LMP CAPITAL & INCOME FUND INC.
Form N-CSR
March 03, 2010

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: (888)777-0102

Date of fiscal year end: December 31

Date of reporting period: December 31, 2009

ITEM 1. REPORT TO STOCKHOLDERS.

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

ANNUAL REPORT / DECEMBER 31, 2009

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,

While the U.S. economy was weak during the first half of the twelve-month reporting period ended December 31, 2009, the lengthiest recession since the Great Depression finally appeared to have ended during the second half of the year.

Looking back, the U.S. Department of Commerce reported that first quarter 2009 U.S. gross domestic product (GDP)i contracted 6.4%. The economic environment then started to get relatively better during the second quarter, as GDP fell 0.7%. The economy s more modest contraction was due, in part, to smaller declines in both exports and business spending. After contracting four consecutive quarters, the Commerce Department reported that third quarter 2009 GDP growth was 2.2%. A variety of factors helped the economy to expand, including the government s $787 billion stimulus program, its Cash for Clunkers car rebate program, which helped spur an increase in car sales, and tax credits for first-time home buyers. Economic growth then accelerated during the fourth quarter of 2009, as the advance estimate for GDP growth was 5.7%. The Commerce Department cited a slower drawdown in business inventories and consumer spending as contributing factors spurring the economy s higher growth rate.

Even before GDP advanced in the third quarter, there were signs that the economy was starting to regain its footing. The manufacturing sector, as measured by the Institute for Supply Management s PMIii, rose to 52.9 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). PMI data subsequently showed that manufacturing expanded from September through December as well. In addition, December s PMI reading of 55.9 was the highest since April 2006.

There were some mixed signals from the housing market toward the end of the reporting period. According to its most recent data, the S&P/Case-Shiller Home Price Indexiii indicated that month-over-month home prices rose for the sixth straight month in November. However, according to the National Association of Realtors, while existing home sales rose 7.4% in November, sales fell by nearly 17% in December.

Letter from the chairman *continued*

One area that remained weak and could hamper the magnitude of economic recovery was the labor market. While monthly job losses have moderated compared to earlier in the year, the unemployment rate remained elevated during the reporting period. After reaching a twenty-six-year high of 10.1% in October 2009, the unemployment rate fell to 10.0% in November and remained unchanged the following month. Since December 2007, the unemployment rate has more than doubled and the number of unemployed workers has risen by more than eight million.

The Federal Reserve Board (Fed)[iv] continued to pursue an accommodative monetary policy during the reporting period. After reducing the federal funds rate[v] from 5.25% in August 2007 to a range of 0 to 1/4 percent in December 2008 a historic low the Fed maintained this stance through the end of 2009 and during its first meeting in January 2010. In conjunction with its January 2010 meeting, the Fed said that it will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

After falling nearly 30% from September through November 2008 (before the reporting period began), the U.S. stock market, as measured by the S&P 500 Index[vi] (the Index), rallied and, overall, generated strong results during the twelve-month reporting period. Stock prices fell during the first two months of the reporting period, due to the rapidly weakening global economy, an ongoing credit crisis and plunging corporate profits. Stock prices continued to decline in early March, reaching a twelve-year low on March 9th. Stocks then moved sharply and posted positive returns during nine of the last ten months of the year. From its March trough through the end of December, the Index gained approximately 67%, its fastest rebound since 1933. The market s rally was attributed to a number of factors, including optimism that the economy was gaining traction and that corporate profits would continue to improve. All told, the Index returned 26.46% over the twelve-month reporting period ended December 31, 2009, its best calendar year since 2003.

Turning to the bond market, both short- and long-term Treasury yields fluctuated during the reporting period. When the period began, Treasury yields were extremely low, given numerous flights to quality that were triggered by the fallout from the financial crisis in 2008. After starting the period at 0.76% and 2.25%, respectively, two- and ten-year Treasury yields then generally moved higher (and their prices lower) until early June. Two- and ten-year yields peaked at 1.42% and 3.98%, respectively, before falling and ending the reporting period at 1.14% and 3.85%, respectively. Over the twelve months ended December 31, 2009, longer-term yields moved higher than their shorter-term counterparts due to fears of future inflation given the government s massive stimulus program. In a reversal from 2008, investor risk aversion faded during the twelve-month reporting period, driving spread sector (non-Treasury) prices higher. For the twelve months ended December 31, 2009, the Barclays Capital U.S. Aggregate Indexvii returned 5.93%.

A special note regarding increased market volatility

Dramatically higher volatility in the financial markets has been very challenging for many investors. Market movements have been rapid sometimes in reaction to economic news, and sometimes creating the news. In the midst of this evolving market environment, we at Legg Mason want 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. 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.

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.

Letter from the chairman *continued*

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 29, 2010

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 Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.

iii The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in twenty metropolitan regions across the United States.

iv 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.

v 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.

vi 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.

vii The Barclays Capital 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.

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 will vary its allocation between equity and fixed-income securities depending on the investment management s view of economic, market or political conditions, fiscal and monetary policy and security valuation.

The Fund s investments in equity securities will include, among other securities, common stocks, preferred stocks, warrants, rights, convertible securities, depositary receipts, trust certificates, real estate investment trusts (REITs)i, limited partnership interests, equity-linked debt securities and shares of other investment companies. The Fund s investments in fixed-income securities will 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.

The Fund s portfolio managers, Harry D. Hersh Cohen, Peter Vanderlee and Michael Clarfeld of ClearBridge Advisors, LLC (ClearBridge), one of the Fund s subadvisers, oversee the Fund s allocation between equity and fixed-income securities, as well as the Fund s equity investments in general. They manage 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 (Western Asset) manages the fixed-income portion of the Fund. Their focus is on portfolio structure, including sector allocation, durationii weighting and term-structure decisions.

Q. Has there been a change in the portfolio management team responsible for the management of the Fund; and if so, what is the purpose of that change?

A. On August 5, 2009, the Fund announced that effective as of that day, Harry D. Hersh Cohen, Peter Vanderlee, CFA, and Michael Clarfeld, CFA, of ClearBridge were named lead portfolio managers of the Fund. As the lead portfolio managers, they are responsible for the day-to-day management of the Fund s equity assets and for the allocation of the Fund s assets between equity and fixed-income investments. The portfolio management team from Western Asset continues to be responsible for the Fund s fixed-income investments.

Fund overview ***continued***

ClearBridge replaced the prior portfolio management team with the current team to bring a highly experienced management team with a disciplined investment management process to the Fund. The new team collectively brings with them over sixty years of investment industry experience.

Q. What are the recent views of the new management team regarding the direction of the Fund?

A. During 2009, the Fund s managers significantly reduced the portfolio allocation to equities that paid either no or low dividends and replaced them with securities that offered more attractive dividend profiles. In addition, the Fund s managers emphasized investments in companies that they believe possessed sound or improving balance sheets, and strong free cash flows coupled with attractive business models. The Fund s managers believe that these high-quality companies can be attractive candidates for long-term investment.

As the dividend yield on the equity allocation of the portfolio was being increased, significant changes were being made to the portfolio s fixed-income allocation. The Fund started the year with a large allocation to high-yield bonds which appreciated significantly during the course of the year. Toward the end of the year, however, the allocation to fixed-income securities was reduced, and the high-yield allocation shifted toward investment grade securities. This had the effect of reducing the risk profile of the portfolio, but also reduced the investment income earned on the Fund s fixed-income allocation. The Fund s managers will continue to assess the fixed-income markets and may increase the allocation to this sector when they believe opportunities present themselves. Also, the combined actions that the managers undertook in both the equity and fixed-income sectors of the Fund led to higher turnover for the reporting period. The managers expectation is for lower portfolio turnover on a going forward basis.

The Fund also continues to use 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. At the end of the reporting period, the Fund was utilizing $60 million of its $125 million line of credit. Moderating the use of the Fund s line of credit reflects both the decision to lower the portfolio s allocation to fixed-income securities as well as the general desire to currently have a more conservative positioning. The Fund s managers may look to increase the use of leverage when they believe it is prudent to do so.

Q. What is the Fund s portfolio managers outlook regarding the Fund s managed distribution policy during the 2010 calendar year?

A. Given the continued uncertainty in the economic environment and the dramatic declines in both dividend yields and credit spreads, Fund management was pleased to be able to announce that it would keep the 2010 distribution rate consistent with that of 2009. Fund management believes this course of action is in the best interest of the Fund and its shareholders as it maintains the distribution level at a rate that the investment management believes can be reasonably generated in the current environment. As in 2009, the Fund s distributions in 2010 are likely to continue to rely heavily on net investment income generated by the portfolio. Short-term and long-term capital gains and returns of capital are not likely to be a significant factor in the composition of the distributions.

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

A. The Fund s reporting period began during the worst financial crisis since the Great Depression and included a major and historic disruption of the global stock and credit markets, record job losses, a Federal Reserve Board (Fed)[iii] and U.S. Department of the Treasury thrust into the spotlight of national politics and a significant reshaping of the financial services industry. It ended amidst a record-setting stock market rally and an economy that had, at least technically, emerged from the so-called Great Recession that began in December of 2007.

The domestic stock market was already in turmoil before the past fiscal year began, following the initial bursting of the housing market bubble in 2007 and the subsequent credit and liquidity crises that culminated in the collapse and/or distressed acquisitions of several major financial services companies, including the failure of the prominent investment bank Lehman Brothers in the largest bankruptcy filing in U.S. history. The stock market suffered a series of record-breaking declines and lows before the start of the reporting period, eventually setting what many now consider to be a durable bottom and a generational low in early March of 2009, after the new year and the reporting period had begun.

The powerful and sustained stock market rally following the March lows generated returns for the broad S&P 500 Index[iv] of over 67% from the March 9th bottom through the end of December, with the blue-chip Dow Jones Industrial Average[v] rising over 63% from its twelve-year low in March and the NASDAQ Composite Index[vi] gaining over 80% for the same period.

Fund overview ***continued***

A resumption of U.S. gross domestic product (GDP)vii growth in the third quarter indicated that the economy had technically emerged from the Great Recession, but mixed or disappointing data for other key economic indicators, including the highest unemployment rate since 1983, and concerns about the fate of the recovery once the government s stimulus begins to slow and the loose interest rate environment begins to tighten, left many in the market with concerns about inflation and doubts about both the future strength of the overall economic recovery and the continued viability of the present bull market.

During the fiscal year, the fixed-income market was impacted by the fallout from the financial crisis in 2008 and the subsequent return to more normal conditions given the aggressive actions taken by the Fed, the Treasury and other government entities.

The yields on two- and ten-year Treasuries began the fiscal year at 0.76% and 2.25%, respectively. As the reporting period began, we were beginning to emerge from a flight to quality that was triggered by the seizing credit markets. At the epicenter of the turmoil were the continued repercussions from the September 2008 bankruptcy of Lehman Brothers. During this time, investors were drawn to the relative safety of shorter-term Treasuries, causing their yields to decline, while riskier portions of the bond market performed poorly.

After initially falling, Treasury yields then began to move higher as economic conditions generally improved and there were concerns regarding the massive amount of new Treasury issuance that would be needed to fund the economic stimulus package. Two- and ten-year yields peaked in June 2009 at 1.42% and 3.98%, respectively, and then generally moved lower, falling to 0.67% and 3.21%, respectively, at the end of November. Yields then moved sharply higher in December given renewed concerns for future inflation. At the conclusion of the reporting period, two- and ten-year Treasury yields were 1.14% and 3.85%, respectively.

In the spring of 2009, conditions in the credit markets improved, there were signs that the economy was stabilizing and corporate profits were often better than expected. Collectively, this caused investor risk aversion to abate, triggering a strong rally in the spread sectors (non-U.S. Treasuries). Also supporting the spread sectors was robust demand from investors seeking incremental yields given the low rates available from short-term fixed-income securities. With economic data often surprising on the upside as the fiscal year progressed, the spread sectors continued to rally during most of the remainder of the period. In sharp contrast to 2008 when Treasuries were the performance leaders, the spread sectors handily outperformed Treasuries in 2009. The overall bond market, as measured by the Barclays Capital U.S. Aggregate Indexviii, gained 5.93% during the twelve months ended December 31, 2009.

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

A. We were cautious at the start of the reporting period, a result of the significant disruption that was taking place in the capital markets. We invested in a deliberate, disciplined and measured way and exercised caution in deploying fresh capital, only gradually increasing our exposure to equities when we believed prices were favorable.

Given the fragile state of the entire country, we chose to emphasize higher-quality stocks when we took cash off the sidelines. Our approach was conservative and excluded some of the biggest gaining stocks for the period because lower-quality stocks many coming off levels suggesting possible bankruptcy and with cut or suspended dividends generally enjoyed much bigger rallies compared to higher-quality stocks. Later in the year, as the rally matured, it broadened out to include more of the higher-quality companies on which we had been focused.

In the fixed-income portion of the portfolio, we made several adjustments to the Fund during the twelve-month reporting period. We increased our exposure to agency mortgages and Treasuries to move closer to the weighting in the Barclays Capital U.S. Aggregate Index. We also pared our exposure to high-yield bonds given their strong performance during the fiscal year.

During the reporting period, in the fixed-income portion of the portfolio, we utilized Eurodollar futures/options and Treasury futures/options to manage the portfolio s duration and yield curve[ix] exposure. Interest rate swaps were used to manage our interest rate exposure throughout the yield curve. We also utilized credit default swaps to manage the portfolio s investment grade bond exposure. We employed Euro-bund futures to manage our yield curve exposure in Germany and sterling LIBOR[x] futures to manage our interest rate exposure in Great Britain.

In the equity portion of the portfolio, currency contracts were used to hedge our non-U.S. dollar security exposure and we employed several puts tied to the S&P 500 Index in an effort to help manage the portfolio s risk profile. There were no equity derivative instruments outstanding at the end of the reporting period.

Overall, the use of these fixed-income and equity derivative instruments was a negative for performance.

Performance review

For the twelve months ended December 31, 2009, LMP Capital and Income Fund Inc. returned 29.52% based on its net asset value (NAV)[xi] and 42.02% based on its New York Stock Exchange (NYSE) market price per share. The

Fund overview ***continued***

Fund s unmanaged benchmarks, the Barclays Capital U.S. Aggregate Index and the S&P 500 Index, returned 5.93% and 26.46%, respectively, over the same time frame. The Lipper Income and Preferred Stock Closed-End Funds Category Averagexii returned 51.56% for the same period. Please note that Lipper performance returns are based on each fund s NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling $0.52 per share. The performance table shows the Fund s twelve-month total return based on its NAV and market price as of December 31, 2009. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of December 31, 2009 (unaudited)

PRICE PER SHARE	12-MONTH TOTAL RETURN*
$12.44 (NAV)	29.52%
$10.35 (Market Price)	42.02%

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.**

Q. What were the leading contributors to performance?

A. With respect to the equity portion of the portfolio, on an absolute basis, the Fund had positive returns in all ten equity market sectors during the reporting period, with the greatest contributions to returns coming from the Information Technology (IT) and Energy sectors and the smallest from the Telecommunication Services (Telecom) and Utilities sectors.

Relative to the S&P 500 Index, the Fund s overall stock selection contributed to performance. In particular, stock selection in the Energy, Health Care, Consumer Discretionary, Utilities, Telecom and Industrials sectors all contributed positively to performance when compared with the S&P 500 Index. The Fund s overweights to the Materials and Consumer Staples sectors also helped relative performance, as did its underweights to the Financials, Utilities, Health Care and Telecom sectors.

In terms of individual Fund holdings, leading contributors to performance for the period included positions in **McDermott International Inc.** in the Industrials sector, **Microsoft Corp.** in the IT sector, **Freeport-McMoRan Copper & Gold Inc. (Class B Shares)** in the Materials sector, **National-Oilwell Varco Inc.** in the Energy sector and **Invesco Ltd.** in the Financials sector.

In the fixed-income portion of the portfolio, the largest contributor to relative results was our exposure to the high-yield sector. Leading contributors to performance included Health Care company **HCA Inc.**, Metals & Mining company **Ryerson Inc.** and Financials companies **GMAC LLC** and **Glitnir Banki HF**. Our overweight exposure to bank loans was also a strong contributor to performance. The Fund s overweight exposure to investment grade corporate bonds was also rewarded. In particular, our Industrials and Financials holdings boosted the Fund s returns. Within the investment grade bond space, Japanese Commercial Banks **Resona Preferred Global Securities Cayman Ltd.** and **Shinsei Finance Cayman Ltd.**, Metals & Mining company Freeport-McMoRan Copper & Gold Inc. and Oil & Gas firm **Anadarko Petroleum Corp.** were strong performers. Our overweight to non-agency mortgage-backed securities (MBS) was another meaningful contributor to performance.

Q. What were the leading detractors from performance?

A. With respect to the equity portion of the portfolio, the Fund s overall sector allocation detracted from relative performance, as did its stock selection in the Financials, IT and Materials sectors. Underweights to the IT and Consumer Discretionary sectors and overweights to the Energy and Industrials sectors also negatively impacted 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, **Assa Abloy AB**, **General Electric Co.** and **Covanta Holding Corp.**, all in the Industrials sector, and **Wells Fargo & Co.** in the Financials sector.

In the fixed-income portion of the portfolio, our underweight to agency MBS detracted from relative performance because the asset class generated strong results, aided by the government s ongoing purchase of these securities. The Fund s duration, which was longer than that of the Barclays Capital U.S. Aggregate Index, was also a detractor as rates rose across the yield curve. Finally, our cash position was a drag on performance given the extremely low yields available from short-term money market instruments.

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 5:30 p.m. Eastern Standard Time, for the Fund s current NAV, market price and other information.

Fund overview *continued*

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,

Harry D. Hersh Cohen
Portfolio Manager
ClearBridge Advisors, LLC

Peter Vanderlee, CFA
Portfolio Manager
ClearBridge Advisors, LLC

Michael Clarfeld, CFA

Portfolio Manager
ClearBridge Advisors, LLC

Western Asset Management Company (Fixed-Income Portion)

February 16, 2010

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, 2009 and are subject to change and may not be representative of the portfolio managers current or future investments. The Fund s top ten holdings (as a percentage of total investments) as of this date were: Procter & Gamble Co. (3.2%), Total SA, ADR (3.0%), Kimberly-Clark Corp. (3.0%), H.J. Heinz Co. (3.0%), Waste Management Inc. (2.7%), BP PLC, ADR (2.6%), McDonald s Corp. (2.6%), Johnson & Johnson (2.5%), Verizon Communications Inc. (2.5%) and Travelers Cos. Inc. (2.2%). Please refer to pages 9 through 19 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 total investments) as of December 31, 2009 were: Consumer Staples (14.8%), Financials (12.2%), Energy (11.1%), Utilities (9.9%) and Consumer Discretionary (8.6%). 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 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 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 and is generally representative of the performance of larger companies in the U.S.

v The Dow Jones Industrial Average is a widely followed measurement of the stock market. The average is comprised of thirty 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.

vi The NASDAQ Composite Index is a market-value weighted index, which measures all securities listed on the NASDAQ stock market.

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

viii The Barclays Capital 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.

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

x The London Interbank Offered Rate (LIBOR) is the interest rate offered by a specific group of London banks for U.S. dollar deposits of a stated maturity. LIBOR is used as a base index for setting rates of some adjustable rate financial instruments, including Adjustable Rate Mortgages (ARMs).

xi 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.

xii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2009, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 29 funds in the Fund s Lipper category.

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments

The bar graphs above represent the composition of the Fund s investments as of December 31, 2009 and December 31, 2008 and do not include derivatives. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

Schedule of investments

December 31, 2009

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
COMMON STOCKS 69.1%		
CONSUMER DISCRETIONARY 8.2%		
	Hotels, Restaurants & Leisure 2.6%	
185,000	McDonald s Corp.	$ *11,551,400*
	Media 4.3%	
11,990	Charter Communications Inc.(a)	425,645
680,000	Reed Elsevier PLC(a)	5,584,003
238,000	Thomson Corp.	7,675,500
190,000	Vivendi Universal SA(a)	5,609,120
	Total Media	*19,294,268*
	Specialty Retail 1.3%	
197,210	Home Depot Inc.	*5,705,285*
	TOTAL CONSUMER DISCRETIONARY	36,550,953
CONSUMER STAPLES 13.7%		
	Beverages 1.6%	
115,360	PepsiCo Inc.	*7,013,888*
	Food & Staples Retailing 1.9%	
155,850	Wal-Mart Stores Inc.	*8,330,183*
	Food Products 4.0%	
310,000	H.J. Heinz Co.	13,255,600
177,440	Kraft Foods Inc., Class A Shares	4,822,819
	Total Food Products	*18,078,419*
	Household Products 6.2%	
210,000	Kimberly-Clark Corp.	13,379,100
236,500	Procter & Gamble Co.	14,338,995
	Total Household Products	*27,718,095*
	TOTAL CONSUMER STAPLES	61,140,585
ENERGY 8.0%		
	Energy Equipment & Services 0.4%	
17,000	Diamond Offshore Drilling Inc.	*1,673,140*
	Oil, Gas & Consumable Fuels 7.6%	
200,000	BP PLC, ADR	11,594,000
442,820	Spectra Energy Corp.	9,082,238
210,000	Total SA, ADR	13,448,400
	Total Oil, Gas & Consumable Fuels	*34,124,638*
	TOTAL ENERGY	35,797,778
FINANCIALS 7.7%		
	Insurance 3.9%	
149,360	Chubb Corp.	7,345,525
196,160	Travelers Cos. Inc.	9,780,537
	Total Insurance	*17,126,062*

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2009

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
	Real Estate Investment Trusts (REITs) 1.6%	
195,300	Annaly Capital Management Inc.	$ 3,388,455
1,000,000	Chimera Investment Corp.	3,880,000
	Total Real Estate Investment Trusts (REITs)	*7,268,455*
	Thrifts & Mortgage Finance 2.2%	
300,000	New York Community Bancorp Inc.	4,353,000
333,000	People s United Financial Inc.	5,561,100
	Total Thrifts & Mortgage Finance	*9,914,100*
	TOTAL FINANCIALS	34,308,617
HEALTH CARE 6.5%		
	Pharmaceuticals 6.5%	
220,000	Bristol-Myers Squibb Co.	5,555,000
88,000	GlaxoSmithKline PLC, ADR	3,718,000
175,000	Johnson & Johnson	11,271,750
123,670	Novartis AG, ADR	6,731,358
100,000	Pfizer Inc.	1,819,000
	TOTAL HEALTH CARE	29,095,108
INDUSTRIALS 7.8%		
	Aerospace & Defense 1.9%	
115,000	Lockheed Martin Corp.	*8,665,250*
	Commercial Services & Supplies 2.7%	
350,510	Waste Management Inc.	*11,850,743*
	Industrial Conglomerates 2.8%	
53,210	3M Co.	4,398,871
116,000	United Technologies Corp.	8,051,560
	Total Industrial Conglomerates	*12,450,431*
	Marine 0.4%	
54,327	Alexander & Baldwin Inc.	*1,859,613*
	TOTAL INDUSTRIALS	34,826,037
INFORMATION TECHNOLOGY 3.8%		
	IT Services 2.3%	
137,000	Automatic Data Processing Inc.	5,866,340
138,140	Paychex Inc.	4,232,610
	Total IT Services	*10,098,950*
	Semiconductors & Semiconductor Equipment 0.9%	
140,000	Microchip Technology Inc.	*4,068,400*
	Software 0.6%	
94,000	Microsoft Corp.	*2,866,060*
	TOTAL INFORMATION TECHNOLOGY	17,033,410

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
MATERIALS 1.6%		
	Chemicals 1.6%	
163,000	E.I. du Pont de Nemours & Co.	$ 5,488,210
30,000	PPG Industries Inc.	1,756,200
	TOTAL MATERIALS	7,244,410
TELECOMMUNICATION SERVICES 4.6%		
	Diversified Telecommunication Services 4.6%	
278,000	AT&T Inc.	7,792,340
340,000	Verizon Communications Inc.	11,264,200
163,026	Windstream Corp.	1,791,656
	TOTAL TELECOMMUNICATION SERVICES	20,848,196
UTILITIES 7.2%		
	Electric Utilities 5.4%	
235,000	American Electric Power Co. Inc.	8,175,650
251,870	Duke Energy Corp.	4,334,683
76,990	Exelon Corp.	3,762,501
187,000	Progress Energy Inc.	7,668,870
	Total Electric Utilities	*23,941,704*
	Multi-Utilities 1.8%	
562,000	CenterPoint Energy Inc.	*8,154,620*
	TOTAL UTILITIES	32,096,324
	TOTAL COMMON STOCKS (Cost $287,430,865)	308,941,418
CONVERTIBLE PREFERRED STOCKS 5.0%		
ENERGY 1.6%		
	Oil, Gas & Consumable Fuels 1.6%	
8,000	El Paso Corp., 4.990%	*7,232,000*
FINANCIALS 1.7%		
	Diversified Financial Services 1.7%	
150,000	CalEnergy Capital Trust III, 6.500% due 9/1/27	*7,462,500*
UTILITIES 1.7%		
	Electric Utilities 1.7%	
142,000	FPL Group Inc., 8.375% due 6/1/12	*7,382,580*
	TOTAL CONVERTIBLE PREFERRED STOCKS (Cost $20,317,506)	22,077,080
PREFERRED STOCKS 1.0%		
FINANCIALS 0.0%		
	Thrifts & Mortgage Finance 0.0%	
25,950	Federal Home Loan Mortgage Corp. (FHLMC), 8.375%(b)*	27,248
300	Federal National Mortgage Association (FNMA), 7.000%(b)*	405
17,650	Federal National Mortgage Association (FNMA), 8.250%(b)*	19,415
	TOTAL FINANCIALS	47,068

See Notes to Financial Statements.

Schedule of investments ***continued***

December 31, 2009

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
UTILITIES 1.0%		
	Electric Utilities 1.0%	
65,370	Great Plains Energy Inc., 12.000%	$ *4,314,420*
	TOTAL PREFERRED STOCKS (Cost $5,363,924)	4,361,488
FACE AMOUNT		
ASSET-BACKED SECURITIES 1.0%		
FINANCIALS 1.0%		
	Home Equity 0.9%	
$ 329,564	Asset-Backed Funding Certificates, 2.406% due 1/25/34(c)	131,167
126,653	Countrywide Asset-Backed Certificates, 1.481% due 6/25/34(c)	20,946
655,868	Credit-Based Asset Servicing & Securitization LLC, 5.704% due 12/25/36	442,619
73,417	Finance America Net Interest Margin Trust, 5.250% due 6/27/34(a)(d)(e)(f)	35
141,024	Fremont Home Loan Trust, 1.881% due 2/25/34(c)	51,679
	GSAA Home Equity Trust:	
1,770,000	0.531% due 3/25/37(c)	824,037
1,790,000	0.501% due 7/25/37(c)	847,492
1,720,000	0.531% due 5/25/47(c)	931,113
261,744	GSAMP Trust, 1.381% due 11/25/34(c)	23,557
26,566	Lehman XS Trust, 0.301% due 6/25/46(c)	26,286
440,131	MASTR Specialized Loan Trust, 0.739% due 5/25/37(c)(d)	189,256
549,404	RAAC, 0.611% due 10/25/46(c)(d)	301,310
395,282	Renaissance Home Equity Loan Trust, 2.131% due 3/25/34(c)	138,948
	Sail Net Interest Margin Notes:	
141,210	7.750% due 4/27/33(d)(e)(f)	1
71,380	5.500% due 3/27/34(d)(e)(f)	0
358,773	Structured Asset Securities Corp., 0.481% due 11/25/37(c)	334,917
	Total Home Equity	*4,263,363*
	Student Loan 0.1%	
350,000	Nelnet Student Loan Trust, 1.762% due 4/25/24(c)	*366,153*
	TOTAL ASSET-BACKED SECURITIES (Cost $6,727,703)	4,629,516
COLLATERALIZED MORTGAGE OBLIGATIONS 1.8%		
207,845	American Home Mortgage Investment Trust, 1.031% due 11/25/45(c)	164
1,174,229	BCAP LLC Trust, 0.421% due 10/25/36(c)	563,996
120,911	Bear Stearns ARM Trust, 5.764% due 2/25/36(c)	89,366
	Countrywide Alternative Loan Trust:	
22,220	6.000% due 2/25/34	21,785
1,374,579	0.443% due 7/20/46(c)	599,067
565,883	Countrywide Home Loans, 0.651% due 7/25/36(c)(d)	427,372

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Federal Home Loan Mortgage Corp. (FHLMC), PAC, 6.000% due	
$ 254,673	4/15/34(b)(c)	$ 256,647
195,506	GSMPS Mortgage Loan Trust, 0.581% due 1/25/35(c)(d)	152,435
742,060	Harborview Mortgage Loan Trust, 1.303% due 11/19/35(c)	3,951
1,060,000	JPMorgan Mortgage Trust, 6.000% due 8/25/37	628,853
724,516	MASTR ARM Trust, 3.194% due 9/25/33(c)	601,676
1,231,035	MASTR Reperforming Loan Trust, 4.497% due 5/25/36(c)(d)	1,000,055
237,056	Merit Securities Corp., 1.731% due 9/28/32(c)(d)	193,193
	MLCC Mortgage Investors Inc.:	
265,648	1.151% due 4/25/29(c)	105,523
424,112	1.111% due 5/25/29(c)	161,594
	RBS Greenwich Capital, Mortgage Pass-Through Certificates, 7.000%	
928,729	due 4/25/35	768,221
	Structured ARM Loan Trust:	
1,509,305	5.172% due 5/25/35(c)	1,077,172
782,764	5.861% due 5/25/36(c)	565,846
	Thornburg Mortgage Securities Trust:	
188,266	6.196% due 7/25/37(c)	150,705
184,192	6.209% due 7/25/37(c)	147,358
	Washington Mutual Inc. Pass-Through Certificates, 1.622% due	
662,483	6/25/46(c)	272,777
715,477	Wells Fargo Alternative Loan Trust, 0.661% due 6/25/37(c)	354,767
	TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS	
	(Cost $11,000,802)	8,142,523
CONVERTIBLE BONDS & NOTES 1.3%		
INFORMATION TECHNOLOGY 1.3%		
	Internet Software & Services 1.3%	
6,500,000	VeriSign Inc., 3.250% due 8/15/37 (Cost $4,928,404)	5,809,375
CORPORATE BONDS & NOTES 5.5%		
CONSUMER DISCRETIONARY 0.4%		
	Hotels, Restaurants & Leisure 0.1%	
	Choctaw Resort Development Enterprise, Senior Notes, 7.250% due	
295,000	11/15/19(d)	196,912
	Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000%	
660,000	due 11/15/10(e)(f)	276,375
45,000	MGM MIRAGE Inc., Senior Secured Notes, 10.375% due 5/15/14(d)	49,050
	Total Hotels, Restaurants & Leisure	*522,337*
	Media 0.3%	
	CCH II LLC/CCH II Capital Corp., Senior Notes, 13.500% due	
234,181	11/30/16(d)	274,577
510,000	Comcast Corp., 5.700% due 5/15/18	537,030
20,000	News America Inc., Senior Notes, 6.650% due 11/15/37	21,195

See Notes to Financial Statements.

Schedule of investments ***continued***

December 31, 2009

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Media 0.3% ***continued***	
	Time Warner Cable Inc.:	
$ 10,000	Notes, 5.850% due 5/1/17	$ 10,522
300,000	Senior Notes, 6.200% due 7/1/13	329,797
	Total Media	*1,173,121*
	TOTAL CONSUMER DISCRETIONARY	1,695,458
CONSUMER STAPLES 1.1%		
	Food & Staples Retailing 1.1%	
5,000,000	CVS Caremark Corp., Subordinated Bonds, 6.302% due 6/1/37(c)	4,314,800
413,136	CVS Pass-Through Trust, Secured Notes, 6.943% due 1/10/30	416,431
	Kroger Co., Senior Notes:	
110,000	5.500% due 2/1/13	117,558
100,000	6.150% due 1/15/20	107,226
	Total Food & Staples Retailing	*4,956,015*
	Tobacco 0.0%	
180,000	Reynolds American Inc., 6.750% due 6/15/17	*186,681*
	TOTAL CONSUMER STAPLES	5,142,696
ENERGY 1.5%		
	Energy Equipment & Services 0.1%	
190,000	Transocean Inc., Senior Notes, 5.250% due 3/15/13	*203,762*
	Oil, Gas & Consumable Fuels 1.4%	
140,000	Apache Corp., Senior Notes, 5.625% due 1/15/17	149,456
230,000	ConocoPhillips Holding Co., Senior Notes, 6.950% due 4/15/29	261,440
200,000	Devon Financing Corp. ULC, Notes, 6.875% due 9/30/11	217,353
240,000	Energy Transfer Partners LP, Senior Notes, 6.700% due 7/1/18	257,386
	Kerr-McGee Corp., Notes:	
220,000	6.875% due 9/15/11	236,625
140,000	6.950% due 7/1/24	151,971
290,000	Kinder Morgan Energy Partners LP, Senior Notes, 6.000% due 2/1/17	304,913
5,000,000	Southern Union Co., Junior Subordinated Notes, 7.200% due 11/1/66(c)	4,300,000
240,000	Williams Cos. Inc., Senior Notes, 7.750% due 6/15/31	263,904
300,000	XTO Energy Inc., Senior Notes, 5.500% due 6/15/18	320,542
	Total Oil, Gas & Consumable Fuels	*6,463,590*
	TOTAL ENERGY	6,667,352
FINANCIALS 1.8%		
	Capital Markets 0.3%	
300,000	Bear Stearns Co. Inc., Senior Notes, 6.400% due 10/2/17	327,528
30,000	Goldman Sachs Capital II, Junior Subordinated Bonds, 5.793% due 6/1/12(c)(g)	23,400
300,000	Goldman Sachs Group Inc., Senior Notes, 6.150% due 4/1/18	321,671
280,000	Merrill Lynch & Co. Inc., Notes, 6.875% due 4/25/18	302,163

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Capital Markets 0.3% ***continued***	
$ 290,000	Morgan Stanley, Medium-Term Notes, 5.625% due 1/9/12	$ 306,189
	Total Capital Markets	*1,280,951*
	Commercial Banks 0.3%	
20,000	BAC Capital Trust XIV, Junior Subordinated Notes, 5.630% due 3/15/12(c)(g)	13,950
260,000	Resona Preferred Global Securities Cayman Ltd., Junior Subordinated, Bonds, 7.191% due 7/30/15(c)(d)(g)	212,885
490,000	Shinsei Finance Cayman Ltd., Junior Subordinated Bonds, 6.418% due 7/20/16(c)(d)(g)	285,739
420,000	SunTrust Capital, Trust Preferred Securities, 6.100% due 12/15/36(c)	293,316
380,000	Wachovia Bank N.A., Subordinated Notes, 6.000% due 11/15/17	398,385
280,000	Wells Fargo Capital X, Capital Securities, 5.950% due 12/15/36	245,000
	Total Commercial Banks	*1,449,275*
	Consumer Finance 0.3%	
380,000	American Express Co., Subordinated Debentures, 6.800% due 9/1/66(c)	343,900
190,000	Caterpillar Financial Services Corp., Medium-Term Notes, 5.450% due 4/15/18	198,229