

LMP CAPITAL & INCOME FUND INC.
Form N-CSRS
July 06, 2007

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)

125 Broad Street, New York, NY
(Address of principal executive offices)

10004
(Zip code)

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
300 First Stamford Place, 4th Floor
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: April 30, 2007

ITEM 1.

REPORT TO STOCKHOLDERS.

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

**LMP
Capital and Income Fund Inc.
(SCD)**

**SEMI-ANNUAL
REPORT**

APRIL 30, 2007

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

LMP
Capital and Income Fund Inc.

Semi-Annual Report April 30, 2007

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Letter from the Chairman

Dear Shareholder,

The U.S. economy showed signs of weakening during the six-month reporting period. U.S. gross domestic product (GDP) expanded 2.5% in the fourth quarter of 2006. Based on the preliminary estimate from the U.S. Commerce Department, GDP growth was a tepid 0.6% in the first quarter of 2007. While consumer spending remained fairly solid, ongoing troubles in the housing market continued to negatively impact the economy. In addition, corporate spending was mixed during the reporting period.

After increasing the federal funds rateⁱⁱ to 5.25% in June 2006 – its 17th consecutive rate hike – the Federal Reserve Board (Fedⁱⁱⁱ) held rates steady at its last seven meetings. In its statement accompanying the May 2007 meeting, the Fed stated, “Economic growth slowed in the first part of this year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters. Core inflation remains somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.”

Despite concerns regarding the economy and increased volatility in the financial markets, stock prices generally rose during the six-month reporting period. After treading water during the first half of 2006, U.S. stocks rallied through the end of the year. 2007 began on a positive note, as the S&P 500 Index^{iv} hit a six-year high in January. Stock prices rose on the back of optimism for continued solid corporate profits and hopes for a soft economic landing. The U.S. stock market’s ascent continued during much of February 2007, before a sharp decline at the end of the

R. JAY GERKEN, CFA

Chairman, President and
Chief Executive Officer

LMP Capital and Income Fund Inc. I

month. This was, in part, triggered by an 8.8% fall in China's stock market on February 28, its worst one-day performance in 10 years. The repercussions of this decline were widespread, as stock markets around the world also declined. After a modest increase in March, U.S. stock prices rallied sharply in April 2007, due to surprisingly strong first quarter corporate profits. All told, the S&P 500 Index returned 8.60% during the six months ended April 30, 2007.

During the reporting period, short- and long-term Treasury yields experienced periods of volatility. Initially, yields fluctuated given mixed economic data and shifting expectations regarding the Fed's future monetary policy. Yields then fell sharply at the end of February 2007, as economic data weakened and the stock market experienced its largest one-day decline in more than five years. Overall, during the six months ended April 30, 2007, two-year Treasury yields fell from 4.71% to 4.60%. Over the same period, 10-year Treasury yields moved from 4.61% to 4.63%. Looking at the six-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Index^v, returned 2.64%.

Performance Review

For the six months ended April 30, 2007, LMP Capital and Income Fund Inc. returned 10.63% based on its net asset value (NAVⁱ) and 12.37% based on its New York Stock Exchange (NYSE) market price per share. In comparison, the Fund's unmanaged benchmarks, the Lehman Brothers U.S. Aggregate Index and S&P 500 Index, returned 2.64% and 8.60%, respectively, for the same time frame. The Lipper Income and Preferred Stock Closed-End Funds Category Average^{vii} increased 5.98% over the same period. Please note that Lipper performance returns are based on each fund's NAV per share.

During this six-month period, the Fund made distributions to shareholders totaling \$0.75 per share. The performance table shows the Fund's six-month total return based on

its NAV and market price as of April 30, 2007. **Past performance is no guarantee of future results.**

Performance Snapshot as of April 30, 2007 (unaudited)

| Price Per Share | Six-Month Total Return |
|------------------------|-----------------------------------|
| \$22.61 (NAV) | 10.63% |
| \$19.66 (Market Price) | 12.37% |

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, including returns of capital, if any, in additional shares.

Special Shareholder Notices

The Fund's Board of Directors approved a change in the benchmark indices for the Fund to include the Lehman Brothers U.S. Aggregate Index in addition to the S&P 500 Index. This change became effective April 2, 2007. In the opinion of the investment manager, the use of both the S&P 500 Index and the Lehman Brothers U.S. Aggregate Index provides more effective benchmark indices for the Fund, which has the ability to allocate assets to both equity and fixed income investments. The Fund's investment objective is total return with an emphasis on income. Under normal market conditions, the Fund seeks to achieve its investment objective by investing at least 80% of its assets in a broad range of equity and fixed income securities of both U.S. and foreign issuers.

Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders of its common stock at a fixed rate per common share, which may be adjusted from time to time by the Fund's Board of Directors. Under the Fund's Managed Distribution Policy, if, for any monthly distribution, the total net investment income and net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund's assets (and constitute a return of capital). The Board of Directors may terminate the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to

shareholders. Any such termination could have an adverse effect on the market price for the Fund's shares.

Prior to October 9, 2006, the Fund was known as Salomon Brothers Capital and Income Fund Inc.

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/InvestorServices.

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.

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

June 4, 2007

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.

RISKS: As interest 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 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 funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- 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 S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.
- v The 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 NAV is calculated by subtracting total liabilities 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.
- vii Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the six-month period ended April 30, 2007, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 34 funds in the Fund's Lipper category.

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Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments

Schedule of Investments (April 30, 2007) (unaudited)

LMP CAPITAL AND INCOME FUND INC.

| Shares | Security | Value |
|---|---|-------------------|
| COMMON STOCKS 72.6% | | |
| CONSUMER DISCRETIONARY 6.5% | | |
| Hotels, Restaurants & Leisure 2.4% | | |
| 222,600 | Ameristar Casinos Inc. | \$ 6,758,136 |
| 175,940 | Penn National Gaming Inc. * | 8,504,940 |
| 79,400 | Starwood Hotels & Resorts Worldwide Inc. | 5,321,388 |
| | Total Hotels, Restaurants & Leisure | 20,584,464 |
| Household Durables 0.0% | | |
| 1,226,577 | Home Interiors & Gifts Inc. (a)(b)* | 12,266 |
| Media 4.1% | | |
| 160,000 | Liberty Media Holding Corp., Capital Group, Series A Shares * | 18,075,200 |
| 86,800 | R.H. Donnelley Corp. * | 6,778,212 |
| 633,700 | Warner Music Group Corp. | 10,899,640 |
| | Total Media | 35,753,052 |
| | TOTAL CONSUMER DISCRETIONARY | 56,349,782 |
| CONSUMER STAPLES 2.8% | | |
| Food Products 1.0% | | |
| 226,700 | Archer-Daniels-Midland Co. | 8,773,290 |
| Tobacco 1.8% | | |
| 216,800 | Altria Group Inc. | 14,941,856 |
| | TOTAL CONSUMER STAPLES | 23,715,146 |
| ENERGY 9.9% | | |
| Energy Equipment & Services 3.7% | | |
| 175,740 | CCS Income Trust | 5,771,728 |
| 81,600 | Diamond Offshore Drilling Inc. | 6,984,960 |
| 101,050 | SEACOR Holdings Inc. * | 9,628,044 |
| 116,700 | Transocean Inc. * | 10,059,540 |
| | Total Energy Equipment & Services | 32,444,272 |
| Oil, Gas & Consumable Fuels 6.2% | | |
| 260,850 | Anadarko Petroleum Corp. | 12,171,261 |
| 192,410 | Cheniere Energy Inc. * | 6,416,874 |
| 464,900 | Crosstex Energy Inc. | |