders at \$15.08 per share, (subject to a repurchase fee of \$0.3016 per share) for \$3,055,064, pursuant to the Fund's repurchase offer.

Renewal of Current Investment Advisory and Management Agreement

The Board of Directors of each of S&P 500[®] GEAREDSM Fund Inc. (S&P GEARED), Defined Strategy Fund Inc. (Defined Strategy), S&P 500[®] Covered Call Fund Inc. (Covered Call), Dow 30SM Premium & Dividend Income Fund Inc. (Dow 30), Small Cap Premium & Dividend Income Fund Inc. (Small Cap), Enhanced S&P 500[®] Covered Call Fund Inc. (Enhanced Covered Call), Global Income & Currency Fund Inc. (Global Income), NASDAQ Premium Income & Growth Fund Inc. (NASDAQ Premium) and Dow 30SM Enhanced Premium & Income Fund Inc. (Dow 30 Enhanced) (each, a Fund and collectively, the Funds), currently consisting solely of Independent Directors, as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the Investment Company Act), has the responsibility under the Investment Company Act to consider annually the Investment Advisory and Management Agreement of each Fund (each, a Management Agreement and together, the Management Agreements) with IQ Investment Advisors LLC (IQ Advisors).

At a Board meeting held on June 5, 2008, all of the Directors present at the meeting renewed the Management Agreement for each Fund for an additional one-year term. Each Management Agreement was considered separately by the relevant Fund's Directors. In considering whether to approve the continuance of the Management Agreement, 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 Investment Company Act; and (iv) information from Lipper, Inc. (Lipper) comparing each Fund's fee rate for advisory and administrative services to those of other closed-end funds chosen by Lipper. Each Management Agreement was considered separately by the relevant Fund's Directors. The Directors were represented by independent legal counsel who assisted them in their deliberations. In voting to approve the continuation of each Fund's Management Agreement, the Directors considered in particular the following factors:

(a) The nature, extent and quality of services provided by IQ Advisors and its affiliates The Directors reviewed the services that IQ Advisors has provided to the Funds. They considered the size and experience of IQ Advisors' staff, its use of technology, and the degree to which IQ Advisors exercises supervision over the actions of the Fund's subadviser. In connection with the investment advisory services provided, the Directors took into account detailed discussions they had with officers of IQ Advisors 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. During these discussions, the Directors asked detailed questions of, and received answers from, the officers of IQ Advisors regarding the implementation of each Fund's investment strategy, its efficacy and risks.

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. Following their consideration of this information, and based on the presentations at the Meeting and the Directors' experience as Directors of other investment companies advised by IQ Advisors, the Directors concluded that the services provided to each Fund by IQ Advisors under the respective Management Agreement were of a high quality and benefited the Fund.

(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 each Fund's investment performance and, where applicable, compared such performance to the performance of a relevant reference index. The Directors discussed the degree to which each 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 each Fund's performance was satisfactory. Based on

Renewal of Current Investment Advisory and Management Agreement (continued)

these factors, the Directors determined that IQ Advisors continued to be an appropriate investment adviser for the Funds.

(c) Cost of services provided and profits realized by IQ Advisors and its affiliates from the relationship with each of the Funds 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 to IQ Advisors and its affiliates. The Directors also reviewed a report detailing IQ Advisors' profitability. After considering their discussion with IQ Advisors and reviewing its memorandum and report, the Directors concluded that there was 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 regarding its general level of profitability (if any), and the profits derived by its affiliate, BlackRock, Inc. (BlackRock) 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 and MLPF&S) are acceptable in relation to the nature, extent and quality of services provided. The Directors also concluded that each Fund benefited from such services provided by IQ Advisors' affiliates.

(d) The 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 considered 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 management fee rate or structure in order to enable a Fund to participate in these economies of scale. 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, NASDAQ Premium, Dow 30 Enhanced and 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. In consideration of these and other factors, the Directors determined that no changes were currently necessary to each Fund's fee structure. The Directors also discussed the renewal requirements for investment advisory agreements, and determined that they would revisit this issue no later than when they next review the investment advisory fees.

(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 compared both the services rendered and the fees paid under the Management Agreements to the contracts of other investment advisers with respect to other closed-end registered investment companies. In particular, the Directors 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 considering this information, the Directors took into account the nature of the investment strategies of the Funds and the fact that the relevant peer group of funds provided by Lipper for comparison have investment strategies and restrictions different from those of the Funds. The Directors did not consider compensation paid to IQ Advisors with respect to accounts other than registered investment companies because IQ Advisors utilizes each Fund's strategy in connection with only registered funds. In particular, 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. The Directors concluded that the advisory fee rates were reasonable in comparison to the data reflected in the Lipper materials.

(f) Conclusion No single factor was determinative to the decision of the Directors. Based on the foregoing and such other matters as were deemed relevant, all of the Directors concluded that the advisory fee rate of each Fund was reasonable in relation to the services provided by IQ Advisors to the Funds, as well as the costs incurred and benefits gained by IQ Advisors and its affiliates in providing such services, including the investment advisory and administrative components. The Directors also found the investment advisory fees to be reasonable in comparison to the fees charged by advisers to other funds in the Lipper comparison. As a result, the Board of Directors of each Fund approved the continuation of the Management Agreement for each Fund. The Directors were represented by independent legal counsel who assisted them in their deliberations.

Renewal of Current Investment Advisory and Management Agreement (continued)**Continuation of Current Investment Subadvisory Agreements**

In considering whether to approve the continuance of the current Investment Subadvisory Agreement of each Fund (each, a "Subadvisory Agreement" and, collectively, the "Subadvisory Agreements") for an additional annual period, the Directors received, reviewed and evaluated information concerning the services and personnel of: BlackRock Investment Management, LLC, as subadviser to each of S&P GEARED and Small Cap; Oppenheimer Capital LLC, as subadviser to each of Covered Call and Enhanced Covered Call; Nuveen HydePark Group, LLC ("Nuveen HydePark"), as subadviser to Dow 30, Dow 30 Enhanced, NASDAQ Premium and Defined Strategy, and Nuveen Asset Management ("NAM"), as subadviser to Global Income (each, a "Subadviser" and, collectively, the "Subadvisers"). Each Subadvisory Agreement was considered separately by the relevant Fund's Directors. In voting to approve the continuation of each Fund's Subadvisory Agreement, the Directors considered the following:

(a) The nature, extent and quality of services provided by each Subadviser The Directors reviewed the services that each Subadviser provides to each of their respective Funds. The Directors considered their detailed discussions with officers of IQ Advisors and members of each Subadviser's portfolio management team, the management of each Fund's investments in accordance with the Fund's stated investment objective and policies and the types of transactions that have been entered into on behalf of the Funds. The Directors took into account the annual due diligence investment review of each Subadviser and the report 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. Drawing on their collective industry experience, the Directors noted that they 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 discussed 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 Board meeting and their discussions in Executive Session, the Directors concluded that the nature, extent and quality of services provided to each Fund by the applicable Subadviser under its Subadvisory Agreement were of a high quality and would continue to benefit the respective Fund.

(b) Investment performance of each Fund and each Subadviser The Directors received and considered information about each Fund's investment performance in light of its stated investment objective and made the determinations discussed above under "Continuation of Current Investment Advisory and Management Agreements." Based on these factors, the Directors determined that each Subadviser continued to be appropriate for each of its respective Funds.

(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 of serving as investment subadviser to two Funds and from its relationship with IQ Advisors based on the information discussed above under "Continuation of Current Investment Advisory and Management Agreements." 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 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 of each Fund concluded that the potential benefits to each Subadviser were consistent with those obtained by other subadvisers in similar types of arrangements.

Renewal of Current Investment Advisory and Management Agreement (concluded)

(d) The 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 considered 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 subadvisory fee rate or structure in order to enable a Fund to participate in these economies of scale. The Directors noted that each Subadviser's fees are paid by IQ Advisors out of its fees and not directly by the Funds. The Directors noted that, because each Fund is a closed-end fund, any increase in asset levels would have to come from appreciation due to investment performance. The Directors also noted that each Fund, other than Dow 30, NASDAQ Premium, Dow 30 Enhanced and 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. The Directors also discussed the renewal requirements for subadvisory agreements, and determined that they would revisit this issue no later than when they next review the subadvisory fee.

(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 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 the Directors as noted above, including the fact that the subadvisory fee for each Fund was negotiated with IQ Advisors and not payable directly by the Fund, the Directors concluded that the subadvisory fee for each Fund was reasonable for the services being rendered.

Conclusion No single factor was determinative to the decision of the Directors. Based on the foregoing and such other matters as were deemed relevant, all of the Directors concluded that the subadvisory fee rate of each Fund was reasonable in relation to the services provided by the respective Subadviser. As a result, all of the Directors approved the continuation of the Subadvisory Agreement for each Fund. The Directors were represented by independent legal counsel who assisted them in their deliberations.

Fundamental Periodic Repurchase Policy

The Board of Directors approved a fundamental policy whereby the Fund would adopt an interval fund structure pursuant to Rule 23c-3 under the Investment Company Act of 1940, as amended (the Investment Company Act). As an interval fund, the Fund will make annual repurchase offers at net asset value (less repurchase fee not to exceed 2%) to all Fund shareholders. The percentage of outstanding shares that the Fund can repurchase in each offer will be established by the Fund's Board of Directors shortly before the commencement of each offer, and will be between 5% and 25% of the Fund's then outstanding shares.

The Fund has adopted the following fundamental policy regarding periodic repurchases:

- a) The Fund will make offers to repurchase its shares at annual (approximately 12-month) intervals pursuant to Rule 23c-3 under the Investment Company Act (Offers). The Board of Directors may place such conditions and limitations on an Offer, as may be permitted under Rule 23c-3.
- b) The repurchase request deadline for each Offer, by which the Fund must receive repurchase requests submitted by shareholders in response to the most recent Offer, will be on approximately the anniversary of the prior year's repurchase request deadline; and will be the fourteenth day prior to such exercise date; provided, that in the event that such day is not a business day, the repurchase request deadline will be the business day subsequent to the fourteenth day prior to the exercise date of the call spreads and written call options (the Repurchase Request Deadline).
- c) The maximum number of days between a Repurchase Request Deadline and the next repurchase pricing date will be fourteen days; provided that if the fourteenth day after a Repurchase Request Deadline is not a business day, the repurchase pricing date shall be the next business day (the Repurchase Pricing Date).
- d) Offers may be suspended or postponed under certain circumstances, as provided for in Rule 23c-3. (For further details, see Note 4 to the Financial Statements.)

Proxy Results

During the six-month period ended June 30, 2008, the shareholders of Small Cap Premium & Dividend Income Fund Inc. voted on the following proposal, which was approved at the annual meeting of shareholders held on April 25, 2008. A description of the proposal and number of shares voted are as follows:

		Shares Voted For	Shares Withheld From Voting
To elect the Fund's Board of Directors:	Paul Glasserman	9,348,420	172,082
	Steven W. Kohlhagen	9,348,049	172,453
	William J. Rainer	9,349,049	171,453
	Laura S. Unger	9,347,910	172,592

Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this website at <http://www.icsdelivery.com/live> and follow the instructions.

When you visit this site, you will obtain a personal identification number (PIN). You will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

Contact Information

For more information regarding the Fund, please visit www.IQIAFunds.com or contact us at 1-877-449-4742.

www.IQIAFunds.com

Small Cap Premium & Dividend Income Fund Inc. seeks to provide shareholders with a high level of income, with a secondary goal of capital appreciation.

This report, including the financial information herein, is transmitted to shareholders of Small Cap Premium & Dividend Income Fund Inc. for their information. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge at www.IQIAFunds.com/proxyvoting.asp; or upon request by calling toll-free 1-877-449-4742 or through the Securities and Exchange Commission's website at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) at www.IQIAFunds.com/proxyvoting.asp; and (2) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

Small Cap Premium & Dividend Income Fund Inc.
P.O. Box 9011
Princeton, NJ 08543-9011

#IQRCC 6/08

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- Item 2 Code of Ethics Not Applicable to this semi-annual report
 Item 3 Audit Committee Financial Expert Not Applicable to this semi-annual report
 Item 4 Principal Accountant Fees and Services Not Applicable to this semi-annual report
 Item 5 Audit Committee of Listed Registrants Not Applicable to this semi-annual report
 Item 6 Investments
 (a) Schedule of Investments Attached hereto

Small Cap Premium & Dividend Income Fund Inc.
Schedule of Investments June 30, 2008 (Unaudited)

Industry	Common Stocks	Shares Held	Value
Advertising Agencies - 0.4%	DG FastChannel, Inc. (a)	2,600	\$ 44,850
	Greenfield Online, Inc. (a)	4,300	64,156
	Harte-Hanks, Inc.	6,000	68,700
	inVentiv Health, Inc. (a)	5,700	158,403
	Marchex, Inc. Class B	4,000	49,280
	National CineMedia, Inc.	6,800	72,488
	R.H. Donnelley Corp. (a)	12,600	37,800
	Valassis Communications, Inc. (a)	8,100	101,412
	ValueClick, Inc. (a)	16,230	245,885
			842,974
Aerospace - 0.8%	AeroVironment, Inc. (a)	1,600	43,488
	Argon ST, Inc. (a)	2,100	52,080
	Ascent Solar Technologies, Inc. (a)	1,500	15,525
	Curtiss-Wright Corp.	7,500	335,550
	Ducommun, Inc. (a)	1,900	43,624
	Heico Corp.	3,800	123,652
	LMI Aerospace, Inc. (a)	1,600	28,112
	Ladish Co., Inc. (a)	2,500	51,475
	Moog, Inc. Class A (a)	7,100	264,404
	Orbital Sciences Corp. (a)	9,900	233,244
	Teledyne Technologies, Inc. (a)	5,900	287,861
	TransDigm Group, Inc. (a)	5,600	188,104
			1,667,119
Agriculture, Fishing & Ranching - 0.1%	AgFeed Industries, Inc. (a)	3,600	53,892
	Alico, Inc.	600	20,796
	The Andersons, Inc.	3,200	130,272
	Cadiz, Inc. (a)	1,800	29,016
	Calavo Growers, Inc.	2,000	24,500
	HQ Sustainable Maritime Industries, Inc. (a)	1,400	18,550
			277,026
Air Transport - 0.6%	AAR Corp. (a)(b)	6,800	92,004
	AirTran Holdings, Inc. (a)	16,900	34,476
	Alaska Air Group, Inc. (a)	6,200	95,108

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Allegiant Travel Co. (a)	2,500	46,475
Atlas Air Worldwide Holdings, Inc. (a)	2,200	108,812
Bristow Group, Inc. (a)	3,400	168,266
Hawaiian Holdings, Inc. (a)	7,200	50,040
JetBlue Airways Corp. (a)	29,200	108,916
PHI, Inc. (a)	2,400	96,408
Republic Airways Holdings, Inc. (a)	5,600	48,496
SkyWest, Inc.	9,900	125,235
UAL Corp.	21,800	113,796
US Airways Group, Inc. (a)	16,900	42,250
		<hr/>
		1,130,282

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Small Cap Premium & Dividend Income Fund Inc.
Schedule of Investments June 30, 2008 (Unaudited)

Industry	Common Stocks	Shares Held	Value
Aluminum - 0.1%	Kaiser Aluminum Corp.	2,700	\$ 144,531
Auto Parts: After Market - 0.1%	ATC Technology Corp. (a)	3,600	83,808
	Commercial Vehicle Group, Inc. (a)	3,500	32,725
	Dorman Products, Inc. (a)	1,600	12,896
	Superior Industries International, Inc.	3,500	59,080
			188,509
Auto Parts: Original Equipment - 0.5%	American Axle & Manufacturing Holdings, Inc.	7,300	58,327
	Amerigon Inc. (a)	3,100	21,979
	ArvinMeritor, Inc.	12,700	158,496
	Dana Holding Corp. (a)	16,400	87,740
	Fuel Systems Solutions, Inc. (a)	2,100	80,850
	Hayes Lemmerz International, Inc. (a)	17,100	48,564
	Lear Corp. (a)	10,970	155,555
	Quantum Fuel Systems Technologies Worldwide, Inc. (a)	13,100	40,348
	Sauer-Danfoss, Inc.	1,600	49,840
	Stoneridge, Inc. (a)	2,100	35,826
	Tenneco, Inc. (a)	7,900	106,887
	Visteon Corp. (a)	22,100	58,123
	Wonder Auto Technology, Inc. (a)	2,900	20,387
			922,922
Auto, Trucks & Parts - 0.1%	Accuride Corp. (a)	6,600	28,050
	Force Protection, Inc. (a)	11,500	38,065
	Modine Manufacturing Co.	5,200	64,324
	Spartan Motors, Inc.	5,100	38,097
	Wabash National Corp.	5,200	39,312
			207,848
Banks: New York City - 0.1%	Signature Bank (a)	5,200	133,952
Banks: Outside New York City - 4.3%	1st Source Corp.	2,100	33,810
	Abington Bancorp, Inc.	4,600	41,952
	Amcore Financial, Inc.	3,851	21,794
	Ameris Bancorp	2,200	19,140
	Ames National Corp.	1,000	16,580
	Arrow Financial Corp.	1,800	32,634
	Bancfirst Corp.	1,200	51,360
	Banco Latinoamericano de Exportaciones, SA (Class E)	4,300	69,617
	BancTrust Financial Group, Inc.	3,500	23,065
	BankFinancial Corp.	3,800	49,438

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Bank of the Ozarks, Inc.	2,000	29,720
Banner Corp.	2,400	21,264
Beneficial Mutual Bancorp, Inc. (a)	5,100	56,457
Boston Private Financial Holdings, Inc.	6,500	36,855
Bryn Mawr Bank Corp.	1,100	19,250
CVB Financial Corp.	10,842	102,348

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Small Cap Premium & Dividend Income Fund Inc.
Schedule of Investments June 30, 2008 (Unaudited)

Industry	Common Stocks	Shares Held	Value
	Camden National Corp.	1,200	\$ 27,936
	Capital City Bank Group, Inc.	2,000	43,520
	Capitol Bancorp Ltd.	2,300	20,631
	Cardinal Financial Corp.	4,700	29,422
	Cascade Bancorp	3,800	29,146
	Cathay General Bancorp	8,300	90,221
	Centerstate Banks of Florida, Inc.	1,400	15,442
	Central Pacific Financial Corp.	5,000	53,300
	Chemical Financial Corp.	4,000	81,600
	Citizens Banking Corp.	12,800	36,096
	Citizens & Northern Corp.	1,400	23,114
	CityBank	2,200	18,920
	City Holding Co.	2,800	114,156
	Clifton Savings Bancorp, Inc.	900	8,766
	CoBiz Financial, Inc.	2,600	17,108
	The Colonial BancGroup, Inc.	34,900	154,258
	Columbia Banking System, Inc.	3,100	59,923
	Community Bank System, Inc.	5,100	105,162
	Community Trust Bancorp, Inc.	2,500	65,650
	Corus Bankshares, Inc.	6,300	26,208
	East-West Bancorp, Inc.	11,300	79,778
	Encore Bancshares, Inc. (a)	1,000	15,650
	Enterprise Financial Services Corp.	1,700	32,045
	Farmers Capital Bank Corp.	1,300	22,906
	Financial Institutions, Inc.	2,200	35,332
	First BanCorp	12,400	78,616
	First Bancorp	1,800	22,752
	First Bancorp, Inc.	1,300	17,745
	First Busey Corp.	3,700	48,914
	First Commonwealth Financial Corp.	12,000	111,960
	First Community Bancshares, Inc.	1,500	42,300
	First Financial Bancorp	6,800	62,560
	First Financial Bankshares, Inc.	3,500	160,335
	First Financial Corp.	2,200	67,342
	First Merchants Corp.	3,000	54,450
	FirstMerit Corp.	13,900	226,709
	First Midwest Bancorp, Inc.	8,100	151,065
	First South Bancorp, Inc.	1,350	17,388
	Fox Chase Bancorp, Inc. (a)	900	9,234
	Frontier Financial Corp.	8,450	71,994
	Glacier Bancorp, Inc.	8,950	143,110
	Greene County Bancshares, Inc.	1,700	23,834
	Guaranty Bancorp (a)	8,900	32,040
	Hancock Holding Co.	4,300	168,947
	Hanmi Financial Corp.	6,700	34,907

Small Cap Premium & Dividend Income Fund Inc.
Schedule of Investments June 30, 2008 (Unaudited)

Industry	Common Stocks	Shares Held	Value
	Harleysville National Corp.	5,303	\$ 59,181
	Heartland Financial USA, Inc.	2,100	38,199
	Heritage Commerce Corp.	1,900	18,810
	Home Bancshares, Inc.	1,591	35,766
	Independent Bank Corp./MA	2,700	64,368
	Integra Bank Corp.	3,500	27,405
	International Bancshares Corp.	8,526	182,201
	Investors Bancorp, Inc. (a)	7,400	96,644
	Lakeland Bancorp, Inc.	2,866	34,908
	Lakeland Financial Corp.	2,000	38,160
	MASSBANK Corp.	800	31,664
	MB Financial, Inc.	5,777	129,809
	MainSource Financial Group, Inc.	3,080	47,740
	Midwest Banc Holdings, Inc.	3,000	14,610
	NBT Bancorp, Inc.	5,400	111,294
	Nara Bancorp, Inc.	3,800	40,774
	National Penn Bancshares, Inc.	13,786	183,078
	Northfield Bancorp, Inc. (a)	2,400	25,800
	Old National Bancorp	11,500	163,990
	Old Second Bancorp, Inc.	2,353	27,342
	Oriental Financial Group	4,300	61,318
	Pacific Capital Bancorp	7,800	107,484
	Pacific Continental Corp.	1,700	18,683
	PacWest Bancorp	4,129	61,439
	Park National Corp.	1,900	102,410
	Peapack-Gladstone Financial Corp.	1,300	28,561
	Pennsylvania Commerce Bancorp, Inc. (a)	1,100	26,455
	Peoples Bancorp, Inc.	1,700	32,266
	Pinnacle Financial Partners, Inc. (a)	3,800	