

BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC  
Form N-CSRS  
September 04, 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 811-21506

Name of Fund: BlackRock Enhanced Capital and Income Fund, Inc. (CII)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: Donald C. Burke, Chief Executive Officer, BlackRock  
Enhanced Capital and Income Fund, Inc., 800 Scudders Mill Road, Plainsboro, NJ, 08536.  
Mailing address: P.O. Box 9011, Princeton, NJ, 08543-9011

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 12/31/2008

Date of reporting period: 01/01/2008 - 06/30/2008

Item 1 Report to Stockholders

---

EQUITIES FIXED INCOME REAL ESTATE LIQUIDITY ALTERNATIVES BLACKROCK SOLUTIONS

**BlackRock Enhanced Capital  
and Income Fund, Inc. (CII)**

SEMI-ANNUAL REPORT

JUNE 30, 2008 | (UNAUDITED)

NOT FDIC INSURED  
MAY LOSE VALUE  
NO BANK GUARANTEE

---

[Table of Contents](#)

---

	Page
A Letter to Shareholders	3
<b>Semi-Annual Report:</b>	
Fund Summary	4
Financial Statements:	
Schedule of Investments	5
Statement of Assets and Liabilities	7
Statement of Operations	8
Statements of Changes in Net Assets	9
Financial Highlights	10
Notes to Financial Statements	11
Disclosure of Investment Advisory Agreement and Subadvisory Agreement	14
Officers and Directors	17
Additional Information	18

2 BLACKROCK ENHANCED CAPITAL AND INCOME FUND, INC. JUNE 30, 2008

---

## A Letter to Shareholders

### Dear Shareholder

Throughout the past year, investors were overwhelmed by lingering credit and financial market troubles, surging oil prices and more recently, renewed inflation concerns. Healthy nonfinancial corporate profits and robust exporting activity remained among the few bright spots, helping the economy to grow at a modest, but still positive, pace.

The Federal Reserve Board (the Fed) has been aggressive in its attempts to stoke economic growth and ease financial market instability. In addition to slashing the target federal funds rate 325 basis points (3.25%) between September 2007 and April 2008, the central bank introduced the new Term Securities Lending Facility, granted broker dealers access to the discount window and used its own balance sheet to help negotiate the sale of Bear Stearns.

As widely anticipated, the end of the period saw a pause in Fed action, as the central bank held the target rate steady at 2.0% amid rising inflationary pressures.

As the Fed's bold response to the financial crisis helped ease credit turmoil and investor anxiety, U.S. equity markets sank sharply over the last six months, notwithstanding a brief rally in the spring. International markets were not immune to the tumult, with most regions also registering declines.

Edgar Filing: BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC - Form N-CSRS

Treasury securities also traded in a volatile fashion, but generally rallied (yields fell as prices correspondingly rose), investors continuing to seek safety as part of a broader flight to quality. The yield on 10-year Treasury issues, which fell to 3.34% in March 2008, climbed up to the 4.20% range in mid-June as investors temporarily shifted out of Treasury issues in favor of riskier assets (such as stocks and other high-quality fixed income sectors), then reversed course and declined to 3.99% by period-end when credit fears re-emerged.

Tax-exempt issues eked out gains for the reporting period, but underperformed their taxable counterparts, as the group continued to be pressured by problems among municipal bond insurers and the breakdown in the market for auction rate securities.

The major benchmark indexes generated results that largely reflected heightened investor risk aversion:

<b>Total Returns as of June 30, 2008</b>	<b>6-month</b>	<b>12-month</b>
U.S. equities (S&P 500 Index)	(11.91)%	(13.12)%
Small cap U.S. equities (Russell 2000 Index)	(9.37)%	(16.19)%
International equities (MSCI Europe, Australasia, Far East Index)	(10.96)%	(10.61)%
Fixed income (Lehman Brothers U.S. Aggregate Index)	1.13%	7.12%
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	0.02%	3.23%
High yield bonds (Lehman Brothers U.S. Corporate High Yield 2% Issuer Capped Index)	(1.08)%	(1.74)%

Past performance is no guarantee of future results. Index performance shown for illustrative purposes only. You cannot invest directly in an index.

As you navigate today's volatile markets, we encourage you to review your investment goals with your financial professional and to make portfolio changes, as needed. For more up-to-date commentary on the economy and financial markets, we invite you to visit [www.blackrock.com/funds](http://www.blackrock.com/funds). As always, we thank you for entrusting BlackRock with your investment assets, and we look forward to continuing to serve you in the months and years ahead.

THIS PAGE NOT PART OF YOUR FUND REPORT

**Fund Summary** as of June 30, 2008

**BlackRock Enhanced Capital and Income Fund, Inc.**  
Investment Objective

**BlackRock Enhanced Capital and Income Fund, Inc. (CII) (the Fund)** seeks to provide investors with a combination of current income and capital appreciation. The Fund seeks to achieve its investment objective by investing primarily in a diversified portfolio of common stocks in an attempt to generate current income and by employing a strategy of writing (selling) call options on equity indexes in an attempt to generate gains from option premiums primarily on the S&P 500 Index.

**Performance**

For the six months ended June 30, 2008, the Fund returned (8.56)% based on market price and (7.85)% based on net asset value (NAV). For the same period, the benchmark S&P 500 Citigroup Value Index returned (16.04)% . All returns reflect reinvestment of dividends. The Fund's options investments were the most significant contributor to performance over the period. Allocation and stock selection in information technology, along with stock selection in healthcare and materials, also proved advantageous. Additionally, an overweight in energy and underweight in financials aided returns. Conversely, stock selection in telecommunication services, financials, consumer staples and industrials hindered performance, as did an underweight in utilities.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on New York Stock Exchange	CII
Initial Offering Date	April 30, 2004
Yield on Closing Market Price as of June 30, 2008 (\$17.39) <sup>1</sup>	11.16%
Current Quarterly Distribution per share of Common Stock <sup>2</sup>	\$0.485
Current Annualized Distribution per share of Common Stock <sup>2</sup>	\$1.94

<sup>1</sup> 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.

<sup>2</sup> 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 per share:

	6/30/08	12/31/07	Change	High	Low
Market Price	\$17.39	\$20.06	(13.31)%	\$20.06	\$17.00
Net Asset Value	\$18.66	\$21.36	(12.64)%	\$21.36	\$18.64

The following chart shows the portfolio composition of the Fund's long-term investments:

**Portfolio Composition**

Asset Mix	6/30/08	12/31/07
Common Stocks	100%	100%

4 BLACKROCK ENHANCED CAPITAL AND INCOME FUND, INC. JUNE 30, 2008

**Schedule of Investments** June 30, 2008 (Unaudited)

Common Stocks	Shares	Value
<b>Aerospace &amp; Defense 4.8%</b>		
Honeywell International, Inc.	46,700	\$ 2,348,076
Northrop Grumman Corp.	54,400	3,639,360
Raytheon Co.	88,900	5,003,292
		10,990,728
<b>Capital Markets 4.7%</b>		
The Bank of New York Mellon Corp.	106,225	4,018,492
Lehman Brothers Holdings, Inc.	92,400	1,830,444
Morgan Stanley	133,200	4,804,524
		10,653,460
<b>Chemicals 2.8%</b>		
The Dow Chemical Co.	26,300	918,133
E.I. du Pont de Nemours & Co.	128,700	5,519,943
		6,438,076
<b>Commercial Banks 0.4%</b>		
Wells Fargo & Co.	37,500	890,625
<b>Computers &amp; Peripherals 5.8%</b>		
Hewlett-Packard Co.	125,100	5,530,671
International Business Machines Corp.	64,100	7,597,773
		13,128,444
<b>Consumer Finance 0.2%</b>		
SLM Corp. (a)	25,700	497,295
<b>Diversified Financial Services 5.2%</b>		
Bank of America Corp.	123,627	2,950,977
Citigroup, Inc.	126,300	2,116,788
JPMorgan Chase & Co.	200,972	6,895,349
		11,963,114

Edgar Filing: BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC - Form N-CSRS

**Diversified Telecommunication**

**Services 5.3%**

AT&T Inc.	139,570	4,702,113
Qwest Communications International Inc.	772,500	3,035,925
Verizon Communications, Inc.	122,000	4,318,800
		<hr/>
		12,056,838

**Electric Utilities 3.2%**

FPL Group, Inc.	68,000	4,459,440
The Southern Co.	82,400	2,877,408
		<hr/>
		7,336,848

**Energy Equipment & Services 5.9%**

BJ Services Co.	181,100	5,784,334
Halliburton Co.	143,800	7,631,466
		<hr/>
		13,415,800

**Food Products 6.9%**

General Mills, Inc.	83,300	5,062,141
Kraft Foods, Inc.	179,300	5,101,085
Unilever NV (b)	196,800	5,589,120
		<hr/>
		15,752,346

See Notes to Financial Statements.

(Percentages shown are based on Net Assets)

**Common Stocks**

	<b>Shares</b>	<b>Value</b>
<hr/>		
<b>Health Care Equipment &amp; Supplies 2.3%</b>		
Baxter International, Inc.	38,000	\$ 2,429,720
Covidien Ltd.	58,925	2,821,918
		<hr/>
		5,251,638
<hr/>		
<b>Health Care Providers &amp; Services 0.8%</b>		
Cardinal Health, Inc.	36,200	1,867,196
<hr/>		
<b>Household Products 2.5%</b>		
Clorox Co.	22,200	1,158,840
Kimberly-Clark Corp.	77,400	4,626,972
		<hr/>
		5,785,812
<hr/>		

Edgar Filing: BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC - Form N-CSRS

**IT Services 0.9%**

Unisys Corp. (a)	508,300	2,007,785
------------------	---------	-----------

**Industrial Conglomerates 2.9%**

General Electric Co.	153,900	4,107,591
Tyco International Ltd.	59,625	2,387,385

6,494,976

**Insurance 7.7%**

American International Group, Inc.	108,000	2,857,680
Hartford Financial Services Group, Inc.	68,700	4,435,959
MetLife, Inc.	42,700	2,253,279
Prudential Financial, Inc.	28,300	1,690,642
The Travelers Cos., Inc.	144,600	6,275,640

17,513,200

**Machinery 1.7%**

Deere & Co.	52,400	3,779,612
-------------	--------	-----------

**Media 5.4%**

Time Warner, Inc.	519,000	7,681,200
Viacom, Inc. Class B (a)	38,100	1,163,574
Walt Disney Co.	106,600	3,325,920

12,170,694

**Metals & Mining 1.8%**

Alcoa, Inc.	113,000	4,025,060
-------------	---------	-----------

**Multi-Utilities 1.2%**

Dominion Resources, Inc.	59,400	2,820,906
--------------------------	--------	-----------

**Multiline Retail 0.5%**

Nordstrom, Inc.	34,100	1,033,230
-----------------	--------	-----------

**Office Electronics 2.9%**

Xerox Corp.	481,400	6,527,784
-------------	---------	-----------

**Oil, Gas & Consumable**

**Fuels 8.0%**

Anadarko Petroleum Corp.	22,700	1,698,868
Chevron Corp.	39,400	3,905,722
Exxon Mobil Corp.	115,300	10,161,389
Peabody Energy Corp.	27,700	2,438,985

18,204,964

BLACKROCK ENHANCED CAPITAL AND INCOME FUND, INC.

JUNE 30, 2008

5

## Schedule of Investments (concluded)

(Percentages shown are based on Net Assets)

Common Stocks	Shares	Value
<b>Pharmaceuticals 8.9%</b>		
Bristol-Myers Squibb Co.	397,600	\$ 8,162,728
Johnson & Johnson	39,600	2,547,864
Pfizer, Inc.	132,900	2,321,763
Schering-Plough Corp.	202,800	3,993,132
Wyeth	66,000	3,165,360
		20,190,847
<b>Semiconductors &amp; Semiconductor Equipment 8.2%</b>		
Analog Devices, Inc.	79,500	2,525,715
Fairchild Semiconductor International, Inc. (a)	190,100	2,229,873
Intel Corp.	206,800	4,442,064
LSI Corp. (a)	854,100	5,244,174
Micron Technology, Inc. (a)	688,200	4,129,200
		18,571,026
<b>Total Common Stocks</b> (Cost \$242,734,766) 100.9%		229,368,304
	<b>Beneficial Interest (000)</b>	
<b>Short-Term Securities</b>		
BlackRock Liquidity Series, LLC Cash Sweep Series, 2.56% (c)(d)	\$1,432	1,431,609
<b>Total Short-Term Securities</b> (Cost \$1,431,609) 0.6%		1,431,609
<b>Total Investments Before Options Written</b> (Cost \$244,166,375*) 101.5%		230,799,913



Edgar Filing: BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC - Form N-CSRS

Options Written	Contracts	
<b>Call Options Written</b>		
Nordstrom, Inc., expiring January 2009 at \$40	341	(46,035)
Peabody Energy Corp., expiring December 2008 at \$90	140	(182,000)
S&P 500 Index, expiring August 2008 at \$1,370	575	(419,750)
S&P 500 Index, expiring August 2008 at \$1,380	325	(178,750)
<b>Total Options Written</b>		
<b>(Premiums Received \$2,215,110) (0.4%)</b>		(826,535)
<b>Total Investments, Net of Options Written 101.1%</b>		229,973,378
<b>Liabilities in Excess of Other Assets (1.1%)</b>		(2,519,896)
<b>Net Assets 100.0%</b>		\$227,453,482

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

Aggregate cost	\$ 245,027,921
Gross unrealized appreciation	\$ 22,085,328
Gross unrealized depreciation	(36,313,336)
Net unrealized depreciation	\$ (14,228,008)

(a) Non-income producing security.

(b) Depositary receipts.

(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	Net Activity (000)	Interest Income
BlackRock Liquidity Series, LLC Cash Sweep Series	(\$12,241)	\$197,648

(d) Represents the current yield as of report date.

For Fund 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.

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 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	\$229,368,304	\$ (826,535)
Level 2	1,431,609	
Level 3		
<b>Total</b>	<b>\$230,799,913</b>	<b>\$ (826,535)</b>

\* Other financial instruments are options.

See Notes to Financial Statements.

6 BLACKROCK ENHANCED CAPITAL AND INCOME FUND, INC. JUNE 30, 2008

## Statement of Assets and Liabilities

June 30, 2008 (Unaudited)

Edgar Filing: BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC - Form N-CSRS

**Assets**

Investments at value unaffiliated (cost \$242,734,766)	\$ 229,368,304
Investments at value affiliated (cost \$1,431,609)	1,431,609
Foreign currency at value (cost \$9,142)	9,358
Investments sold receivable	951,221
Dividends receivable	267,695
Prepaid expenses	521
Other assets	2,200
<b>Total assets</b>	<b>232,030,908</b>

**Liabilities**

Options written at value (premiums received \$2,215,110)	826,535
Investments purchased payable	2,400,418
Income dividends payable	1,082,866
Investment advisory fees payable	168,310
Other affiliates payable	1,987
Other accrued expenses payable	97,310
<b>Total liabilities</b>	<b>4,577,426</b>

**Net Assets**

<b>Net assets</b>	<b>\$ 227,453,482</b>
-------------------	-----------------------

**Net Assets Consist of**

Common Stock, par value, \$0.10 per share (200,000,000 shares authorized, 12,188,736 shares issued and outstanding)	\$ 1,218,874
Paid-in capital in excess of par	231,130,228