

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

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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.

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SMALL CAP PREMIUM & DIVIDEND INCOME FUND INC.

DECEMBER 31, 2008

3

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

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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
			<u>7,035,813</u>	<u>5.5</u>

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	&nbs		