

Edgar Filing: CAPITAL & INCOME STRATEGIES FUND INC - Form N-Q

CAPITAL & INCOME STRATEGIES FUND INC

Form N-Q

November 23, 2005

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: Capital and Income Strategies Fund, Inc.

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

Name and address of agent for service: Robert C. Doll, Jr., Chief Executive  
Officer, Capital and Income Strategies 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: (609) 282-2800

Date of fiscal year end: 12/31/05

Date of reporting period: 07/01/05 - 09/30/05

Item 1 - Schedule of Investments

Capital and Income Strategies Fund, Inc.

Schedule of Investments as of September 30, 2005

Preferred Securities

Industry	Face Amount	Capital Trusts
Commercial Banks - 4.6%	\$ 1,000,000	Dresdner Funding Trust I, 8.151% due 6/30/2031 (a)
	2,000,000	Lloyds TSB Bank PLC, 6.90% (d)
	3,000,000	Mizuho JGB Investment LLC, 9.87% (a) (c) (d)
	3,000,000	SB Treasury Co. LLC, 9.40% (a) (c) (d)
	2,000,000	Westpac Capital Trust III, 5.819% (a) (c) (d)
Diversified Financial Services - 0.6%	1,500,000	Svensk Exportkredit AB, 6.375% (a) (d)
		Total Capital Trusts (Cost - \$13,382,156) - 5.2%

Shares  
Held Preferred Stocks

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Capital Markets - 1.6%	80,000	Goldman Sachs Group, Inc. Series A, 3.91%
	40,000	Lehman Brothers Holdings, Inc., 6.50%
	40,000	Lehman Brothers Holdings, Inc. Series G, 3%
Commercial Banks - 3.1%	60,000	Banco Santander Central Hispano SA, 6.41%
	9,662	First Republic Bank, 6.25%
	1,674	First Tennessee Bank NA, 3.90% (a)
	80,000	HSBC USA, Inc., 3.50%
	20,000	Royal Bank of Scotland Group Plc Series L, 5.75%
	2,000	SG Preferred Capital II, 6.302%
Consumer Finance - 1.0%	102,001	MBNA Corp. Series B, 5.50%
Diversified Financial Services - 0.5%	50,000	CIT Group, Inc. Series A, 6.35%
Electric Utilities - 3.4%	11,109	Connecticut Light & Power, 5.28%
	11,394	Delmarva Power & Light, 4.20%
	11,250	Delmarva Power & Light, 4.28%
	40,000	Duquesne Light Co., 6.50%
	40,000	Interstate Power & Light Co. Series B, 8.375%
	10,000	Peco Energy Co. Series D, 4.68%
	20,000	Southern California Edison Co., 5.349%
Food Products - 1.5%	2,000	General Mills, Inc., 4.50%
	20	HJ Heinz Finance Co., 6.226% (a)
Gas Utilities - 0.3%	35,000	Southern Union Co., 7.55%
Insurance - 5.1%	80,000	ACE Ltd. Series C, 7.80%
	8,000	Axis Capital Holdings Ltd., 7.25%
	80,000	Aegon NV, 6.375%
	30,000	Genworth Financial, Inc. Series A, 5.25%
	72,000	Metlife, Inc. Series B, 6.50%
	80,000	Prudential Plc, 6.75%
	60,000	RenaissanceRe Holdings Ltd. Series C, 6.08%
	2,200	Zurich RegCaPS Funding Trust, 6.58% (a)
Multi-Utilities - 1.2%	80,000	Pacific Gas & Electric Co. Series A, 6%
	12,400	Public Service Electric & Gas Series E, 5.28%
Oil, Gas & Consumable Fuels - 0.8%	19,500	Apache Corp. Series B, 5.68% (f)
Thrifts & Mortgage Finance - 4.8%	45,000	Fannie Mae, 7%
	25,000	Fannie Mae Series I, 5.375%
	59,350	Fannie Mae Series L, 5.125%
	150,000	Freddie Mac, 3.93%

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		Total Preferred Stocks (Cost - \$59,550,559) - 23.3%
		Real Estate Investment Trusts
Real Estate Investment Trusts - 0.5%	52,000	Alexandria Real Estate Equities, Inc. Series C, 8.37%
		Total Real Estate Investment Trusts (Cost - \$1,300,000)
	Face Amount	Trust Preferreds
Commercial Banks - 0.8%	\$ 2,000,000	ABN AMRO North America Capital Funding Trust I, 6.968% due 9/15/2010 (a) (c)
Gas Utilities - 0.4%	1,000,000	Southwest Gas Capital II, 7.70% due 9/15/2043
		Total Trust Preferreds (Cost - \$3,138,574) - 1.2%
		Total Preferred Securities (Cost - \$77,371,289) - 30.0%
		Corporate Bonds
Automobiles - 0.5%	1,200,000	Hyundai Motor Manufacturing Alabama LLC, 5.30% due 12/19/2008
Beverages - 0.1%	250,000	Coca-Cola Femsa SA de CV, 8.95% due 11/01/2006
Commercial Banks - 3.2%	750,000	Banco Nacional de Desenvolvimento Economico e Social, 5.83% due 6/16/2008 (c)
	450,000	Bancomext Trust Division, 11.25% due 5/30/2006
	700,000	Bangko Sentral ng Pilipinas, 9% due 11/14/2005
	1,350,000	Bangkok Bank Public Co. Ltd. (Hong Kong), 8.75% due 3/15/2007
	700,000	The Export-Import Bank of Korea, 4.25% due 11/27/2000
	750,000	ICICI Bank Ltd., 4.75% due 10/22/2008
		Korea Development Bank:
	465,000	7.25% due 5/15/2006
	575,000	5.25% due 11/16/2006
	1,080,000	MDM Bank, 10.75% due 12/16/2005
	1,070,000	Sberbank, 4.92% due 10/24/2006
	465,000	Siam Commercial Bank Public Co. of Singapore, 7.50% due 3/15/2006
Diversified Financial Services - 1.8%	900,000	AC International Finance Ltd., 8.125% due 2/21/2008
	750,000	Aries Vermoegensverwaltungs GmbH, 9.60% due 10/25/2000
	560,000	Morgan Stanley (Gazprom), 9.625% due 3/01/2013
	1,920,000	Salomon Brothers AG for OAO Gazprom, 9.125% due 4/25/2000

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Diversified Telecommunication Services - 1.4%	750,000	Empresa Brasileira de Telecom SA Series B, 11% due 1/27/2009
	175,000	Excelcomindo Finance Company BV, 8% due 1/27/2009
	1,410,000	Philippine Long Distance Telephone: 9.25% due 6/30/2006
	300,000	7.85% due 3/06/2007
	500,000	Telefonica de Argentina SA, 9.875% due 7/01/2006
	300,000	Telefonos de Mexico SA de CV, 8.25% due 1/26/2006
Metals & Mining - 0.1%	320,000	Companhia Siderurgica Pa, 7.25% due 11/07/2006
Oil, Gas & Consumable Fuels - 1.7%	750,000	MEI Euro Finance Ltd., 10% due 3/19/2007
	610,000	Petrobras Energia SA, 9% due 1/30/2007
	900,000	Petroleos Mexicanos, 8.85% due 9/15/2007
	175,000	Petroliam Nasional Berhad, 7.75% due 8/15/2015
	1,750,000	YPF SA Series A, 7.75% due 8/27/2007
Paper & Forest Products - 0.1%	250,000	SINO-FOREST Corp., 9.125% due 8/17/2011 (a)
Real Estate - 0.1%	250,000	SM Investments Corp., 8% due 10/16/2007
Road & Rail - 0.1%	294,000	MTR Corp., 7.25% due 10/01/2005
Wireless Telecommunication Services - 0.6%	1,425,000	Total Access Communication Public Co. Ltd., 8.375% due 11/04/2006
		Total Corporate Bonds (Cost - \$24,977,971) - 9.7%
		Foreign Government Obligations
	507,500	Argentina Government International Bond, 4.005% due 8/03/2012
	140,000	Brazilian Government International Bond: 10.25% due 1/11/2006
	1,670,000	10% due 1/16/2007
	3,015,000	11.50% due 3/12/2008
	725,000	14.50% due 10/15/2009
	290,000	10% due 8/07/2011
	597,067	5.25% due 4/15/2012
	650,000	8% due 1/15/2018
	585,000	10.125% due 5/15/2027
	200,000	8.25% due 1/20/2034
	475,000	11% due 8/17/2040 (g)
	60,000	Bulgaria Government International Bond, 8.25% due 1/23/2007
	1,000,000	Chile Government International Bond: 5.625% due 7/23/2007
	110,000	5.50% due 1/15/2013
	740,000	Colombia Government International Bond: 10.50% due 6/13/2006
	1,420,000	8.625% due 4/01/2008
	280,000	10% due 1/23/2012
	300,000	11.75% due 2/25/2020
	262,579	Dominican Republic International Bond, 9.04% due 1/23/2007
	965,000	Indonesia Government International Bond, 7.75% due 8/15/2005

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	Mexico Government International Bond:
1,170,000	9.875% due 1/15/2007
435,000	9.875% due 2/01/2010
500,000	8.375% due 1/14/2011
360,000	6.375% due 1/16/2013
200,000	5.875% due 1/15/2014
390,000	8.30% due 8/15/2031
725,000	7.50% due 4/08/2033
500,000	Series A, 6.625% due 3/03/2015
	Panama Government International Bond:
975,000	8.25% due 4/22/2008
150,000	7.25% due 3/15/2015
435,000	8.875% due 9/30/2027
	Peru Government International Bond:
1,090,000	9.125% due 1/15/2008
240,000	9.125% due 2/21/2012
137,200	5% due 3/07/2017
	Philippine Government International Bond:
1,000,000	4.129%* due 10/03/2005
250,000	5.625% due 11/19/2006
720,000	8.875% due 4/15/2008
435,000	9.875% due 3/16/2010
175,000	9.875% due 1/15/2019
65,000	10.625% due 3/16/2025
750,000	9.50% due 2/02/2030
	Russia Government International Bond:
500,000	10% due 6/26/2007
2,095,000	10% due 6/26/2007 (Regulation S)
775,000	11% due 7/24/2018 (Regulation S) (g)
780,000	5% due 3/31/2030
793,000	Santa Fe de Bogota DC, 9.50% due 12/12/2006
	Turkey Government International Bond:
650,000	11.375% due 11/27/2006
1,080,000	10% due 9/19/2007
1,000,000	10% due 9/19/2007 (a)
390,000	11.50% due 1/23/2012
250,000	11% due 1/14/2013
500,000	7.375% due 2/05/2025
500,000	8% due 2/14/2034
	Ukraine Government International Bond:
1,036,074	11% due 3/15/2007
200,000	6.875% due 3/04/2011
50,000	7.65% due 6/11/2013 (a)
	Uruguay Government International Bond:
200,000	9.25% due 5/17/2017
267,960	7.875% due 1/15/2033 (h)
	Venezuela Government International Bond:
1,230,000	9.125% due 6/18/2007
476,167	3.625% due 12/18/2007
725,000	10.75% due 9/19/2013
325,000	8.50% due 10/08/2014 (g)
150,000	9.375% due 1/13/2034

Total Foreign Government Obligations  
(Cost - \$41,193,055) - 16.3%

Shares	
Held	Common Stocks
Aerospace & Defense - 4.1%	89,800 Honeywell International, Inc.

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	32,100	Lockheed Martin Corp.
	25,500	Northrop Grumman Corp.
	108,700	Raytheon Co.
Beverages - 1.0%	140,400	Coca-Cola Enterprises, Inc.
Capital Markets - 4.3%	133,500	The Bank of New York Co., Inc.
	55,800	Mellon Financial Corp.
	102,700	Morgan Stanley
Chemicals - 1.4%	92,200	E.I. du Pont de Nemours & Co.
Commercial Banks - 4.0%	83,100	Bank of America Corp.
	22,100	Wachovia Corp.
	100,500	Wells Fargo & Co.
Communications	131,100	3Com Corp. (b)
Equipment - 1.9%	140,100	Motorola, Inc.
	78,400	Nokia Oyj (f)
Computers & Peripherals - 4.6%	130,700	Hewlett-Packard Co.
	54,400	International Business Machines Corp.
	97,300	Seagate Technology
	612,200	Sun Microsystems, Inc. (b)
Consumer Finance - 0.8%	81,600	MBNA Corp.
Diversified Financial Services - 3.9%	75,490	Citigroup, Inc.
	195,772	JPMorgan Chase & Co.
Diversified Telecommunication Services - 3.5%	37,400	BCE, Inc.
	76,700	BellSouth Corp.
	167,100	SBC Communications, Inc.
	66,200	Verizon Communications, Inc.
Electric Utilities - 2.7%	65,300	FPL Group, Inc.
	108,500	The Southern Co.
Electronic Equipment & Instruments - 1.0%	77,000	Agilent Technologies, Inc. (b)
Energy Equipment & Services - 4.3%	81,800	BJ Services Co.
	125,400	GlobalSantaFe Corp.
	38,800	Halliburton Co.

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Food Products - 3.4%	70,300	General Mills, Inc.
	74,700	Kraft Foods, Inc.
	43,200	Unilever NV (f)
Health Care Equipment & Supplies - 1.0%	65,900	Baxter International, Inc.
Hotels, Restaurants & Leisure - 1.1%	88,000	McDonald's Corp.
Household Durables - 1.0%	98,400	Koninklijke Philips Electronics NV
Household Products - 1.6%	69,100	Kimberly-Clark Corp.
IT Services - 0.3%	132,200	Unisys Corp. (b)
Industrial Conglomerates - 3.2%	101,500	General Electric Co.
	176,000	Tyco International Ltd.
Insurance - 5.7%	31,000	The Allstate Corp.
	58,400	American International Group, Inc.
	127,300	Genworth Financial, Inc. Class A
	23,500	Hartford Financial Services Group, Inc.
	19,900	Marsh & McLennan Cos., Inc.
	67,400	The St. Paul Travelers Cos., Inc.
Machinery - 1.0%	42,300	Deere & Co.
Media - 3.9%	202,100	Interpublic Group of Cos., Inc. (b)
	317,700	Time Warner, Inc.
	82,800	Walt Disney Co.
Metals & Mining - 0.9%	92,600	Alcoa, Inc.
Multi-Utilities - 2.4%	50,600	Consolidated Edison, Inc.
	17,900	Dominion Resources, Inc.
	88,300	Energy East Corp.
Oil, Gas & Consumable Fuels - 5.3%	19,900	Anadarko Petroleum Corp.
	139,400	Exxon Mobil Corp.
	46,700	Royal Dutch Shell Plc (f)
Paper & Forest Products - 1.3%	118,200	International Paper Co.
Pharmaceuticals - 5.0%	51,100	AstraZeneca Group Plc (f)
	63,500	GlaxoSmithKline Plc (f)
	72,300	Merck & Co., Inc.
	105,900	Pfizer, Inc.

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	137,400	Schering-Plough Corp.
Semiconductors & Semiconductor Equipment - 3.9%	106,100	Applied Materials, Inc.
	141,100	Fairchild Semiconductor International, Inc. (b)
	260,600	LSI Logic Corp. (b)
	122,900	Micron Technology, Inc. (b)
	82,000	Novellus Systems, Inc. (b)
Specialty Retail - 0.8%	124,600	The Gap, Inc.
		Total Common Stocks (Cost - \$196,578,352) - 79.3%
	Beneficial Interest	Short-Term Securities
	\$ 16,201,227	Merrill Lynch Liquidity Series, LLC Cash Sweep Serie
		Total Short-Term Securities (Cost - \$16,201,227) - 6
		Total Investments (Cost - \$356,321,894) - 141.7%
	Number of Contracts	Options Written
Call Options Written - (0.0%)	41	McDonald's Corp., expiring October 2005 at USD 37.5
		Total Options Written (Premiums Received - \$19,893)
		Total Investments, Net of Options Written (Cost - \$356,302,001**) - 141.7%
		Liabilities in Excess of Other Assets - (41.7%)
		Net Assets - 100.0%

\* Represents a zero coupon bond; the interest rate shown reflects the effective yield at the time of purchase.

\*\* The cost and unrealized appreciation (depreciation) of investments, net of options written, as of September 30, 2005, as computed for federal income tax purposes, were as follows:

Aggregate cost	\$	356,347,840
		=====
Gross unrealized appreciation	\$	24,035,811
Gross unrealized depreciation		(9,885,636)
		-----
Net unrealized appreciation	\$	14,150,175
		=====

(a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.



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- (b) Non-income producing security.
- (c) Floating rate note.
- (d) The security is a perpetual bond and has no definite maturity date.
- (e) 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	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$ 14,641,504	\$ 106,057

- (f) Depositary receipts.
- (g) Brady Bonds are securities which have been issued to refinance commercial bank loans and other debt. The risk associated with these instruments is the amount of any uncollateralized principal or interest payments since there is a high default rate of commercial bank loans by countries issuing these securities.
- (h) Represents a pay-in-kind security which may pay interest/dividends in additional face/shares.

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. Industries are shown as a percent of net assets.

### Item 2 - Controls and Procedures

- 2(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.
- 2(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the last fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### Item 3 - Exhibits

Certifications - Attached hereto

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.

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Capital and Income Strategies Fund, Inc.

By: /s/ Robert C. Doll, Jr.  
-----  
Robert C. Doll, Jr.  
Chief Executive Officer  
Capital and Income Strategies Fund, Inc.

Date: November 17, 2005

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/ Robert C. Doll, Jr.  
-----  
Robert C. Doll, Jr.  
Chief Executive Officer  
Capital and Income Strategies Fund, Inc.

Date: November 17, 2005

By: /s/ Donald C. Burke  
-----  
Donald C. Burke  
Chief Financial Officer  
Capital and Income Strategies Fund, Inc.

Date: November 17, 2005