LMP CAPITAL & INCOME FUND INC.
Form N-CSR
January 07, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21467

LMP Capital and Income Fund Inc.
(Exact name of registrant as specified in charter)

55 Water Street, New York, NY	10041
(Address of principal executive offices)	(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902
(Name and address of agent for service)

Registrant s telephone number, including area code: (800) 451-2010

Date of fiscal year end: October 31

Date of reporting period: October 31, 2008

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

ANNUAL REPORT / OCTOBER 31, 2008

LMP

Capital and Income
Fund Inc.

(SCD)

Managed by **CLEARBRIDGE ADVISORS**

WESTERN ASSET

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

Fund objective

The Fund s investment objective is total return with an emphasis on income.

What s inside

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager. ClearBridge Advisors, LLC (ClearBridge), Western Asset Management Company (Western Asset) and Western Asset Management Company Limited (Western Asset Limited) are the Fund s subadvisers. LMPFA, ClearBridge, Western Asset and Western Asset Limited are wholly-owned subsidiaries of Legg Mason, Inc.

Letter from the chairman

Dear Shareholder,

Economic growth in the U.S. was mixed during the 12-month reporting period ended October 31, 2008. Looking back, third quarter 2007 U.S. gross domestic product (GDP)i growth was a strong 4.8%. However, continued weakness in the housing market, an ongoing credit crunch and soaring oil and food prices then took their toll on the economy, as fourth quarter 2007 GDP declined 0.2%. The economy then expanded 0.9% and 2.8% during the first and second quarters of 2008, respectively. This rebound was due, in part, to rising exports that were buoyed by a weakening U.S. dollar, and solid consumer spending, which was aided by the government s tax rebate program. The dollar s rally and the end of the rebate program, combined with other strains on the economy, then caused GDP to take a step backward in the third quarter of 2008. According to the preliminary estimate released by the U.S. Department of Commerce, third quarter 2008 GDP declined 0.5%.

The latest Bureau of Economic Research release indicates that the U.S. is currently in recession. Evidence supporting this conclusion includes a slowdown in consumer spending, with four consecutive months of declining retail sales from July through October 2008. According to the Department of Commerce, October s 2.8% fall in retail sales is the sharpest decline since it began tracking this data in 1992. In terms of the job market, the U.S. Department of Labor reported that payroll employment declined in each of the first 10 months of 2008. Year-to-date through October, roughly 1.2 million jobs have been shed and the unemployment rate now stands at 6.5%, its highest level since 1994.

Ongoing issues related to the housing and subprime mortgage markets and seizing credit markets prompted the Federal Reserve Board (Fed)ii to take aggressive and, in some cases, unprecedented actions. Beginning in September 2007, the Fed reduced the federal funds rateiii from 5.25% to 4.75%. This marked the first such reduction since June 2003. The Fed then reduced the federal funds rate on six additional occasions through April 2008, bringing the federal funds rate to 2.00%. The Fed then shifted

Letter from the chairman ***continued***

gears in the face of mounting inflationary prices and a weakening U.S. dollar. At its meetings in June, August and September 2008, the Fed held rates steady. Then, on October 8, 2008, in a global coordination effort with six central banks around the world, interest rates were cut in an attempt to reduce the strains in the global financial markets. At that time, the Fed lowered the federal funds rate from 2.00% to 1.50%. The Fed again cut rates from 1.50% to 1.00% at its regularly scheduled meeting on October 29, 2008. In conjunction with its October meeting, the Fed stated: The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. ... Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit.

In addition to the interest rate cuts, the Fed took several actions to improve liquidity in the credit markets. In March 2008, the Fed established a new lending program allowing certain brokerage firms, known as primary dealers, to also borrow from its discount window. Also in March, the Fed played a major role in facilitating the purchase of Bear Stearns by JPMorgan Chase. In mid-September 2008, it announced an $85 billion rescue plan for ailing AIG and pumped $70 billion into the financial system as Lehman Brothers bankruptcy and mounting troubles at other financial firms roiled the markets.

The U.S. Department of the Treasury has also taken an active role in attempting to stabilize the financial system, as it orchestrated the government s takeover of mortgage giants Fannie Mae and Freddie Mac in September. In addition, on October 3, 2008, the Treasury s $700 billion Troubled Asset Relief Program (TARP) was approved by Congress and signed into law by President Bush. As part of TARP, the Treasury had planned to make a $250 billion capital injection into some of the nation s largest banks. However, in November 2008 (after the reporting period ended), Treasury Secretary Paulson said the Treasury no longer intended to use TARP to purchase bad loans and other troubled financial assets.

The U.S. stock market was extremely volatile and generated poor results during the 12 months ended October 31, 2008. Stock prices declined during each of the first five months of the reporting period. This was due, in part, to the credit crunch, weakening corporate profits, rising inflation and fears of an impending recession. The market then reversed course and posted positive returns in April and May 2008. The market s rebound was largely attributed to hopes that the U.S. would skirt a recession and that corporate profits would rebound as the year progressed. However, given the escalating credit crisis and the mounting turmoil in the financial markets, stock prices moved lower during four of the last five months of the period, including S&P 500 Index[iv] declines of 8.91% and 16.79% in September and October, respectively. All told, the S&P 500 Index returned -36.10% during the 12-month reporting period ended October 31, 2008.

Looking at the U.S. bond market, both short- and long-term Treasury yields experienced periods of extreme volatility during the reporting period. Investors were initially focused on the subprime segment of the mortgage-backed market. These concerns broadened, however, to include a wide range of financial institutions and markets. As a result, other fixed-income instruments also experienced increased price volatility. This unrest triggered several flights to quality, causing Treasury yields to move lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). This was particularly true toward the end of the reporting period, as the turmoil in the financial markets and sharply falling stock prices caused investors to flee securities that were perceived to be risky, even high-quality corporate bonds and high-grade municipal bonds. At one point in September 2008, the yield available from the three-month Treasury bill fell to 0.04%, as investors were essentially willing to forgo any return potential in order to access the relative safety of government-backed securities. During the 12 months ended October 31, 2008, two-year Treasury yields fell from 3.94% to 1.56%. Over the same time frame, 10-year Treasury yields moved from 4.48% to 4.01%. Looking at the 12-month period as a whole, the overall bond market, as measured by the Barclays Capital U.S. Aggregate Indexv, returned 0.30%.

Special shareholder notice

On November 18, 2008, the Fund announced changes to its managed distribution policy that will take effect beginning in 2009. The Fund, which had declared previously monthly distributions of $0.1400 per common share payable in the months of November and December 2008, will pay distributions quarterly beginning with the quarter ended March 2009. In addition, the Fund will change the methodology it uses to determine its distribution rate. The Fund, which previously had declared a set monthly distribution rate, will begin setting its quarterly distribution rate based on a percentage of the Fund s net asset value (NAV)vi per share on December 31, 2008. The Board of Directors of the Fund has approved an annual distribution rate, for the 2009 calendar year, of a minimum of approximately 5% of the NAV of the Fund as of the close of trading on December 31, 2008. The Fund may make additional distributions as necessary to meet certain tax requirements.

The Fund cited the deteriorating economic environment and the decline in equity and fixed-income valuations during the past year, which accelerated beginning in the second half of 2008. These declines have led to a reduction in the level of capital gains and income available from the Fund s equity and fixed-income investments. Whereas the Fund s distribution strategy

Letter from the chairman ***continued***

previously encompassed a combination of net investment income and potential short-term and long-term capital gains, the current environment makes it more likely that future distributions will rely less heavily on a capital gains component and more on net investment income generated by the portfolio.

The Fund also utilizes a line of credit to enhance portfolio returns; this line of credit provides the Fund with the ability to moderate its use as market conditions and opportunities change. As a result of the manager s investment outlook and the need to maintain asset coverage requirements, the Fund has reduced its use of leverage to $145 million as of October 31, 2008. This is down from $170 million as reported in the Fund s semi-annual report dated April 30, 2008.

These changes are intended to help improve the overall, long-term performance of the Fund. It is anticipated that these actions will, over time, allow the Fund to rebuild its asset base through the capital appreciation of the underlying investments and will allow the investment manager to focus on longer-term performance that could ultimately result in increased distributions should the Fund s NAV increase. There can be no assurance, however, that the investment manager will be able to achieve these goals.

Under the terms of the Fund s revised managed distribution policy, the Fund will seek to maintain a consistent quarterly distribution level stated as a fixed percentage of its December 31, 2008 NAV, that may be paid in part or in full from net investment income and realized capital gains, or a combination thereof. Stockholders should note, however, that if the Fund s aggregate net investment income and net realized capital gains are less than the amount of the quarterly distribution level, the difference will be distributed from the Fund s assets and will constitute a return of the shareholder s capital. A return of capital is not taxable as a dividend; rather it reduces a shareholder s tax basis in his or her shares of the Fund with any balance in excess of the tax basis treated as a capital gain.

The Board of Directors may reduce the Fund s quarterly distribution rate in the future or terminate or suspend the managed distribution policy at any time. Any such reduction in the quarterly distribution rate, termination or suspension could have an adverse effect on the market price of the Fund s shares.

A special note regarding increased market volatility

In recent months, we have experienced a series of events that have impacted the financial markets and created concerns among both novice and seasoned investors alike. In particular, we have witnessed the failure and consolidation of several storied financial institutions, periods of heightened market volatility, and aggressive actions by the U.S. federal government to steady the financial markets and restore investor confidence. While we hope that the worst is over in terms of the issues surrounding the credit and housing crises, it is likely that the fallout will continue to impact the financial markets and the U.S. economy during the remainder of the year and into 2009 as well.

Like all asset management firms, Legg Mason has not been immune to these difficult and, in some ways, unprecedented times. However, today s challenges have only strengthened our resolve to do everything we can to help you reach your financial goals. Now, as always, we remain committed to providing you with excellent service and a full spectrum of investment choices. And rest assured, we will continue to work hard to ensure that our investment managers make every effort to deliver strong long-term results.

We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our enhanced website, www.leggmason.com/cef. Here you can gain immediate access to many special features to help guide you through difficult times, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

During periods of market unrest, it is especially important to work closely with your financial advisor and remember that reaching one s investment goals unfolds over time and through multiple market cycles. Time and again, history has shown that, over the long run, the markets have eventually recovered and grown.

Letter from the chairman ***continued***

Information about your fund

Please read on for a more detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

December 1, 2008

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

ii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

iii The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

iv The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.

v

The Barclays Capital (formerly Lehman Brothers) U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

vi Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund s market price as determined by supply of and demand for the Fund s shares.

Fund overview

Q. What is the Fund s investment strategy?

A. The Fund seeks total return with an emphasis on income. The Fund invests in a broad range of equity and fixed-income securities of both U.S. and foreign issuers. The Fund varies its allocation between equity and fixed-income securities depending on the portfolio manager s view of economic, market or political conditions, fiscal and monetary policy and security valuation. The portfolio manager manages the equity side of the Fund with a bottom-up approach focused on the risk and reward of each investment opportunity. A portfolio management team at Western Asset Management Company manages the fixed-income allocation of the Fund.

Q. What were the overall market conditions during the Fund s reporting period?

A. The Fund s reporting period began amid a rallying bull market for equities that was rapidly overwhelmed by a global credit crisis, centered on defaulting subprime mortgages and related collateralized mortgage securities. As the fiscal year progressed, the mortgage crisis metastasized into a series of escalating financial institution failures and international economic events that constituted a major historical disruption of the global stock and credit markets.

In early October of 2007, shortly before the start of the period, several major U.S. equity market indexes, including the Dow Jones Industrial Average (DJIA)[i] and the S&P 500 Index[ii] reached new record highs, with the DJIA closing above 14,000 for the first time. The rally was short-lived, however, as early indicators of the growing mortgage market crisis and a weakening economy soon came to dominate the headlines. The stock market tested lows shortly after the start of the Fund s fiscal year in late November, with selling driven by the broadening impact of the subprime mortgage market collapse and its impact on the global credit markets. By the end of calendar year 2007, many of the largest U.S. financial institutions were forced to raise capital in order to shore up their balance sheets.

The market rallied again briefly after the start of 2008, but soon reversed course amid significant volatility and growing concerns about the overall health of the U.S. financial system. The credit markets continued to show signs of weakness and, as a result, a number of money center and investment banks were forced to take asset markdowns and raise capital, culminating in the collapse of Bear Stearns in mid-March and the rescue of the firm by JPMorgan Chase and the Federal Reserve Board (Fed)[iii]. By the end of March, the major averages closed down across the board and had lost between 10% and 20% of their value since the summer of 2007.

The spring of 2008 brought another broad but short-lived market rally, leaving the S&P 500 Index and other major averages up mid-single digits by the end of May. However, the month of June saw a dramatic decline in

Fund overview *continued*

equity prices, the likes of which had not been seen in decades. The DJIA fell over 10% in the month of June alone, its biggest June loss since 1930, putting the major averages in, or near, bear market territory (defined as down 20% from peak to trough). Key reasons for the sharp sell-off included the continued stress on the financial system, especially the credit markets, along with a sharp rise in commodity prices, particularly crude oil and energy prices.

In early September of 2008, a rapidly unfolding series of events linked to the ongoing credit market crisis led to the collapse and subsequent rescue by the Fed of the world s largest insurance company, American International Group, the distressed acquisition of financial services firm Merrill Lynch by Bank of America, and the bankruptcy filing of investment bank Lehman Brothers, the largest in U.S. history. In response, the Fed and the U.S. Department of the Treasury took several steps in an effort to stabilize the credit markets and Congress approved a $700 billion program to clear much of the bad debt from the books of major financial companies.

As the fiscal year drew to a close, the month of October took its place in the history books as one of the worst ever for the U.S. stock market, second only to the Black Monday crash of October 1987 for the DJIA (which dropped over 22% on a single day), and the most volatile month for the S&P 500 Index since November 1929. The difficulty was not isolated to the U.S., as fears of a recession and worldwide slowdown led global stock markets to lose trillions in value, while a global sell-off in commodities continued. Consumer confidence in the U.S. dropped a record amount against the prior month, as unemployment rose and headlines highlighted a shift of concerns from commercial and real estate credit to consumer debt and speculation on the severity of an anticipated recession.

During the fiscal year, the U.S. bond market experienced periods of increased volatility. Changing perceptions regarding the economy, inflation and future Fed monetary policy caused bond prices to fluctuate. Two- and 10-year Treasury yields began the reporting period at 3.94% and 4.48%, respectively. Treasury yields moved lower and their prices moved higher toward the end of 2007 and during the first quarter of 2008, as concerns regarding the subprime mortgage market and a severe credit crunch caused a flight to quality. During this period, investors were drawn to the relative safety of Treasuries, while increased investor risk aversion caused other segments of the bond market to falter.

Treasury yields then moved higher in April, May and early June 2008, as the economy performed better than expected and inflation moved higher. Over this period, riskier fixed-income asset classes, such as high-yield bonds and emerging market debt rallied. However, the credit crunch resumed in mid-June, resulting in another flight to quality. Investors risk aversion then intensified in September and October 2008 given the severe disruptions in the global financial markets. During this time, virtually every asset class, with the exception of short-term Treasuries, performed poorly. At the end of the fiscal year, two- and 10-year Treasury yields were 1.56% and 4.01%, respectively.

The Fed attempted to stimulate economic growth by cutting the federal funds rate[iv] from 5.25% to 2.00% from September 2007 through April 2008. It then held rates steady until October 2008, citing inflationary pressures triggered by soaring oil prices. However, with the global economy moving toward a recession, oil prices falling sharply, and the financial markets in disarray, the Fed lowered interest rates twice in October 2008. The first cut occurred on October 8th, as the Fed and several other central banks around the world lowered rates in a coordinated effort. At that time, the Fed reduced the federal funds rate from 2.00% to 1.50%. Three weeks later, at its regularly scheduled meeting on October 29th, the Fed lowered rates from 1.50% to 1.00%. The Fed also left the door open to further actions, saying: The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

Q. How did we respond to these changing market conditions?

A. We entered the fiscal year concerned about the health of the overall financial system and had positioned the Fund s equity portfolio with what we felt was an appropriately defensive posture. We had relatively low exposure to the Financials sector, an overweight in the Energy sector, and the balance of the equity portfolio focused in what we believed to be high-quality companies with relatively defensive fundamental business characteristics.

In the fixed-income market, many asset prices remained well below their fundamental value as a result of market fears. We underestimated the degree to which the entire financial superstructure would decline. Despite the difficult market environment, we believed that our focus on spread sectors, such as agency pass-through mortgages and corporate bonds, was still valid.

Fund overview ***continued***

Performance review

For the 12 months ended October 31, 2008, LMP Capital and Income Fund Inc. returned -42.09% based on its net asset value (NAV)v and -44.95% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmarks, the Barclays Capital U.S. Aggregate Indexvi and the S&P 500 Index, returned 0.30% and -36.10%, respectively, over the same time frame. The Fund s Lipper Income and Preferred Stock Closed-End Funds Category Averagevii returned -47.54% for the same period. Please note that Lipper performance returns are based on each fund s NAV.

During the 12-month period of this report, the Fund made distributions to shareholders totaling $3.21 per share. The performance table below shows the Fund s 12-month total return based on its NAV and market price as of October 31, 2008. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of October 31, 2008 (unaudited)

PRICE PER SHARE	12-MONTH TOTAL RETURN*
$11.20 (NAV)	-42.09%
$9.07 (Market Price)	-44.95%

All figures represent past performance and are not a guarantee of future results.

*** Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund s Dividend Reinvestment Plan.**

Q. What were the leading contributors to performance?

A. For the equity portion of the Fund, relative to the S&P 500 Index, stock selection in the Consumer Staples, Materials, Telecommunication Services and Information Technology (IT) sectors contributed to performance for the period. The Fund s overweights to the Energy and Utilities sectors and its underweights to the IT and Health Care sectors helped relative performance. In terms of individual Fund holdings, leading contributors to performance for the period included **Fidelity National Financial Inc.** in the Financials sector, **Schlumberger Ltd.** in the Energy sector, **QUALCOMM Inc.** and **Visa Inc.**, both in the IT sector, and **Philip Morris International Inc.** in the Consumer Staples sector.

In the fixed-income portion of the Fund, our tactically-driven duration[viii] posture contributed to returns, as did our positioning in anticipation of the yield curve[ix] steepening, as the spread between two- and 10-year Treasury yields widened.

Q. What were the leading detractors from performance?

A. For the equity portion of the Fund, relative to the S&P 500 Index, stock selection in the Energy, Consumer Discretionary, Financials and Utilities sectors detracted from performance for the period. The Fund s overweight to the Industrials sector and its underweights to the Consumer Staples and Materials sectors also hurt relative performance. In terms of individual Fund holdings, leading detractors from performance for the period included positions in **Crosstex Energy Inc.** in the Energy sector, **American International Group Inc.** and **Och-Ziff Capital Management Group LLC**, both in the Financials sector, **General Electric Co.** in the Industrials sector and **Lamar Advertising Co. (Class A Shares)** in the Consumer Discretionary sector.

Our fixed-income positions, especially our high-yield holdings, performed poorly during the reporting period. Our concentration of high-yield Industrials issues and bank loans, especially of lower-rated quality, were hit hard by the credit crisis and declining commodity prices. Our investment grade Financials suffered from a series of bankruptcies, government conservatorships and mergers. In addition, non-agency structured product mortgages reached new lows amid all the market turmoil and weakness in the housing market.

Q. Were there any significant changes to the Fund during the reporting period?

A. During the fiscal year, we made three strategic changes to the Fund. First, we increased the Fund s allocation to fixed-income from a low 20% to a high 30% range. Second, we increased the Fund s exposure to high-yield fixed-income securities during the course of the year as credit spreads expanded and, therefore, made high-yield securities a more attractive investment in our view. We also increased the Fund s allocation to the investment grade credit sector and reduced its allocation to agency mortgage-backed securities.

On the equity side, as of the close of the fiscal year, we maintained a preference for the Fund s existing holdings in the Energy sector and other high-quality companies, even though they may not have performed significantly better than the overall market in the recent difficult economic environment.

Fund overview *continued*

Looking for additional information?

The Fund is traded under the symbol SCD and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XSCDX on most financial websites. *Barron s* and *The Wall Street Journal s* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites, as well as www.leggmason.com/cef.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund s current NAV, market price and other information.

Thank you for your investment in LMP Capital and Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Robert Gendelman

Portfolio Manager

ClearBridge Advisors, LLC (Equity Portion)

Western Asset Management Company (Fixed-Income Portion)

November 18, 2008

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

Portfolio holdings and breakdowns are as of October 31, 2008 and are subject to change and may not be representative of the portfolio managers current or future investments. The Fund s top 10 holdings (as a percentage of net assets) as of this date were: Covanta Holding Corp. (3.5%), General Electric Co. (3.0%), Total SA, ADR (2.9%), JPMorgan Chase & Co. (2.8%), El Paso Corp. (2.7%), Assa Abloy AB (2.5%), Kimberly-Clark Corp. (2.3%), Time Warner Inc. (2.2%), Novartis AG, ADR (2.1%) and Kraft Foods Inc., Class A Shares (2.0%). Please refer to pages 9 through 30 for a list and percentage breakdown of the Fund s holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund s top five sector holdings (as a percentage of net assets) as of October 31, 2008 were: Industrials (21.5%), Financials (16.7%), Energy (16.0%), Health Care (13.6%), and Consumer Discretionary (12.4%). The Fund s portfolio composition is subject to change at any time.

RISKS: Stock and bond prices are subject to fluctuation. As interests rates rise, bond prices fall, reducing the value of the Fund s share price. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. These risks are magnified in emerging or developing markets. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Leverage may magnify gains and increase losses in the Fund s portfolio.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

i The Dow Jones Industrial Average (DJIA) is a widely followed measurement of the stock market. The average is comprised of 30 stocks that represent leading companies in major industries. These stocks, widely held by both individual and institutional investors, are considered to be all blue-chip companies.

ii The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.

iii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

v Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund s market price as determined by supply of and demand for the Fund s shares.

vi The Barclays Capital (formerly Lehman Brothers) U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

vii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the 12-month period ended October 31, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 30 funds in the Fund s Lipper category.

viii

Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

ix The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments October 31, 2008

Schedule of investments

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY		VALUE
COMMON STOCKS 50.8%			
CONSUMER DISCRETIONARY 4.2%			
	Auto Components 0.6%		
161,020	Johnson Controls Inc.	$	*2,854,885*
	Household Durables 0.0%		
1,226,577	Home Interiors & Gifts Inc.(a)(b)*		*1*
	Media 3.6%		
145,700	Lamar Advertising Co., Class A Shares*		2,210,269
342,880	Liberty Media Corp. - Entertainment, Series A*		5,520,368
748,160	Time Warner Inc.		7,548,934
511,700	Warner Music Group Corp.		2,118,438
	Total Media		*17,398,009*
	TOTAL CONSUMER DISCRETIONARY		20,252,895
CONSUMER STAPLES 4.3%			
	Food Products 1.4%		
235,600	Kraft Foods Inc., Class A Shares		*6,865,384*
	Household Products 2.9%		
124,800	Kimberly-Clark Corp.		7,648,992
98,800	Procter & Gamble Co.		6,376,552
	Total Household Products		*14,025,544*
	TOTAL CONSUMER STAPLES		20,890,928
ENERGY 8.2%			
	Energy Equipment & Services 2.5%		
44,710	Diamond Offshore Drilling Inc.		3,970,248
206,920	Halliburton Co.		4,094,947
137,340	National-Oilwell Varco Inc.*		4,105,092
	Total Energy Equipment & Services		*12,170,287*
	Oil, Gas & Consumable Fuels 5.7%		
499,741	Crosstex Energy Inc.		5,102,356
41,095	Devon Energy Corp.		3,322,942
950,610	El Paso Corp.		9,220,917
177,530	Total SA, ADR		9,842,263
	Total Oil, Gas & Consumable Fuels		*27,488,478*
	TOTAL ENERGY		39,658,765
FINANCIALS 4.9%			
	Capital Markets 2.6%		
321,700	Charles Schwab Corp.		6,150,904
307,220	Invesco Ltd.		4,580,650
333,237	Och-Ziff Capital Management Group		1,549,552
	Total Capital Markets		*12,281,106*

See Notes to Financial Statements.

Schedule of investments ***continued***

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY		VALUE
	Commercial Banks 0.4%		
54,400	Wells Fargo & Co.	$	*1,852,320*
	Diversified Financial Services 1.9%		
225,300	JPMorgan Chase & Co.		*9,293,625*
	TOTAL FINANCIALS		23,427,051
HEALTH CARE 7.1%			
	Health Care Equipment & Supplies 1.2%		
142,020	Medtronic Inc.		*5,727,667*
	Health Care Providers & Services 1.0%		
209,000	UnitedHealth Group Inc.		*4,959,570*
	Health Care Technology 1.4%		
824,980	HLTH Corp.*		*6,839,084*
	Pharmaceuticals 3.5%		
78,200	Johnson & Johnson		4,796,788
135,200	Novartis AG, ADR		6,893,848
158,500	Wyeth		5,100,530
	Total Pharmaceuticals		*16,791,166*
	TOTAL HEALTH CARE		34,317,487
INDUSTRIALS 12.7%			
	Aerospace & Defense 3.2%		
74,020	L-3 Communications Holdings Inc.		6,008,203
86,790	TransDigm Group Inc.*		2,615,851
124,800	United Technologies Corp.		6,859,008
	Total Aerospace & Defense		*15,483,062*
	Air Freight & Logistics 0.5%		
68,170	Expeditors International of Washington Inc.		*2,225,750*
	Building Products 1.7%		
737,600	Assa Abloy AB		*8,269,746*
	Commercial Services & Supplies 2.4%		
548,680	Covanta Holding Corp.*		*11,829,541*
	Industrial Conglomerates 3.0%		
519,470	General Electric Co.		10,134,860
247,030	McDermott International Inc.*		4,231,624
	Total Industrial Conglomerates		*14,366,484*
	Machinery 1.2%		
175,700	Dover Corp.		*5,581,989*
	Road & Rail 0.7%		
76,220	CSX Corp.		*3,484,778*
	TOTAL INDUSTRIALS		61,241,350

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY		VALUE
INFORMATION TECHNOLOGY 3.3%			
	Communications Equipment 1.3%		
220,900	Nokia Oyj, ADR	$	3,353,262
76,810	QUALCOMM Inc.		2,938,750
	Total Communications Equipment		*6,292,012*
	Computers & Peripherals 0.8%		
326,420	EMC Corp.*		*3,845,228*
	Software 1.2%		
98,600	Autodesk Inc.*		2,101,166
196,300	Oracle Corp.*		3,590,327
	Total Software		*5,691,493*
	TOTAL INFORMATION TECHNOLOGY		15,828,733
MATERIALS 3.4%			
	Chemicals 2.5%		
67,990	Air Products & Chemicals Inc.		3,952,259
163,510	Celanese Corp., Series A Shares		2,266,248
66,600	Monsanto Co.		5,926,068
	Total Chemicals		*12,144,575*
	Metals & Mining 0.9%		
239,200	Commercial Metals Co.		2,655,120
58,430	Freeport-McMoRan Copper & Gold Inc., Class B Shares		1,700,313
	Total Metals & Mining		*4,355,433*
	TOTAL MATERIALS		16,500,008
TELECOMMUNICATION SERVICES 1.4%			
	Wireless Telecommunication Services 1.4%		
205,240	American Tower Corp., Class A Shares*		*6,631,305*
UTILITIES 1.3%			
	Gas Utilities 1.3%		
170,150	National Fuel Gas Co.		*6,157,729*
	TOTAL COMMON STOCKS (Cost $365,140,645)		244,906,251
CONVERTIBLE PREFERRED STOCKS 0.2%			
ENERGY 0.2%			
	Oil, Gas & Consumable Fuels 0.2%		
1,100	El Paso Corp., 4.990% (Cost $885,005)		872,025
PREFERRED STOCKS 0.1%			
FINANCIALS 0.1%			
	Diversified Financial Services 0.1%		
30,000	Citigroup Inc., 8.125%		*505,500*

See Notes to Financial Statements.

Schedule of investments ***continued***

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY		VALUE
	Thrifts & Mortgage Finance 0.0%		
25,950	Federal Home Loan Mortgage Corp. (FHLMC), 8.375%[(e)*]	$	40,223
300	Federal National Mortgage Association (FNMA), 7.000%[(c)(e)*]		750
17,650	Federal National Mortgage Association (FNMA), 8.250%[(e)*]		37,065
	Total Thrifts & Mortgage Finance		*78,038*
	TOTAL PREFERRED STOCKS (Cost $1,855,960)		583,538
FACE AMOUNT			
ASSET-BACKED SECURITIES 1.8%			
FINANCIALS 1.8%			
	Home Equity 1.7%		
$ 658,646	Asset-Backed Funding Certificates, 4.709% due 1/25/34[(c)]		352,639
129,379	Countrywide Asset-Backed Certificates, 4.509% due 6/25/34[(c)]		57,720
720,000	Credit-Based Asset Servicing & Securitization LLC, 5.704% due 12/25/36		562,804
73,417	Finance America Net Interest Margin Trust, 5.250% due 6/27/34[(a)(b)(d)(g)]		7
160,514	Fremont Home Loan Trust, 4.909% due 2/25/34[(c)]		80,320
1,820,000	Green Tree, 8.970% due 4/25/38[(a)(c)(d)]		1,330,875
	GSAA Home Equity Trust:		
1,770,000	3.559% due 3/25/37[(c)]		656,458
1,790,000	3.529% due 7/25/37[(c)]		552,585
1,720,000	3.559% due 5/25/47[(c)]		622,256
1,005,000	GSAMP Trust, 4.409% due 11/25/34[(c)]		804,832
771,228	Lehman XS Trust, 3.329% due 6/25/46[(c)]		721,868
547,107	MASTR Specialized Loan Trust, 3.609% due 5/25/37[(a)(c)(d)]		366,562
1,468,810	Option One Mortgage Loan Trust, 4.309% due 5/25/34[(c)]		1,182,521
712,555	RAAC, 3.639% due 10/25/46[(c)(d)]		499,932
458,567	Renaissance Home Equity Loan Trust, 5.159% due 3/25/34[(c)]		246,067
	Sail Net Interest Margin Notes:		
141,210	7.750% due 4/27/33[(b)(d)(g)]		14
71,380	5.500% due 3/27/34[(b)(d)(g)]		8
504,409	Structured Asset Securities Corp., 3.509% due 11/25/37[(c)]		453,968
	Total Home Equity		*8,491,436*
	Student Loan 0.1%		
350,000	Nelnet Student Loan Trust, 5.015% due 4/25/24[(c)]		*292,761*
	TOTAL ASSET-BACKED SECURITIES(Cost $11,656,319)		8,784,197
COLLATERALIZED MORTGAGE OBLIGATIONS 2.4%			
260,000	American Home Mortgage Investment Trust, 4.059% due 11/25/45[(c)]		39,800
1,374,505	BCAP LLC Trust, 3.449% due 10/25/36[(c)]		843,909
156,180	Bear Stearns ARM Trust, 5.785% due 2/25/36[(c)]		95,529

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY		VALUE
		Countrywide Alternative Loan Trust:		
$	32,247	6.000% due 2/25/34	$	27,434
	1,473,856	4.488% due 7/20/46(c)		801,164
		Federal Home Loan Mortgage Corp. (FHLMC):		
	60,576	6.000% due 3/15/34(c)(e)		49,843
	520,941	PAC, 6.000% due 4/15/34(c)(e)		458,815
	746,310	Harborview Mortgage Loan Trust, 5.348% due 11/19/35(c)		52,242
		JPMorgan Mortgage Trust:		
	2,110,000	5.907% due 6/25/37(a)(c)		1,750,302
	1,060,000	6.000% due 8/25/37		637,389
	905,719	MASTR ARM Trust, 4.574% due 9/25/33(c)		802,933
	1,570,596	MASTR Reperforming Loan Trust, 5.425% due 5/25/36(a)(c)(d)		1,319,411
	339,500	Merit Securities Corp., 4.740% due 9/28/32(c)(d)		237,913
		MLCC Mortgage Investors Inc.:		
	300,171	4.179% due 4/25/29(c)		257,026
	484,041	4.139% due 5/25/29(c)		463,377
		RBS Greenwich Capital, Mortgage Pass-Through Certificates,		
	1,054,301	7.000% due 4/25/35		669,228
		Structured ARM Loan Trust:		
	1,723,292	5.365% due 5/25/35(c)		1,241,772
	631,603	5.895% due 5/25/36(c)		422,399
		Thornburg Mortgage Securities Trust:		
	213,555	6.214% due 7/25/37(c)		173,726
	221,404	6.217% due 7/25/37(c)		182,438
		Washington Mutual Mortgage Pass-Through Certificates, 3.655% due		
	779,248	6/25/46(c)		354,558
	781,515	Wells Fargo Alternative Loan Trust, 3.689% due 6/25/37(c)		483,081
		TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS		
		(Cost $13,316,111)		11,364,289
COLLATERALIZED SENIOR LOANS 2.6%				
CONSUMER DISCRETIONARY 0.9%				
		Diversified Consumer Services 0.0%		
	247,500	Thomson Learning Hold, Term Loan B, 4.960% due 7/5/14(c)		*185,762*
		Hotels, Restaurants & Leisure 0.1%		
		Aramark Corp.:		
	14,607	Letter of Credit Facility Deposits, 1.875% due 1/31/14(c)		12,266
	229,916	Term Loan, 6.705% due 1/31/14		193,072
		Total Hotels, Restaurants & Leisure		*205,338*
		Media 0.7%		
	248,117	Charter Communications, Term Loan B, 7.350% due 3/15/14		186,824
	248,029	CMP Susquehanna Corp., Term Loan, 4.669% due 6/7/13(c)		111,613

See Notes to Financial Statements.

Schedule of investments ***continued***

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY		VALUE
		Media 0.7% ***continued***		
$	1,075,000	Direct TV, Term Loan C, 5.250% due 4/13/13(c)	$	984,969
	496,862	Idearc Inc., Term Loan B, 4.860% due 11/1/14(c)		214,479
	242,875	LodgeNet Entertainment Corp., Term Loan B, 4.700% due 4/4/14(c)		142,082
	1,000,000	Newsday LLC, 9.750% due 7/15/13		840,000
	247,475	Regal Cinemas Corp., Term Loan B, 4.196% due 10/19/10(c)		187,118
	250,000	UPC Broadband Holding BV, Term Loan N, 4.214% due 3/30/14(c)		179,375
	1,000,000	Virgin Media Inc., Term Loan, 7.500% due 1/15/14		692,500
		Total Media		*3,538,960*
		Multiline Retail 0.1%		
	250,000	Neiman Marcus Group Inc., Term Loan B, 6.939% due 3/13/13(c)		*190,078*
		Specialty Retail 0.0%		
	247,481	Michaels Stores Inc., Term Loan B, 4.750% due 10/31/13(c)		*146,076*
		TOTAL CONSUMER DISCRETIONARY		4,266,214
HEALTH CARE 0.2%				
		Health Care Equipment & Supplies 0.0%		
		Bausch & Lomb Inc.:		
	198,500	Term Loan, 8.080% due 4/11/15(c)		161,116
	50,000	Term Loan B, 6.511% due 4/11/15		40,583
		Total Health Care Equipment & Supplies		*201,699*
		Health Care Providers & Services 0.1%		
		Community Health Systems Inc.:		
	15,468	Delayed Draw Term Loan, 7.756% due 7/2/14		12,434
	226,754	Term Loan B, 4.713% due 7/2/14(c)		182,282
	246,851	HCA Inc., Term Loan B, 7.080% due 11/1/13(c)		204,331
		Total Health Care Providers & Services		*399,047*
		Pharmaceuticals 0.1%		
	247,487	Royalty Pharma, Term Loan B, 5.511% due 5/15/14(c)		*217,170*
		TOTAL HEALTH CARE		817,916
INDUSTRIALS 0.1%				
		Aerospace & Defense 0.1%		
		Dubai Aerospace Enterprise, Term Loan:		
	284,588	6.410% due 7/31/14(c)		212,018
	287,234	6.450% due 7/31/14(c)		213,989
		Total Aerospace & Defense		*426,007*
		Airlines 0.0%		
	2,506	Delta Airlines Inc., Term Loan, 8.082% due 4/30/14		1,441
	177,694	United Airlines Inc., Term Loan B, 4.500% due 1/12/14(c)		102,174
		Total Airlines		*103,615*
		Commercial Services & Supplies 0.0%		
	247,494	US Investigations Services Inc., Term Loan B, 7.910% due 2/21/15		*175,721*
		TOTAL INDUSTRIALS		705,343

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
INFORMATION TECHNOLOGY 0.1%		
	IT Services 0.1%	
$ 564,300	First Data Corp., Term Loan, 5.687% due 10/15/14(c)	$ *417,784*
MATERIALS 0.4%		
	Chemicals 0.1%	
1,000,000	Lyondell Chemical Co., Term Loan B2, 0.000% due 12/20/14(c)	*605,000*
	Containers & Packaging 0.1%	
492,726	Graphic Packaging International, Term Loan C, 7.496% due 5/16/14(c)	*419,741*
	Paper & Forest Products 0.2%	
1,000,000	Georgia-Pacific Corp., Term Loan, 4.544% due 12/23/13(c)	833,056
248,125	NewPage Corp., Term Loan, Tranche B, 7.156% due 11/5/14(c)	202,577
	Total Paper & Forest Products	*1,035,633*
	TOTAL MATERIALS	2,060,374
TELECOMMUNICATION SERVICES 0.6%		
	Diversified Telecommunication Services 0.4%	
1,000,000	Cablevision Systems Corp., Term Loan B, 4.214% due 3/30/13(c)	869,286
168,750	Insight Midwest, Term Loan B, 4.470% due 4/10/14(c)	