

LMP CAPITAL & INCOME FUND INC.
Form N-CSR
March 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21467

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

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

10041
(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: December 31

Date of reporting period: December 31, 2008

ITEM 1. REPORT TO STOCKHOLDERS.

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

ANNUAL REPORT / DECEMBER 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.

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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,

At a meeting held on November 12, 2008, the Board of Directors approved management's proposal to change the fiscal year-end of LMP Capital and Income Fund Inc. from October 31 to December 31, effective November 1, 2008. As a result of this change, shareholders are being provided with a short period annual report and a stub-period audit for the two-month period from November 1, 2008 through December 31, 2008.

Please read on for a more detailed look at the prevailing economic and market conditions during the Fund's abbreviated 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. Please refer to the Fund's annual report for the period ended October 31, 2008 for additional information.

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

January 30, 2009

LMP Capital and Income Fund Inc. **I**

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund's investment objective is 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 investment manager's view of economic, market or political conditions, fiscal and monetary policy and security valuation.

The Fund's investments in equity securities include, among other securities, common stocks, preferred stocks, warrants, rights, convertible securities, depositary receipts, trust certificates, real estate investment trusts (REITs), limited partnership interests, equity-linked debt securities and shares of other investment companies. The Fund's investments in fixed-income securities include, among other securities, corporate bonds, mortgage- and asset-backed securities, U.S. government obligations, investment grade and high-yield debt, including emerging market debt and high-yield sovereign debt, and loans. In addition, the Fund may use options, futures and options on futures to increase exposure to part or all of the market or to hedge against adverse changes in the market value of the Fund's securities.

Mr. Gendelman, the Fund's lead portfolio manager at ClearBridge Advisors, LLC, one of the Fund's subadvisers, oversees the Fund's allocation between equity and fixed-income securities, as well as the Fund's equity investments in general. He 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, one of the Fund's subadvisers, manages the fixed-income portion of the Fund. Their focus is on portfolio structure, including sector allocation, durationⁱⁱ weighting and term-structure decisions.

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

A. The abbreviated reporting period (November 1, 2008 through December 31, 2008) followed the dramatic and historic upheaval in the global stock and bond markets, as well as the domestic economy, that transpired over much of the year, and encompassed what many consider to be the bottom of the worst stock market slide since the 1930s.

Economic data, which was already showing signs of significant deterioration over the course of 2008, continued to worsen during the period. At the start of the period, it was already evident that the U.S. was in the midst of a full-fledged recession. The unemployment rate rose to 6.7% in November, a 15-year high, as the worst job losses in 34 years were reported for the month of November. The unemployment rate rose even higher, to 7.2%, for December. During the Christmas season, retail sales fell 2.6%, the worst since 1970. Auto sales collapsed to a 10.5 million seasonally adjusted annual rate, the lowest level

Fund overview *continued*

since the early 1980s. Chrysler and GM were teetering on the edge of bankruptcy. Housing starts and permits hit new lows as home prices fell sharply and have not yet stabilized, while inventories remain elevated. The domestic stock market appeared to have made a bottom on November 20th and responded to signs of credit easing by rallying more than 20% between November 20th and the end of the year. The overall stock market, as measured by the S&P 500 Indexⁱⁱⁱ, returned -7.18% and 1.06%, respectively, in November and December 2008. In contrast, the overall U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Index^{iv}, gained 3.25% and 3.73%, respectively in November and December 2008.

For 2008 as a whole, the stock market plunged 37.00%, its worst calendar year performance since 1937. In contrast, the bond market gained 5.25%. This disparity was, in part, due to increased risk aversion, as investors flocked to the safety of U.S. Treasury securities and shunned riskier asset classes given the upheaval in the financial markets and expectations for a deep and prolonged recession.

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

A. During the months of November and December, we increased the Fund's allocation to the Materials and Information Technology (IT) sectors, while reducing exposure to the Energy, Industrials and Consumer Discretionary sectors. We also increased our use of derivatives and exchange traded funds.

Performance review

For the period from November 1, 2008 through December 31, 2008, LMP Capital and Income Fund Inc. returned -7.43% based on its net asset value (NAV)^v and -11.44% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays Capital U.S. Aggregate Index and the S&P 500 Index, returned 7.11% and -6.19%, respectively, over the same time frame. The Lipper Income and Preferred Stock Closed-End Funds Category Average^{vi} returned -4.55% for the same period. Please note that Lipper performance returns are based on each fund's NAV.

During the two-month period of this report, the Fund made distributions to shareholders totaling \$0.28 per share. The performance table on the next page shows the Fund's two-month total return based on its NAV and market price as of December 31, 2008. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of December 31, 2008 (unaudited)

PRICE PER SHARE	TOTAL RETURN*
\$10.07 (NAV)	(11/1/08 12/31/08)
\$7.73 (Market Price)	-7.43%
	-11.44%

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 portfolio, overall sector allocation contributed to performance relative to the S&P 500 Index. In particular, underweights to the Financials and IT sectors helped relative performance for the period. Stock selection in the Financials, Materials, IT and Health Care sectors also contributed to relative performance for the period. In terms of individual holdings, leading contributors to performance for the period included positions in **HLTH Corp.** in the Health Care sector (although technically a Health Care company, HLTH Corp. primarily provides health information services and we consider it to be an IT holding), **Wyeth**, also in the Health Care sector, **Newmont Mining Corp.** and **Barrick Gold Corp.**, both in the Materials sector, **Total SA (ADR)** in the Energy sector and **TransDigm Group Inc.** in the Industrials sector, as well as several derivatives.

In the fixed-income portion of the portfolio, our tactically-driven duration and yield curve positioning were contributors to performance as interest rates fell over the two-month reporting period. Our investment grade credits, such as Financials, contributed to performance after a strong showing in December.

Q. What were the leading detractors from performance?

A. For the equity portion of the portfolio, overall stock selection detracted from relative performance, specifically in the Energy, Consumer Staples, Industrials, Consumer Discretionary, Telecommunication Services (Telecom) and Utilities sectors. The portfolio's underweights to the Consumer Discretionary, Consumer Staples, Telecom, Health Care and Utilities sectors also hurt relative performance for the period. In terms of individual holdings, leading detractors from performance for the period included positions in **Crosstex Energy Inc.** and **El Paso Corp.**, both in the Energy sector, **JPMorgan Chase & Co.** in the Financials sector, **McDermott International Inc.** and **General Electric Co.**, both in the Industrials sector, **Liberty Media Corp. - Entertainment, Series A** in the Consumer Discretionary sector and **Monsanto Co.** in the Materials sector.

Fund overview *continued*

In the fixed-income portion of the portfolio, our high-yield securities continued to perform poorly over the two-month period. Our high-yield Industrials issues and bank loans, especially those of lower-rated quality, were hit hard by the credit crisis and worsening economy. Non-agency mortgage-backed securities reached new lows amid all the market turmoil and the ongoing fallout from the housing slowdown.

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

A. On the equity side of the Fund's portfolio, over the course of the period we established several new positions including those in **Freeport-McMoRan Copper & Gold Inc.**, Newmont Mining Corp. and Barrick Gold Corp., all in the Materials sector, as well as **Thomson Reuters PLC** in the Consumer Discretionary sector and **Alcon Inc.** in the Health Care sector.

We also closed a number of existing positions, including those in **Expeditors International of Washington Inc.** in the Industrials sector, **Johnson Controls Inc.** and **Liberty Media Corp. - Entertainment, Series A**, both in the Consumer Discretionary sector, **Diamond Offshore Drilling Inc.** in the Energy sector and **UnitedHealth Group Inc.** in the Health Care sector.

In the fixed-income portion of the portfolio, we gradually reduced our positions in agency mortgage-backed securities over the last two months of the year.

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 Standard 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
Lead Portfolio Manager
ClearBridge Advisors, LLC
(Fund Allocation and Equity Portion)

Western Asset Management Company (Fixed-Income Portion)

January 20, 2009

Fund overview *continued*

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 December 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. (4.0%), Total SA, ADR (2.9%), General Electric Co. (2.6%), Assa Abloy AB (2.4%), Time Warner Inc. (2.3%), El Paso Corp. (2.2%), Kimberly-Clark Corp. (2.1%), United Technologies Corp. (2.1%), Wyeth (2.0%) and Procter & Gamble Co. (1.9%). Please refer to pages 8 through 28 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 December 31, 2008 were: Industrials (18.2%), Financials (16.8%), Energy (13.8%), Health Care (12.7%) and Materials (10.4%). The Fund's portfolio composition is subject to change at any time.

RISKS: Stock and bond prices are subject to fluctuation. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. 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 Real estate investment trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.
- ii 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.
- iii 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.
- iv 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.
- 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 the Fund's market price as determined by supply of and demand for the Fund's shares.

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- vi Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the period from November 1, 2008 through December 31, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 31 funds in the Fund's Lipper category.
- vii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

6 LMP Capital and Income Fund Inc. 2008 Annual Report

Fund at a glance (unaudited)

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

Schedule of investments

December 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
COMMON STOCKS 50.2%		
CONSUMER DISCRETIONARY 3.0%	Household Durables 0.0%	
1,226,577	Home Interiors & Gifts Inc.(a)(b)*	\$ 1
145,700	Media 3.0%	
82,800	Lamar Advertising Co., Class A Shares*	1,829,992
690,560	Thomson Reuters PLC(a)	1,831,322
511,700	Time Warner Inc.	6,947,034
	Warner Music Group Corp.	1,545,334
	<i>Total Media</i>	12,153,682
	TOTAL CONSUMER DISCRETIONARY	12,153,683
CONSUMER STAPLES 4.4%	Food Products 1.3%	
201,450	Kraft Foods Inc., Class A Shares	5,408,932
122,240	Household Products 3.1%	
94,150	Kimberly-Clark Corp.	6,446,938
	Procter & Gamble Co.	5,820,353
	<i>Total Household Products</i>	12,267,291
	TOTAL CONSUMER STAPLES	17,676,223
ENERGY 6.7%	Energy Equipment & Services 1.6%	
170,770	Halliburton Co.	3,104,599
137,340	National-Oilwell Varco Inc.*	3,356,589
	<i>Total Energy Equipment & Services</i>	6,461,188
	Oil, Gas & Consumable Fuels 5.1%	
466,341	Crosstex Energy Inc.	1,818,730
45,985	Devon Energy Corp.	3,021,675
858,910	El Paso Corp.	6,725,265
156,050	Total SA, ADR	8,629,565
	<i>Total Oil, Gas & Consumable Fuels</i>	20,195,235
	TOTAL ENERGY	26,656,423
EXCHANGE TRADED FUND 1.2%	UltraShort S&P500 ProShares	4,918,734
69,360		
FINANCIALS 5.0%	Capital Markets 2.8%	
321,700	Charles Schwab Corp.	5,201,889
307,220	Invesco Ltd.	4,436,257
272,887	Och-Ziff Capital Management Group	1,405,368
	<i>Total Capital Markets</i>	11,043,514
	Commercial Banks 1.1%	
148,300	Wells Fargo & Co.	4,371,884

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
136,490	Diversified Financial Services 1.1% JPMorgan Chase & Co.	\$ 4,303,530
	TOTAL FINANCIALS	19,718,928
HEALTH CARE 6.9%		
27,830	Health Care Equipment & Supplies 1.6% Alcon Inc.	2,482,158
120,390	Medtronic Inc.	3,782,654
	<i>Total Health Care Equipment & Supplies</i>	6,264,812
	Health Care Technology 1.4%	
554,190	HLTH Corp.*	5,796,827
	Pharmaceuticals 3.9%	
78,200	Johnson & Johnson	4,678,706
95,060	Novartis AG, ADR	4,730,186
158,500	Wyeth	5,945,335
	<i>Total Pharmaceuticals</i>	15,354,227
	TOTAL HEALTH CARE	27,415,866
INDUSTRIALS 11.6%		
	Aerospace & Defense 2.1%	
74,020	L-3 Communications Holdings Inc.	5,461,196
84,560	TransDigm Group Inc.*	2,838,679
	<i>Total Aerospace & Defense</i>	8,299,875
	Building Products 1.8%	
631,340	Assa Abloy AB(a)	7,163,480
	Commercial Services & Supplies 3.0%	
545,980	Covanta Holding Corp.*	11,989,721
	Industrial Conglomerates 4.2%	
487,140	General Electric Co.	7,891,668
216,050	McDermott International Inc.*	2,134,574
119,880	United Technologies Corp.	6,425,568
	<i>Total Industrial Conglomerates</i>	16,451,810
	Road & Rail 0.5%	
65,660	CSX Corp.	2,131,980
	TOTAL INDUSTRIALS	46,036,866
INFORMATION TECHNOLOGY 4.2%		
	Communications Equipment 1.6%	
220,900	Nokia Oyj, ADR	3,446,040
76,810	QUALCOMM Inc.	2,752,102
	<i>Total Communications Equipment</i>	6,198,142
	Computers & Peripherals 0.9%	
353,270	EMC Corp.*	3,698,737

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
	Software 1.7%	
140,510	Autodesk Inc.*	\$ 2,761,021
224,420	Oracle Corp.*	3,978,967
	<i>Total Software</i>	6,739,988
	TOTAL INFORMATION TECHNOLOGY	16,636,867
MATERIALS 5.1%		
	Chemicals 2.8%	
93,290	Air Products & Chemicals Inc.	4,689,688
180,600	Celanese Corp., Series A Shares	2,244,858
61,570	Monsanto Co.	4,331,450
	<i>Total Chemicals</i>	11,265,996
	Metals & Mining 2.3%	
64,500	Barrick Gold Corp.	2,371,665
211,430	Commercial Metals Co.	2,509,674
71,320	Freeport-McMoRan Copper & Gold Inc., Class B Shares	1,743,061
57,700	Newmont Mining Corp.	2,348,390
	<i>Total Metals & Mining</i>	8,972,790
	TOTAL MATERIALS	20,238,786
TELECOMMUNICATION SERVICES 1.2%		
	Wireless Telecommunication Services 1.2%	
159,770	American Tower Corp., Class A Shares*	4,684,456
UTILITIES 0.9%		
	Gas Utilities 0.9%	
115,180	National Fuel Gas Co.	3,608,589
	TOTAL COMMON STOCKS	
	(Cost \$318,673,200)	199,745,421
CONVERTIBLE PREFERRED STOCKS 0.8%		
ENERGY 0.5%		
	Oil, Gas & Consumable Fuels 0.5%	
3,200	El Paso Corp., 4.990%(a)	2,112,800
MATERIALS 0.3%		
	Metals & Mining 0.3%	
1,930	Freeport-McMoRan Copper & Gold Inc., 5.500%	1,186,950
	TOTAL CONVERTIBLE PREFERRED STOCKS	
	(Cost \$3,266,441)	3,299,750
PREFERRED STOCKS 0.2%		
FINANCIALS 0.2%		
	Consumer Finance 0.1%	
809	Preferred Blocker Inc., 9.000%(c)*	242,700
	Diversified Financial Services 0.1%	
30,000	Citigroup Inc., 8.125%	478,500

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
	Thriffs & Mortgage Finance 0.0%	
25,950	Federal Home Loan Mortgage Corp. (FHLMC), 8.375%(d)*	\$ 10,121
300	Federal National Mortgage Association (FNMA), 7.000%(d)(e)*	225
17,650	Federal National Mortgage Association (FNMA), 8.250%(d)*	14,649
	<i>Total Thriffs & Mortgage Finance</i>	24,995
	TOTAL PREFERRED STOCKS	
	(Cost \$2,046,392)	746,195
FACE AMOUNT		
ASSET-BACKED SECURITIES 1.8%		
FINANCIALS 1.8%		
	Home Equity 1.7%	
\$ 594,662	Asset-Backed Funding Certificates, 2.646% due 1/25/34(e)	275,685
126,653	Countrywide Asset-Backed Certificates, 1.721% due 6/25/34(e)	52,416
720,000	Credit-Based Asset Servicing & Securitization LLC, 5.704% due 12/25/36	472,265
73,417	Finance America Net Interest Margin Trust, 5.250% due 6/27/34(b)(c)(g)	73
159,058	Fremont Home Loan Trust, 2.121% due 2/25/34(e)	51,827
1,820,000	Green Tree, 8.960% due 4/25/38(c)(e)	1,457,441
	GSAA Home Equity Trust:	
1,770,000	0.771% due 3/25/37(e)	530,038
1,790,000	0.741% due 7/25/37(a)(e)	412,865
1,720,000	0.771% due 5/25/47(e)	351,095
908,304	GSAMP Trust, 1.621% due 11/25/34(e)	473,273
648,083	Lehman XS Trust, 0.541% due 6/25/46(a)(e)	518,141
536,256	MASTR Specialized Loan Trust, 3.609% due 5/25/37(a)(c)(e)	280,585
1,395,384	Option One Mortgage Loan Trust, 1.521% due 5/25/34(e)	1,058,747
691,242	RAAC, 0.851% due 10/25/46(a)(c)(e)	309,723
441,146	Renaissance Home Equity Loan Trust, 2.371% due 3/25/34(e)	197,398
	Sail Net Interest Margin Notes:	
141,210	7.750% due 4/27/33(b)(c)(g)	16
71,380	5.500% due 3/27/34(b)(c)(g)	7
479,003	Structured Asset Securities Corp., 1.645% due 11/25/37(e)	347,373
	<i>Total Home Equity</i>	6,788,968
	Student Loan 0.1%	
350,000	Nelnet Student Loan Trust, 5.015% due 4/25/24(e)	284,394
	TOTAL ASSET-BACKED SECURITIES	
	(Cost \$11,260,693)	7,073,362
COLLATERALIZED MORTGAGE OBLIGATIONS 2.2%		
260,000	American Home Mortgage Investment Trust, 1.271% due 11/25/45(e)	28,880
1,337,247	BCAP LLC Trust, 0.661% due 10/25/36(e)	605,290
150,299	Bear Stearns ARM Trust, 5.786% due 2/25/36(e)	77,263

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
\$ 31,324	Countrywide Alternative Loan Trust: 6.000% due 2/25/34	\$ 24,464
1,460,760	0.718% due 7/20/46(e)	600,412
60,576	Federal Home Loan Mortgage Corp. (FHLMC): 6.000% due 3/15/34(d)(e)	55,116
516,050	PAC, 6.000% due 4/15/34(d)(e)	494,638
746,265	Harborview Mortgage Loan Trust, 1.651% due 11/19/35(e)	22,388
2,110,000	JPMorgan Mortgage Trust: 5.889% due 6/25/37(e)	887,783
1,060,000	6.000% due 8/25/37	457,328
878,016	MASTR ARM Trust, 4.570% due 9/25/33(e)	594,888
1,528,732	MASTR Reperforming Loan Trust, 5.212% due 5/25/36(c)(e)	1,177,124
320,219	Merit Securities Corp., 1.971% due 9/28/32(c)(e)	224,235
295,264	MLCC Mortgage Investors Inc.: 1.391% due 4/25/29(e)	116,234
469,243	1.351% due 5/25/29(e)	416,882
1,037,442	RBS Greenwich Capital, Mortgage Pass-Through Certificates, 7.000% due 4/25/35	671,195
1,721,676	Structured ARM Loan Trust: 5.370% due 5/25/35(e)	902,251
628,672	5.891% due 5/25/36(e)	326,691
211,518	Thornburg Mortgage Securities Trust: 6.203% due 7/25/37(e)	162,537
217,759	6.216% due 7/25/37(e)	154,757
763,886	Washington Mutual Mortgage Pass-Through Certificates, 3.469% due 6/25/46(e)	282,638
778,600	Wells Fargo Alternative Loan Trust, 1.825% due 6/25/37(e)	295,830
	TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS (Cost \$13,161,405)	8,578,824
COLLATERALIZED SENIOR LOANS 2.9%		
CONSUMER DISCRETIONARY 1.0%		
247,500	Diversified Consumer Services 0.0% Thomson Learning Hold, Term Loan B, 3.940% due 7/5/14(e)	162,662
14,607	Hotels, Restaurants & Leisure 0.1% Aramark Corp.:	
229,916	Letter of Credit Facility Deposits, 1.875% due 1/31/14(e)	12,101
	Term Loan, 6.705% due 1/31/14	190,471
	<i>Total Hotels, Restaurants & Leisure</i>	<i>202,572</i>
248,117	Media 0.9% Charter Communications, Term Loan B, 7.350% due 3/15/14	183,606
247,372	CMP Susquehanna Corp., Term Loan, 4.801% due 6/7/13(e)	58,132

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
\$	1,072,313	Media 0.9% continued	
	496,862	Direct TV, Term Loan C, 5.308% due 4/13/13(e)	\$ 959,273
	242,875	Idearc Inc., Term Loan B, Senior Notes, 6.871% due 11/1/14(e)	156,866
	1,000,000	LodgeNet Entertainment Corp., Term Loan B, 4.700% due 4/4/14(e)	95,936
	247,475	Newsday LLC, Term Loan, 9.750% due 7/15/13	815,000
	250,000	Regal Cinemas Corp., Term Loan B, 4.196% due 10/19/10(e)	182,032
	1,000,000	UPC Broadband Holding BV, Term Loan N, 3.181% due 3/30/14(e)	168,750
		Virgin Media Inc., Term Loan, 7.500% due 1/15/14	775,000
		<i>Total Media</i>	3,394,595
	250,000	Multiline Retail 0.0%	
		Neiman Marcus Group Inc., Term Loan B, 3.943% due 3/13/13(e)	160,455
	247,481	Specialty Retail 0.0%	
		Michaels Stores Inc., Term Loan B, 4.528% due 10/31/13(e)	129,989
		TOTAL CONSUMER DISCRETIONARY	4,050,273
HEALTH CARE	0.2%		
		Health Care Equipment & Supplies 0.0%	
		Bausch & Lomb Inc.:	
	198,500	Term Loan, 8.080% due 4/11/15(e)	136,114
	50,000	Term Loan B, 6.511% due 4/11/15	34,286
		<i>Total Health Care Equipment & Supplies</i>	170,400
		Health Care Providers & Services 0.1%	
		Community Health Systems Inc.:	
	15,468	Delayed Draw Term Loan, 7.756% due 7/2/14	12,119
	226,754	Term Loan B, 4.394% due 7/2/14(e)	177,661
	246,851	HCA Inc., Term Loan B, 7.080% due 11/1/13(e)	195,167
		<i>Total Health Care Providers & Services</i>	384,947
		Pharmaceuticals 0.1%	
	247,487	Royalty Pharma, Term Loan B, 5.511% due 5/15/14(e)	220,264
		TOTAL HEALTH CARE	775,611
INDUSTRIALS	0.2%		
		Aerospace & Defense 0.1%	
		Dubai Aerospace Enterprise, Term Loan:	
	287,234	6.450% due 7/31/14(e)	150,798
	284,588	6.550% due 7/31/14(e)	149,408
		<i>Total Aerospace & Defense</i>	300,206
		Airlines 0.0%	
	177,694	United Airlines Inc., Term Loan B, 3.969% due 1/12/14(e)	86,537
		Commercial Services & Supplies 0.1%	
	247,494	US Investigations Services Inc., Term Loan B, 7.910% due 2/21/15	180,052
		TOTAL INDUSTRIALS	566,795

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
INFORMATION TECHNOLOGY 0.1%		
\$ 564,300	IT Services 0.1% First Data Corp., Term Loan, 5.687% due 10/15/14(e)	\$ 365,787
MATERIALS 0.4%		
997,494	Chemicals 0.1% Lyondell Chemical Co., Term Loan B2, 7.000% due 12/20/14(e)	382,373
492,726	Containers & Packaging 0.1% Graphic Packaging International, Term Loan C, 3.945% due 5/16/14(e)	368,313
930,601	Paper & Forest Products 0.2% Georgia-Pacific Corp., Term Loan, 4.544% due 12/23/13(e)	764,644
248,125	NewPage Corp., Term Loan, Tranche B, 7.156% due 11/5/14(e)	159,110
	<i>Total Paper & Forest Products</i>	923,754
	TOTAL MATERIALS	1,674,440
TELECOMMUNICATION SERVICES 0.7%		
1,000,000	Diversified Telecommunication Services 0.5% Cablevision Systems Corp., Term Loan B, 4.214% due 3/30/13(e)	857,917
168,750	Insight Midwest, Term Loan B, 3.910% due 4/10/14(e)	127,125
996,183	Intelsat Corp., Term Loan, 5.288% due 6/30/13(e)	760,657
500,000	Level 3 Communications Inc., Term Loan, 4.946% due 3/1/14(e)	306,250
	<i>Total Diversified Telecommunication Services</i>	2,051,949
997,455	Wireless Telecommunication Services 0.2% MetroPCS Wireless Inc., Term Loan, 5.581% due 2/20/14(e)	805,445
	TOTAL TELECOMMUNICATION SERVICES	2,857,394
UTILITIES 0.3%		
498,750	Electric Utilities 0.1% TXU Corp., Term Loan B, 6.169% due 10/10/14(e)	348,086
997,487	Independent Power Producers & Energy Traders 0.2% Calpine Corp., Term Loan, 6.645% due 3/29/09(e)	739,922
	TOTAL UTILITIES	1,088,008
	TOTAL COLLATERALIZED SENIOR LOANS (Cost \$15,562,960)	11,378,308
CONVERTIBLE BONDS & NOTES 1.2%		
INFORMATION TECHNOLOGY 1.2%		
7,473,000	Internet Software & Services 1.2% VeriSign Inc., 3.250% due 8/15/37 (Cost \$4,933,891)	4,736,014
CORPORATE BONDS & NOTES 26.4%		
CONSUMER DISCRETIONARY 3.3%		
280,000	Auto Components 0.2% Allison Transmission Inc., Senior Notes, 11.250% due 11/1/15(c)(f)	112,000
155,000	Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13	59,675

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY
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VALUE
