

BLACKROCK ENHANCED CAPITAL & INCOME FUND, INC.

Form N-Q

March 26, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

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: John M. Perlowski, Chief Executive Officer, BlackRock Enhanced

Capital and Income Fund, Inc., 55 East 52nd Street, New York, NY 10055

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

Date of fiscal year end: 10/31/2013

Date of reporting period: 01/31/2013

Item 1 Schedule of Investments

Schedule of Investments January 31, 2013

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

(Unaudited)

(Percentages shown are based on Net Assets)

Common Stocks	Shares	Value
Aerospace & Defense 2.6%		
Northrop Grumman Corp.	133,000	\$ 8,650,320
Raytheon Co. (a)	148,200	7,807,176
		16,457,496
Automobiles 0.7%		
Ford Motor Co. (a)	348,000	4,506,600
Beverages 1.2%		
PepsiCo, Inc. (a)	107,100	7,802,235
Capital Markets 1.9%		
Invesco Ltd.	437,000	11,908,250
Chemicals 4.3%		
CF Industries Holdings, Inc. (a)	117,500	26,927,475
Commercial Banks 4.0%		
U.S. Bancorp	190,700	6,312,170
Wells Fargo & Co. (a)	540,600	18,829,098
		25,141,268
Computers & Peripherals 2.8%		
Apple, Inc. (a)	39,600	18,030,276
Diversified Financial Services 4.3%		
Citigroup, Inc. (a)	186,330	7,855,673
JPMorgan Chase & Co. (a)	416,700	19,605,735
		27,461,408
Diversified Telecommunication Services 4.8%		
AT&T Inc.	365,100	12,701,829
CenturyLink, Inc. (a)	444,000	17,959,800
		30,661,629
Electric Utilities 2.9%		
NextEra Energy, Inc.	119,900	8,638,795
The Southern Co.	221,900	9,814,637
		18,453,432
Energy Equipment & Services 3.9%		
EnSCO Plc, Class A (a)	153,000	9,726,210
Halliburton Co.	132,600	5,394,168
Noble Corp. (a)	240,800	9,752,400

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

		24,872,778
Food Products 3.7%		
Archer-Daniels-Midland Co. (a)	223,000	6,362,190
Unilever NV	416,100	16,843,728
		23,205,918
Health Care Equipment & Supplies 1.9%		
Medtronic, Inc.	256,000	11,929,600
Health Care Providers & Services 0.7%		
Express Scripts Holding Co. (a)(b)	84,000	4,487,280
Household Products 3.6%		
Kimberly-Clark Corp.	174,900	15,655,299
The Procter & Gamble Co. (a)	92,200	6,929,752
		22,585,051
Common Stocks	Shares	Value
Industrial Conglomerates 3.0%		
General Electric Co. (a)	840,100	\$ 18,717,428
Insurance 4.7%		
Aflac, Inc.	32,200	1,708,532
American International Group, Inc. (a)(b)	88,700	3,355,521
Berkshire Hathaway, Inc., Class B (a)(b)	50,600	4,904,658
Hartford Financial Services Group, Inc. (a)	168,700	4,183,760
MetLife, Inc. (a)	214,300	8,001,962
Prudential Financial, Inc. (a)	49,000	2,836,120
The Travelers Cos., Inc.	62,500	4,903,750
		29,894,303
Internet Software & Services 7.3%		
Google, Inc., Class A (a)(b)	39,900	30,152,031
Yahoo!, Inc. (a)(b)	829,900	16,290,937
		46,442,968
IT Services 0.5%		
Saic, Inc. (a)	265,000	3,206,500
Media 4.8%		
Comcast Corp., Special Class A (a)	289,300	10,625,989
Time Warner, Inc. (a)	270,100	13,645,452
The Walt Disney Co.	113,600	6,120,768
		30,392,209
Metals & Mining 1.0%		
Freeport-McMoRan Copper & Gold, Inc. (a)	184,700	6,510,675
Multi-Utilities 2.0%		
Dominion Resources, Inc.	185,900	10,059,049
Public Service Enterprise Group, Inc.	88,000	2,743,840
		12,802,889
Oil, Gas & Consumable Fuels 13.0%		

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

Chevron Corp.	157,300	18,113,095
Exxon Mobil Corp. (a)	176,000	15,834,720
HollyFrontier Corp. (a)	175,700	9,175,054
Marathon Oil Corp. (a)	184,500	6,201,045
Marathon Petroleum Corp.	85,400	6,337,534
Suncor Energy, Inc.	788,800	26,834,976
		82,496,424
Pharmaceuticals 10.1%		
Eli Lilly & Co.	132,600	7,119,294
Johnson & Johnson (a)	182,600	13,497,792
Merck & Co., Inc.	468,800	20,275,600
Pfizer, Inc. (a)	855,100	23,327,128
		64,219,814
Real Estate Investment Trusts (REITs) 1.2%		
Annaly Capital Management, Inc. (a)	516,300	7,677,381
Semiconductors & Semiconductor Equipment 3.1%		
QUALCOMM, Inc.	293,900	19,406,217
Specialty Retail 1.0%		
Limited Brands, Inc.	134,600	6,463,492

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedule of Investments, the names and descriptions of many securities have been abbreviated according to the following list:

ADR American Depositary Receipt **USD** US Dollar

JANUARY 31, 2013

1

Schedule of Investments (continued)

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

Common Stocks	Shares	Value
Wireless Telecommunication Services 4.3%		
Vodafone Group Plc - ADR	1,004,000	\$ 27,429,280
Total Long-Term Investments		
(Cost \$582,404,988) 99.3%		630,090,276
<hr/>		
Short-Term Securities		
BlackRock Liquidity Funds, TempFund, Institutional Class, 0.10% (c)(d)	19,217,352	19,217,352
Total Short-Term Securities		
(Cost \$19,217,352) 3.0%		19,217,352
		Value
Total Investments Before Options Written		
(Cost \$601,622,340*) 102.3%		\$ 649,307,628
<hr/>		
Options Written		
(Premiums Received \$7,205,346) (1.8)%		(11,497,875)
Total Investments Net of Options		
Written 100.5%		637,809,753
Liabilities in Excess of Other Assets (0.5)%		(3,260,907)
Net Assets 100.0%		\$ 634,548,846

Notes to Schedule of Investments

* As of January 31, 2013, gross unrealized appreciation and gross unrealized depreciation based on cost for federal income tax purposes were as follows:

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

Tax cost	\$ 688,756,342
Gross unrealized appreciation	\$ 53,574,781
Gross unrealized depreciation	(93,023,495)
Net unrealized depreciation	\$ (39,448,714)

- (a) All or a portion of security has been pledged/segregated as collateral in connection with outstanding options written.
 (b) Non-income producing security.
 (c) Represents the current yield as of report date.
 (d) Investments in issuers considered to be an affiliate of the Trust during the period ended January 31, 2013, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, as amended, were as follows:

Affiliate	Shares Held at October 31, 2012		Shares Held at January 31, 2013		Realized
		Net Activity		Income	Gain
BlackRock Liquidity Funds, TempFund, Institutional Class	23,189,440	(3,972,088)	19,217,352	\$ 10,848	\$347

Exchange-Traded options written as of January 31, 2013 were as follows:

Description	Put/ Call	Strike Price	Expiration Date	Contracts	Market Value
	Comcast Corp., Special Class A	Call	USD 35.75	2/06/13	560
Ford Motor Co.	Call	USD 14.50	2/16/13	110	(37)
Marathon Oil Corp.	Call	USD 32.75	2/16/13	510	(61,836)
Annaly Capital Management, Inc.	Call	USD 15	2/18/13	1,800	(21,600)
Archer-Daniels-Midland Co.	Call	USD 29	2/18/13	1,225	(43,488)
Berkshire Hathaway, Inc., Class B	Call	USD 95	2/18/13	280	(64,540)
Express Scripts Holding Co.	Call	USD 57.50	2/18/13	460	(4,140)
Freeport-McMoRan Copper & Gold, Inc.	Call	USD 36	2/18/13	1,015	(37,048)
General Electric Co.	Call	USD 22	2/18/13	529	(24,070)
Google, Inc., Class A	Call	USD 730	2/18/13	135	(386,775)
Google, Inc., Class A	Call	USD 735	2/18/13	87	(210,540)
HollyFrontier Corp.	Call	USD 46	2/18/13	965	(607,950)
JPMorgan Chase & Co.	Call	USD 44	2/18/13	1,305	(411,075)
The Limited, Inc.	Call	USD 45	2/18/13	250	(80,000)
Noble Corp.	Call	USD 40	2/18/13	660	(83,820)
Noble Corp.	Call	USD 41	2/18/13	660	(53,460)
PepsiCo, Inc.	Call	USD 72.50	2/18/13	235	(24,322)
The Procter & Gamble Co.	Call	USD 70	2/18/13	507	(263,640)
Prudential Financial, Inc.	Call	USD 60	2/18/13	170	(9,350)

Schedule of Investments (continued)

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

Exchange-Traded options written as of January 31, 2013 were as follows: (concluded)

Description	Put/ Call	Strike		Expiration Date	Contracts	Market Value
		Price				
Raytheon Co.	Call	USD	57.50	2/18/13	815	\$ (2,445)
Yahoo!, Inc.	Call	USD	20	2/18/13	2,715	(57,015)
Citigroup, Inc.	Call	USD	43	2/22/13	200	(11,000)
Ford Motor Co.	Call	USD	14.50	2/22/13	1,915	(6,702)
Saic, Inc.	Call	USD	12.25	3/16/13	1,325	(26,719)
American International Group, Inc.	Call	USD	38	3/18/13	440	(53,460)
Annaly Capital Management, Inc.	Call	USD	15	3/18/13	500	(12,250)
Apple, Inc.	Call	USD	465	3/18/13	198	(210,375)
CenturyLink, Inc.	Call	USD	41	3/18/13	700	(26,250)
CF Industries Holdings, Inc.	Call	USD	225	3/18/13	705	(764,925)
Citigroup, Inc.	Call	USD	42	3/18/13	1,025	(158,875)
Comcast Corp., Special Class A	Call	USD	39	3/18/13	1,030	(23,175)
Enscor Plc, Class A	Call	USD	62.50	3/18/13	840	(222,600)
Hartford Financial Services Group, Inc.	Call	USD	26	3/18/13	500	(25,750)
JPMorgan Chase & Co.	Call	USD	47	3/18/13	470	(60,395)
The Limited, Inc.	Call	USD	49	3/18/13	490	(58,800)
Marathon Oil Corp.	Call	USD	34	3/18/13	505	(42,925)
MetLife, Inc.	Call	USD	36	3/18/13	222	(44,067)
MetLife, Inc.	Call	USD	38	3/18/13	955	(84,518)
Prudential Financial, Inc.	Call	USD	60	3/18/13	153	(14,152)
Wells Fargo & Co.	Call	USD	35	3/18/13	2,640	(182,160)
General Electric Co.	Call	USD	22.05	3/22/13	690	(37,778)
Johnson & Johnson	Call	USD	73	3/25/13	540	(80,472)
Exxon Mobil Corp.	Call	USD	90.90	3/26/13	650	(92,239)
Time Warner, Inc.	Call	USD	50.60	3/26/13	1,070	(152,595)
PepsiCo, Inc.	Call	USD	73.40	4/02/13	355	(32,239)
Pfizer, Inc.	Call	USD	27.85	4/04/13	955	(31,840)
MetLife, Inc.	Call	USD	38	4/22/13	237	(31,876)
Total						\$ (4,992,379)

Over-the-counter options written as of January 31, 2013 were as follows:

Description	Counterparty	Put/ Call	Strike		Expiration Date	Contracts	Market Value
			Price				
AT&T Inc.	Morgan Stanley & Co., Inc.	Call	USD	34.08	2/04/13	100,500	\$ (71,355)
JPMorgan Chase & Co.	Goldman Sachs & Co.	Call	USD	41.65	2/04/13	25,000	(135,000)
NextEra Energy, Inc.	Morgan Stanley & Co., Inc.	Call	USD	68.26	2/04/13	42,500	(161,075)
Pfizer, Inc.	Morgan Stanley & Co., Inc.	Call	USD	24.35	2/04/13	192,500	(564,025)
Unilever NV	Citigroup Global Markets, Inc.	Call	USD	36.79	2/04/13	64,000	(235,904)
Yahoo!, Inc.	Deutsche Bank Securities Corp.	Call	USD	19.17	2/05/13	185,000	(94,325)
U.S. Bancorp	Morgan Stanley & Co., Inc.	Call	USD	32.05	2/07/13	125,900	(133,456)
Exxon Mobil Corp.	Credit Suisse First Boston	Call	USD	89.95	2/08/13	32,000	(26,252)
Halliburton Co.	Banc of America Securities	Call	USD	34.73	2/08/13	72,900	(433,755)

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

Merck & Co., Inc.	Morgan Stanley & Co., Inc.	Call	USD	44.84	2/08/13	54,500	(1,566)
Public Service Enterprise Group, Inc.	Credit Suisse First Boston	Call	USD	30.61	2/08/13	48,000	(27,211)
AT&T Inc.	Morgan Stanley & Co., Inc.	Call	USD	34.08	2/11/13	100,500	(81,607)
CenturyLink, Inc.	UBS Securities LLC	Call	USD	38.66	2/11/13	106,700	(190,993)
Hartford Financial Services Group, Inc.	Citigroup Global Markets, Inc.	Call	USD	23.87	2/11/13	63,800	(73,452)
JPMorgan Chase & Co.	Goldman Sachs & Co.	Call	USD	41.65	2/11/13	25,000	(135,000)
JPMorgan Chase & Co.	Morgan Stanley & Co., Inc.	Call	USD	43.46	2/11/13	47,600	(170,884)
Vodafone Group Plc - ADR	Morgan Stanley & Co., Inc.	Call	USD	26.24	2/11/13	120,100	(129,708)

JANUARY 31, 2013

3

Schedule of Investments (continued)

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

Over-the-counter options written as of January 31, 2013 were as follows: (concluded)

Description	Counterparty	Put/ Call	Strike		Expiration Date	Contracts	Market Value
				Price			
Dominion Resources, Inc.	Credit Suisse First Boston	Call	USD	54.21	2/22/13	52,000	\$ (26,994)
Wells Fargo & Co.	Citigroup Global Markets, Inc.	Call	USD	34.90	2/22/13	93,000	(38,441)
CenturyLink, Inc.	Citigroup Global Markets, Inc.	Call	USD	39.94	2/25/13	69,200	(57,598)
General Electric Co.	Morgan Stanley & Co., Inc.	Call	USD	21.25	2/25/13	340,000	(370,718)
Unilever NV	Goldman Sachs & Co.	Call	USD	38.51	2/25/13	37,000	(72,890)
The Walt Disney Co.	Credit Suisse First Boston	Call	USD	49.86	2/25/13	62,500	(265,308)
Eli Lilly & Co.	Credit Suisse First Boston	Call	USD	53.34	2/28/13	73,000	(78,337)
Unilever NV	Goldman Sachs & Co.	Call	USD	38.89	3/04/13	37,000	(58,830)
Unilever NV	UBS Securities LLC	Call	USD	38.66	3/04/13	91,000	(165,620)
Aflac, Inc.	Credit Suisse First Boston	Call	USD	53.94	3/05/13	21,200	(21,179)
Merck & Co., Inc.	Goldman Sachs & Co.	Call	USD	42.51	3/07/13	203,500	(266,862)
NextEra Energy, Inc.	Goldman Sachs & Co.	Call	USD	71.36	3/07/13	23,500	(33,022)
Time Warner, Inc.	Morgan Stanley & Co., Inc.	Call	USD	49.49	3/07/13	41,300	(82,597)
Dominion Resources, Inc.	Morgan Stanley & Co., Inc.	Call	USD	52.86	3/08/13	50,200	(80,396)
Kimberly-Clark Corp.	Citigroup Global Markets, Inc.	Call	USD	86.51	3/08/13	69,200	(225,977)
Chevron Corp.	Morgan Stanley & Co., Inc.	Call	USD	116.35	3/11/13	86,500	(154,281)
Vodafone Group Plc - ADR	Citigroup Global Markets, Inc.	Call	USD	26.11	3/11/13	211,000	(265,875)
QUALCOMM, Inc.	Morgan Stanley & Co., Inc.	Call	USD	65.96	3/14/13	161,700	(276,484)
Southern Co.	Goldman Sachs & Co.	Call	USD	43.76	3/14/13	61,000	(47,670)
The Travelers Cos., Inc.	Morgan Stanley & Co., Inc.	Call	USD	76.76	3/14/13	41,300	(92,719)
Invesco Ltd.	Deutsche Bank Securities Corp.	Call	USD	28.13	3/21/13	48,800	(10,982)
Marathon Petroleum Corp.	Morgan Stanley & Co., Inc.	Call	USD	68.25	3/25/13	47,000	(314,929)
Medtronic, Inc.	Credit Suisse First Boston	Call	USD	46.26	3/25/13	141,000	(206,880)
Northrop Grumman Corp.	Morgan Stanley & Co., Inc.	Call	USD	68.78	3/25/13	73,000	(23,391)
Suncor Energy, Inc.	Citigroup Global Markets, Inc.	Call	USD	34.74	3/26/13	203,500	(171,318)
Pfizer, Inc.	Credit Suisse First Boston	Call	USD	27.27	3/27/13	182,200	(99,381)
Kimberly-Clark Corp.	Credit Suisse First Boston	Call	USD	87.08	4/01/13	26,900	(78,310)
Invesco Ltd.	Goldman Sachs & Co.	Call	USD	28.46	4/02/13	239,500	(74,110)
Southern Co.	Jefferies & Co., Inc.	Call	USD	44.25	4/02/13	610	(38,303)
Suncor Energy, Inc.	Morgan Stanley & Co., Inc.	Call	USD	34.78	4/05/13	112,000	(103,684)
Johnson & Johnson	Morgan Stanley & Co., Inc.	Call	USD	74.94	4/11/13	46,400	(36,842)
Total							\$ (6,505,496)

For Trust compliance purposes, the Trust'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 Trust management. These definitions may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease.

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial reporting purposes as follows:

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets and liabilities that the Trust has the ability to access

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

Level 2 - other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or 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 circumstances, to the extent observable inputs are not available (including the Trust's own assumptions used in determining the fair value of investments and derivative financial instruments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Schedule of Investments (concluded)

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

Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Trust's policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. For information about the Trust's policy regarding valuation of investments and derivative financial instruments and other significant accounting policies, please refer to the Trust's most recent financial statements as contained in its annual report.

The following tables summarize the Trust's investments and derivative financial instruments categorized in the disclosure hierarchy as of January 31, 2013:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Long-Term Investments:				
Common Stocks ¹	\$ 630,090,276			\$ 630,090,276
Short-Term Securities	19,217,352			19,217,352
Total	\$ 649,307,628			\$ 649,307,628

¹ See above Schedule of Investments for values in each industry.

	Level 1	Level 2	Level 3	Total
Derivative Financial Instruments ²				
Liabilities:				
Equity contracts	\$ (4,419,533)	\$ (7,078,342)		\$ (11,497,875)
Total	\$ (4,419,533)	\$ (7,078,342)		\$ (11,497,875)

² Derivative financial instruments are options written, which are shown at value.

Certain of the Trust's assets and liabilities are held at carrying amount, which approximates fair value for financial reporting purposes. As of January 31, 2013, such assets and liabilities are categorized within the disclosure hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency at value	\$ 5,684			\$ 5,684
Cash pledged as collateral for options written	1,300,000			1,300,000
Liabilities:				
Bank overdraft		\$ (2,509)		(2,509)
Total	\$ 1,305,684	\$ (2,509)		\$ 1,303,175

There were no transfers between levels during the period ended January 31, 2013.

JANUARY 31, 2013

5

Item 2 Controls and Procedures

- 2(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.
- 2(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3 Exhibits

Certifications Attached hereto

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

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BlackRock Enhanced Capital and Income Fund, Inc.

By: /s/ John M. Perlowski
John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Enhanced Capital and Income Fund, Inc.
Date: March 26, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ John M. Perlowski
John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Enhanced Capital and Income Fund, Inc.
Date: March 26, 2013

By: /s/ Neal J. Andrews
Neal J. Andrews
Chief Financial Officer (principal financial officer) of
BlackRock Enhanced Capital and Income Fund, Inc.
Date: March 26, 2013

N="bottom"> 3,194 61% 17,788 33% 12,339 37% 5,449 44%

Subscription

1,066 4% 1,080 7% (14) (1)% 2,281 4% 1,577 5% 704 45%

Total License revenue

\$25,651 100% \$15,819 100% \$9,832 62% \$53,687 100% \$33,304 100% \$20,383 61%

The increases in perpetual license revenue during the second quarter and first six months of 2009 compared to the same periods in 2008 were driven by increases in the average value and number of perpetual licenses. The mix between perpetual and term license arrangements fluctuates based on customer circumstances and the intended use of our software. For the first six months of 2009, new perpetual license arrangements comprised a higher portion of our total license arrangements as compared to the first six months of 2008. In addition, many of the perpetual license arrangements include extended payment terms and/or additional rights of use that delay the recognition of revenue to future periods. See the table of future cash receipts by year from these perpetual licenses on page 22.

We recognize revenue for our term license arrangements over the term of the agreement as payments become due or earlier if prepaid. The increases in term license revenue during the second quarter and first six months of 2009 compared to the same periods in 2008 were each due to the increase in the aggregate value of payments for non-cancellable term licenses signed during 2008 and 2007 for which a portion of these agreements was recognized as revenue during the second quarter and first six months of 2009. The remainder of these agreements will be recognized as revenue in future periods. The aggregate value of payments due under these term licenses increased to \$78.0 million as of June 30, 2009 compared to \$73.5 million as of June 30, 2008. The aggregate value of future payments due under non-cancellable term licenses as of June 30, 2009 includes \$11.7 million of term license payments that we expect to

Table of Contents

recognize as revenue during the remainder of 2009. However, our actual term license revenue for the remainder of 2009 could be higher than \$11.7 million as we complete new term license agreements in 2009 or if we receive prepayments from existing term license agreements. See the table of future cash receipts by year from these term licenses on page 22.

Subscription revenue primarily relates to our arrangements that include a right to unspecified future products and is recognized ratably over the economic life or term of the arrangement. The increase in subscription revenue during the first six months of 2009 compared to the same period in 2008 was primarily due to the revenue recognition for one customer arrangement for the entire period in 2009 as compared to recognition for only part of the period in 2008.

<i>(Dollars in thousands)</i>	Three Months Ended June 30,			Six Months Ended June 30,				
	2009	2008	Increase	2009	2008	Increase		
Maintenance revenue								
Maintenance	\$ 12,171	\$ 10,083	\$ 2,088	21%	\$ 24,119	\$ 18,982	\$ 5,137	27%

The increases in maintenance revenue during the second quarter and first six months of 2009 compared to the same periods in 2008 were due to the continued increase in the aggregate value of the installed base of our software.

<i>(Dollars in thousands)</i>	Three Months Ended June 30,				Six Months Ended June 30,							
	2009	2008	Increase (Decrease)	Increase (Decrease)	2009	2008	Increase (Decrease)	Increase (Decrease)				
Professional services revenue												
Consulting Services	\$ 25,108	96%	\$ 23,866	95%	\$ 1,242	5%	\$ 46,281	96%	\$ 44,409	94%	\$ 1,872	4%
Training	948	4%	1,351	5%	(403)	(30)%	2,158	4%	2,902	6%	(744)	(26)%
Total Professional services	\$ 26,056	100%	\$ 25,217	100%	\$ 839	3%	\$ 48,439	100%	\$ 47,311	100%	\$ 1,128	2%

Professional services are primarily consulting services related to new license implementations. The increase in consulting services revenue during the second quarter of 2009 compared to the same period in 2008 was due to a \$4.8 million increase in revenue due to a higher number of professional service hours delivered, partially offset by a \$1.6 million decrease due to the decline in value of European currencies relative to the U.S. dollar and a \$1.7 million decrease due to downward rate pressure caused by the current decline in economic conditions. The increase in consulting services revenue during the first six months of 2009 compared to the same period in 2008 was due to a \$9.9 million increase in revenue due to a higher number of professional service hours delivered, partially offset by a \$3.8 million decrease due to the decline in value of European currencies relative to the U.S. dollar and a \$4.0 million decrease due to downward rate pressure caused by the current decline in economic conditions. Our training revenues have been negatively impacted by the weakened global economy.

<i>(Dollars in thousands)</i>	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	2008	Increase	Increase	2009	2008	Increase	Increase
Gross Profit								
Software license	\$ 25,620	\$ 15,785	\$ 9,835	62%	\$ 53,625	\$ 33,270	\$ 20,355	61%
Maintenance	10,714	8,763	1,951	22%	21,225	16,430	4,795	29%
Professional services	5,952	5,798	154	3%	9,272	9,572	(300)	(3)%
Total gross profit	\$ 42,286	\$ 30,346	\$ 11,940	39%	\$ 84,122	\$ 59,272	\$ 24,850	42%
Maintenance gross profit percent	88%	87%			88%	87%		

Professional services gross profit percent	23%	23%	19%	20%
--	-----	-----	-----	-----

Table of Contents

The increases in software license gross profit during the second quarter and first six months of 2009 compared to the same periods in 2008 were due to the increases in our license revenue, which had no significant incremental associated direct costs. The increases in maintenance gross profit during the second quarter and first six months of 2009 compared to the same periods in 2008 were due to higher maintenance revenue and lower incremental direct costs.

Professional services gross profit during the first six months of 2009 compared to the same period in 2008 was adversely impacted by pricing pressures associated with the current decline in economic conditions. In the second half of 2009, we expect a significant number of our professional services consultants to complete our enhanced training curriculum to achieve the master level of PRPC certification. We expect this investment in training may negatively impact professional services gross profit.

Operating expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Increase	2009	2008	Increase
<i>(Dollars in thousands)</i>						
Selling and marketing						
Selling and marketing	\$ 16,659	\$ 14,657	\$ 2,002 14%	\$ 32,095	\$ 29,338	\$ 2,757 9%
As a percent of total revenue	26%	29%		25%	29%	
Selling and marketing headcount				215	175	40 23%

Selling and marketing expenses include compensation, benefits, and other headcount-related expenses associated with our selling and marketing personnel as well as advertising, promotions, trade shows, seminars, and other programs. The increase in selling and marketing expenses during the second quarter of 2009 compared to the same period in 2008 was primarily due to \$1.1 million higher sales commissions associated with the increase in our new license arrangements, a \$1.0 million increase in compensation and benefit expenses associated with higher headcount, and a \$0.2 million increase in marketing campaigns, partially offset by a \$0.3 million decrease in travel and entertainment expenses. The increase in selling and marketing expenses during the first six months of 2009 compared to the same period in 2008 was primarily due to \$2.0 million higher sales commissions associated with the increase in our new license arrangements, and a \$1.6 million increase in compensation and benefit expenses associated with higher headcount, partially offset by a \$0.6 million decrease in travel and entertainment expenses and a \$0.3 million decrease in external marketing and recruiting agency fees.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Increase	2009	2008	Increase
<i>(Dollars in thousands)</i>						
Research and development						
Research and development	\$ 9,149	\$ 7,874	\$ 1,275 16%	\$ 18,268	\$ 14,896	\$ 3,372 23%
As a percent of total revenue	14%	15%		14%	15%	
Research and development headcount				201	140	61 44%

Research and development expenses include compensation, benefits, contracted services, and other headcount-related expenses associated with research and development. The increase in research and development expenses during the second quarter of 2009 compared to the same period in 2008 was primarily due to a \$0.9 million increase in compensation and benefit expenses associated with higher headcount and \$0.8 million of expenses associated with our research and development center in India, partially offset by a \$0.2 million decrease in contractor expenses. The increase in research and development expenses during the first six months of 2009 compared to the same period in 2008 was primarily due to a \$2.2 million increase in compensation and benefit expenses associated with higher headcount, \$1.4 million of expenses associated with our research and development center in India, partially offset by a \$0.2 million decrease in contractor expenses. During the first three quarters of 2008, the research and development center in India was not operational and therefore associated start-up expenses were classified as general and administrative expenses. Subsequent to becoming operational in October 2008, all expenses associated with our development center are classified as research and development.

Table of Contents

<i>(Dollars in thousands)</i>	Three Months Ended			Six Months Ended			Increase	
	June 30,		(Decrease)	June 30,		(Decrease)		
	2009	2008		2009	2008			
General and administrative								
General and administrative	\$ 4,648	\$ 5,231	\$ (583)	(11)%	\$ 9,594	\$ 10,288	\$ (694)	(7)%
As a percent of total revenue	7%	10%			8%	10%		
General and administrative headcount					141	129	12	9%

General and administrative expenses include compensation, benefits, and other headcount-related expenses associated with the finance, legal, corporate governance, and other administrative headcount, as well as accounting, legal, and other administrative fees.

The start-up expenses associated with our research and development center in India were classified as general and administrative expenses in the second quarter of 2008 and were classified in research and development in the second quarter of 2009. The change in classification of these expenses resulted in a \$0.8 million and a \$1.4 million decrease in general and administrative expenses during the second quarter and first six months of 2009, respectively, compared to the same periods in 2008. During the second quarter and first six months of 2009, general and administrative expenses decreased by \$0.2 million due to the recovery of previously recorded doubtful accounts. These decreases in general and administrative expenses were partially offset by a \$0.5 million and \$1.0 million increase in compensation and benefit expenses during the second quarter and first six months of 2009, respectively, compared to the same periods in 2008.

Stock-based compensation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123(R)), we recognize stock-based compensation expense associated with equity awards in our consolidated statements of income based on the fair value of these awards at the date of grant. The following table summarizes stock-based compensation expense included in our consolidated statements of income:

<i>(Dollars in thousands)</i>	Three Months Ended			Six Months Ended			Increase	
	June 30,		(Decrease)	June 30,		(Decrease)		
	2009	2008		2009	2008			
Stock-based compensation expense:								
Cost of services	\$ 128	\$ 261	\$ (133)	(51)%	\$ 634	\$ 465	\$ 169	36%
Operating expenses	732	859	(127)	(15)%	1,924	1,258	666	53%
Total stock-based compensation before tax	860	1,120	\$ (260)	(23)%	\$ 2,558	\$ 1,723	\$ 835	48%
Income tax benefit	(155)	(307)			(739)	(526)		
Net stock-based compensation expense	\$ 705	\$ 813			\$ 1,819	\$ 1,197		

During the second quarter of 2009, we refined our forfeiture estimate, which resulted in lower stock-based compensation expense compared to the same period in 2008. The increase in stock-based compensation during the first six months of 2009 compared to the same period in 2008 was due to periodic stock option grants made in March 2008 and December 2008, stock option grants to new employees, an increase in the annual stock award to our Board of Directors and the addition of two directors, and the recognition of a full six months of expense associated with restricted stock units (RSUs) under our Corporate Incentive Compensation Plan (CICIP).

As of June 30, 2009, we had approximately \$2.4 million of unrecognized stock-based compensation expense related to the unvested portion of all our stock options that is expected to be recognized over a weighted-average period of approximately 2.3 years. As of June 30, 2009, we had approximately \$2.2 million of unrecognized stock-based compensation expense related to all unvested RSUs that is expected to be recognized over a weighted-average period of 2.0 years.

Table of Contents**Interest income and Other income**

<i>(Dollars in thousands)</i>	Three Months Ended				Six Months Ended			
	June 30,		Increase		June 30,		Increase	
	2009	2008	(Decrease)		2009	2008	(Decrease)	
Installment receivable interest income	\$ 75	\$ 78	\$ (3)	(4)%	\$ 150	\$ 153	\$ (3)	(2)%
Other interest income, net	881	1,298	(417)	(32)%	1,683	2,953	(1,270)	(43)%
Other income, net	2,930	69	2,861	n/m	2,128	350	1,778	508%
Interest income and other	\$ 3,886	\$ 1,445	\$ 2,441	169%	\$ 3,961	\$ 3,456	\$ 505	15%

n/m- not meaningful

The decreases in interest income during the second quarter and first six months of 2009 compared to the same periods in 2008 were primarily due to our investment in lower yielding tax-exempt municipal bonds. During 2008, due to credit market turmoil and adverse changes in the economy, we changed the mix of our investment portfolio to increase our holdings of pre-refunded municipal bonds. These bonds are collateralized by the issuer purchasing U.S. Treasury securities to fund all the cash flows of the refunded municipal bonds that will mature when the issuer's bond matures.

Other income, net, consists primarily of foreign currency exchange gains and losses and realized gains and losses on the sale of our investments. The increases in other income, net, during the second quarter and first six months of 2009 compared to the same periods in 2008 resulted primarily from the significant increase in the value of foreign currency denominated net assets held in the U.S., consisting primarily of cash, receivables, license installments, and accounts payable. As a result of the increase in the value of the British pound and Euro relative to the U.S. dollar during the second quarter and first six months of 2009, we recorded a \$2.9 million and \$2.1 million foreign currency exchange transaction gain, respectively. During the second quarter and first six months of 2008, we recorded a \$6,000 foreign exchange transaction loss and a \$0.3 million foreign exchange transaction gain, respectively. See Item 7A. Quantitative and Qualitative Disclosure about Market Risk for further discussion of our foreign currency exchange risk.

Provision for income taxes

The provision for income taxes represents current and future amounts owed for federal, state, and foreign taxes. During the second quarter of 2009 and 2008, we recorded a \$4.5 million and \$1.2 million provision, respectively, which resulted in an effective tax rate of 28.5% and 29.2%, respectively. During the first six months of 2009 and 2008, we recorded an \$8.2 million and \$2.4 million provision, respectively, which resulted in an effective tax rate of 29.3% and 29.4%, respectively.

Our effective tax rate during the second quarters and first six months of 2009 and 2008 were below the statutory federal income tax rate primarily due to the investment in tax-exempt municipal bonds and the benefit from the SEZ India tax holiday.

The determination of the provision for income tax expense, deferred tax assets and liabilities and related valuation allowance involves judgment. As a global company, we are required to calculate and provide for income taxes in each of the tax jurisdictions where we operate. This involves making judgments regarding the recoverability of deferred tax assets, which can affect the overall effective tax rate. As of June 30, 2009, the amount of unrecognized tax benefits totaled approximately \$5.9 million, of which \$4.9 million, if recognized, would impact our effective tax rate. During the second quarter of 2009, we settled our income tax audit with the United Kingdom government for the tax years 2001 through 2005, which resulted in a \$0.4 million reduction in the total unrecognized tax benefits. We expect that the changes in the unrecognized benefits within the next twelve months will be approximately \$1.3 million related to tax positions for which the ultimate settlement is highly certain but for which there is uncertainty about the timing of such recognition.

Table of Contents**Liquidity and capital resources**

<i>(in thousands)</i>	Six Months Ended June 30,	
	2009	2008
Cash provided by (used in):		
Operating activities	\$ 29,432	\$ 30,467
Investing activities	(12,789)	(26,881)
Financing activities	(3,853)	(1,033)
Effect of exchange rate on cash	919	123
Net increase in cash and cash equivalents	\$ 13,709	\$ 2,676
	As of June 30, 2009	As of December 31, 2008
Total cash, cash equivalents, and marketable securities	\$ 190,062	\$ 167,229

We have funded our operations primarily from cash provided by operations. As of June 30, 2009, we had cash, cash equivalents and marketable securities of \$190.1 million, a \$22.8 million increase from \$167.2 million as of December 31, 2008. This increase was primarily due to \$29.4 million of cash provided by operations and \$10.1 million of excess tax benefit from stock options, partially offset by \$14.8 million used to repurchase shares of our common stock, \$1.8 million investment in property and equipment, and \$2.2 million used for dividend payments to our shareholders. Working capital was \$178.4 million as of June 30, 2009 compared to \$159.1 million as of December 31, 2008.

We believe that our current cash, cash equivalents, marketable securities, and cash flow from operations will be sufficient to fund our operations and our share repurchase program for at least the next 12 months. We also evaluate acquisition opportunities from time to time, which if pursued, could require use of our funds. Material risks to cash flow from operations include delayed or reduced cash payments on sales of new licenses or a decline in our services business. The current economic crisis has had an adverse impact on our target markets including, among other things, volatility in security prices, diminished liquidity, and limited access to funding. These conditions could impact the ability and willingness of our financial services and insurance customers, and possibly our customers in other industries, to make investments in technology and pay their trade obligations. Our financial services and insurance customers as a group represent a significant amount of our revenues and receivables, which we considered and determined did not have a material adverse impact on our allowances for doubtful accounts and sales credit memos as of June 30, 2009. There can be no assurance that changes in our plans or other events affecting our operations will not result in materially accelerated or unexpected expenditures.

Cash provided by operating activities

Cash provided by operating activities during the first six months of 2009 was \$29.4 million, a \$1.0 million decrease as compared to the first six months of 2008.

The primary components of cash provided by operations during the first six months of 2009 were \$19.9 million of net income and a \$10.4 million decrease in accounts receivable due to the timing of their collection.

Table of Contents**Future Cash Receipts from License Arrangements**

The following table summarizes the cash receipts due in connection with our existing license agreements:

<i>As of June 30, (in thousands)</i>	Installment payments for licenses recorded on the balance sheet (1)	Installment payments for term licenses not recorded on the balance sheet (2)	Other license payments not recorded on the balance sheet (3)
Remainder of 2009	\$ 2,061	\$ 11,744	\$ 13,410
2010	2,829	24,680	14,564
2011	2,232	20,809	82
2012	1,292	13,384	165
2013		5,151	
Thereafter		2,184	
Total	8,414	\$ 77,952	\$ 28,221
Unearned installment interest income	(744)		
Total license installments receivable, net	\$ 7,670		

- (1) These license installment payments have already been recognized as license revenue and are included in short- and long-term license installments in the accompanying unaudited condensed consolidated balance sheet as of June 30, 2009.
- (2) These amounts will be recognized as revenue in the future over the term of the agreement as payments become due or earlier if prepaid.
- (3) These amounts will be recognized as revenue in future periods and relate to perpetual licenses with extended payment terms and/or additional rights of use.

Cash used in investing activities

Cash used in investing activities during the first six months of 2009 and 2008 was primarily for purchases of marketable debt securities of \$29.5 million and \$145.3 million, respectively, partially offset by the proceeds received from the sales, maturities and called marketable debt securities of \$18.5 million and \$120.2 million, respectively.

During the first six months of 2009, we invested \$1.8 million in computer equipment and leasehold improvements primarily for our locations in Cambridge and India.

In March 2008, we paid approximately \$0.8 million in cash to acquire certain assets of privately held Focus Technology Group, Inc. and a related entity (collectively, Focus), that provides anti-fraud and anti-money laundering software to the banking industry. In addition to the initial purchase consideration, maximum contingent consideration of approximately \$2.1 million in cash may be due to the former owners of Focus upon the achievement of certain performance milestones and sales targets to be paid over a period of 30 months from the acquisition date. No amount of contingent consideration was earned or paid in 2008 or during the first six months of 2009.

Cash used in financing activities

Cash used in financing activities during the first six months of 2009 and 2008 was primarily for repurchases of our common stock and the payment of our quarterly dividend. In each of February and December 2008, our Board of Directors approved a \$15.0 million share repurchase program. The December 2008 repurchase program expires on December 31, 2009. Since 2004, our Board of Directors has approved annual stock repurchase programs that have authorized the repurchase in the aggregate up to \$60.0 million of our common stock. Purchases under these programs have been made on the open market.

Table of ContentsShare repurchases

The following table is a summary of our repurchase activity under all of our repurchase programs during the first six months of 2009 and 2008:

<i>(Dollars in thousands)</i>	2009		2008	
	Shares	Amount	Shares	Amount
Prior year authorization as of January 1, Authorizations		\$ 12,862		\$ 1,210
Repurchases paid	570,954	(8,824)	503,080	(5,423)
Repurchases unsettled			65,472	(870)
Authorization remaining as of June 30,		\$ 4,038		\$ 9,917

In addition to the share repurchases made under our repurchase programs, we net settled the majority of our employee stock option exercises and restricted stock unit vesting, which resulted in the withholding of shares to cover the option exercise price and the minimum statutory tax withholding obligations. During the first six months of 2009 and 2008, we withheld shares with a value of \$14.1 million and \$0.6 million, respectively, in connection with the net settlement of stock options and restricted stock units. The share repurchases and shares withheld for net settlement of our employee stock option exercises and vesting of restricted stock units more than offset the shares issued and proceeds received under our various share-based compensation plans during first six months of 2009 and 2008. During the first six months of 2009 and 2008, option holders net settled stock options and vested restricted stock units representing the right to purchase a total of approximately 1,704,000 shares and 88,000 shares, respectively, of which 764,000 shares and 23,000 shares, respectively, were issued to the option and restricted stock unit holders and the balance of the shares were surrendered to us to pay for the exercise price and the applicable taxes.

Dividends

The Company declared a cash dividend of \$0.03 per share for each of the quarters in 2008 and in the first and second quarters of 2009. Accordingly, the Company paid cash dividends of \$2.2 million in each of the first six months of 2009 and 2008. It is our current intention to pay a quarterly cash dividend of \$0.03 per share to shareholders of record as of the first trading day of each quarter, however, the Board of Directors may terminate or modify this dividend program at any time without notice.

Fair Value Inputs

We adopted SFAS 157 on January 1, 2008. See Note 1. Accounting Policies and Note 3. Fair Value Measurements in the notes to the unaudited condensed consolidated financial statements for further discussion. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. The use of fair value to measure investments, with related unrealized gains or losses on investments, is a significant component to our consolidated results of operations.

We value our investments by using quoted market prices and broker or dealer quotations which are based on third party pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include some of the government debt securities, some of the municipal debt securities, money market securities and most of the corporate debt securities. We do not adjust the quoted price for such instruments. The types of instruments valued based on other observable inputs include most of the municipal debt securities and some of the corporate debt securities. The price for each security at the measurement date is sourced from an independent pricing vendor. Periodically, management may assess the reasonableness of these sourced prices by comparing them to the prices provided by our portfolio managers to derive the fair value of these financial instruments. Management assesses the inputs of the pricing in order to categorize the financial instruments into the appropriate hierarchy levels.

Recent accounting pronouncements

See Note 1. Accounting Policies in the notes to the unaudited condensed consolidated financial statements for further discussion.

Table of Contents**Significant customers**

The following table summarizes the Company's concentration of credit risk associated with customers accounting for 10% or more of the Company's total revenue, outstanding trade receivables, and short and long-term license installments:

<i>(Dollars in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Total Revenue	\$ 63,878	\$ 51,119	\$ 126,245	\$ 99,597
Customer A		12.6%		

<i>(Dollars in thousands)</i>	As of	
	June 30, 2009	December 31, 2008
Trade receivables	\$ 32,377	\$ 42,801
Customer B	18.7%	11.7%
Long and short-term license installments	\$ 7,670	\$ 10,858
Customer C	42.9%	29.7%
Customer D	19.0%	16.1%
Customer E	14.7%	11.9%
Customer F	12.3%	10.5%

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and rates. Our market risk exposure is primarily related to fluctuations in foreign exchange rates and interest rates. We have not entered into derivative or hedging transactions to manage risk in connection with such fluctuations.

Foreign currency exposure

We derived approximately 35% and 37% of our total revenue from sales to customers based outside of the U.S. during the first six months of 2009 and 2008, respectively. Our international license and professional services have increasingly become denominated in foreign currencies. However, the operating expenses of our foreign operations are primarily denominated in foreign currencies, which partially offset our foreign currency exposure. A decrease in the value of foreign currencies, particularly the British pound and the Euro relative to the U.S. dollar, could adversely impact our revenues and operating results.

Most of our transactions with customers are invoiced from our offices in the U.S. For those transactions that are denominated in currencies other than the U.S. dollar, we have receivables and license installments that are valued in foreign currencies. In addition, our U.S. operating company holds cash and investments in foreign currencies in order to support our foreign operations. Our functional currency is primarily the U.S. dollar, therefore, when there are changes in the foreign currency exchange rates versus the U.S. dollar, we recognize a foreign currency transaction gain or (loss) in our consolidated statements of income. As of June 30, 2009, we had net monetary assets valued in foreign currencies, consisting primarily of cash, receivables, and license installments, partially offset by accounts payable and accrued expenses, with a carrying value of approximately \$38.3 million. During the first six months of 2009, we recorded a \$2.1 million foreign currency transaction gain due to the increase in the value of foreign currencies, primarily the Euro and British pound, relative to the U.S. dollar. As of June 30, 2009, a ten percent change in foreign currency exchange rates would have materially changed the carrying value of our net monetary assets by approximately \$3.8 million as of that date with a corresponding currency gain (loss) recognized in our consolidated statement of income.

Interest rate exposure

We invest primarily in tax-exempt municipal bonds, government sponsored enterprises, and corporate bonds that are fixed rate -marketable debt securities. A 200 basis point increase in market interest rates would have reduced the fair value of our marketable debt securities by approximately \$2.2 million as of June 30, 2009. Changes in market rates and the related impact on fair value of the marketable securities do not

generally affect net earnings as our marketable securities are fixed rate securities and are classified as available-for-sale and as such, unrealized gains and losses, net of tax effect, are recorded in accumulated other comprehensive income in our accompanying consolidated balance sheets. However, when the marketable securities are sold, the unrealized gains and losses are recorded as realized gains and losses and included in net income in the accompanying consolidated statements of income.

Table of Contents

We analyze our investments for impairments on an ongoing basis. As of the date of this filing, we are not aware of any downgrades, losses, or other significant deterioration in the fair value of our marketable securities.

Item 4. Controls and Procedures**(a) Evaluation of Disclosure Controls and Procedures.**

Our management, with the participation of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of June 30, 2009. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and our management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2009.

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information:**Item 1A. Risk Factors**

We encourage you to carefully consider the risk factors identified in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008. These risk factors could materially affect our business, financial condition and future results and could cause our actual business and financial results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q or elsewhere by management from time to time. There have been no material changes during the first six months of 2009 to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding our repurchases of our common stock during the second quarter of 2009:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Share Repurchase Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Share Repurchase Programs (in thousands) (1)
4/1/09-4/30/09	123,079	\$ 18.28	123,079	\$ 4,113
5/1/09-5/31/09	4,488	16.66	4,488	4,038
6/1/09-6/30/09				4,038
Total	127,567	\$ 18.23		

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

- (1) On December 1, 2008, we publicly announced that our Board of Directors approved a \$15.0 million share repurchase program effective December 1, 2008 and expiring on December 31, 2009 (the Fourth Program). The Fourth Program replaced an existing program that expired on December 31, 2008. Under the Fourth Program, purchases will be made from time to time on the open market or in privately negotiated transactions. Shares may be repurchased in such amounts as market conditions warrant, subject to regulatory and other considerations. The Company has established a pre-arranged stock repurchase plan, intended to comply with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and of Rule 10b-18 of the Exchange Act (the 10b5-1 Plan). All share repurchases under the Fourth Program during closed trading window periods will be made pursuant to the 10b5-1 Plan.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders**

Our Annual Meeting of Stockholders was held on June 5, 2009. The following matters were voted upon:

The stockholders elected the following individuals to serve on our Board of Directors until our 2010 Annual Meeting of Stockholders and until their successors are duly elected and qualified:

Name	Votes For	Votes Against	Votes Withheld
Craig Conway	34,105,181	81,694	19,251
Peter Gyenes	33,884,169	302,706	19,251
Richard Jones	33,782,433	404,442	19,251
Steven Kaplan	34,079,943	106,932	19,251
James O. Halloran	33,834,522	352,353	19,251
Alan Trefler	34,087,652	116,470	2,004
William Wyman	34,073,012	113,863	19,251

The stockholders ratified the Audit Committee's selection of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2009, with 34,049,123 votes FOR, 135,935 votes AGAINST and 21,068 votes WITHHELD.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed as part of this report and such Exhibit Index is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Pegasystems Inc.

Date: August 4, 2009

By: /s/ Craig Dynes
Craig Dynes
Senior Vice President, Chief Financial Officer
(principal financial officer)

(duly authorized officer)

Table of Contents

PEGASYSTEMS INC.

Exhibit Index

Exhibit No.	Description
31.1	Certification pursuant to Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.
31.2	Certification pursuant to Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.
32	Certification pursuant to 18 U.S.C. Section 1350 of the Chief Executive Officer and the Chief Financial Officer.