

LMP CAPITAL & INCOME FUND INC.
Form N-CSR
January 04, 2008

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: October 31, 2007

ITEM 1. REPORT TO STOCKHOLDERS.

The Annual Report to Stockholders is filed herewith.

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

ANNUAL REPORT

OCTOBER 31, 2007

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

LMP
Capital and Income Fund Inc.

Annual Report October 31, 2007

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Letter from the Chairman

Dear Shareholder,

Despite continued weakness in the housing market and a credit crunch that began in the summer of 2007, the U.S. economy proved to be resilient during the 12-month reporting period ended October 31, 2007. After expanding 2.1% in the fourth quarter of 2006, U.S. gross domestic product (GDP) growth was a tepid 0.6% in the first quarter of 2007, according to the U.S. Commerce Department. This was the lowest growth rate since the fourth quarter of 2002. The economy then rebounded, as second quarter 2007 GDP growth was a solid 3.8%. Given the modest increase earlier in the year, this higher growth rate was not unexpected. The preliminary estimate for third quarter GDP growth was 4.9%. A surge in inventory-building and robust exports supported the economy during the third calendar quarter.

R. JAY GERKEN, CFA

Chairman, President
and Chief Executive Officer

Ongoing issues related to the housing and subprime mortgage markets and an abrupt tightening in the credit markets prompted the Federal Reserve Board (Fed)ⁱⁱ to take several actions during the reporting period. The Fed initially responded by lowering the discount rate—the rate the Fed uses for loans it makes directly to banks—from 6.25% to 5.75% in mid-August 2007. Then, at its meeting on September 18, the Fed reduced the federal funds rateⁱⁱⁱ from 5.25% to 4.75% and the discount rate to 5.25%. This marked the first reduction in the federal funds rate since June 2003. The Fed again lowered rates at the end of October, as it cut both the discount rate and federal funds rate another 0.25% to 5.00% and 4.50%, respectively. In its statement accompanying the October meeting, the Fed stated: Economic growth was solid in the third quarter, and

LMP Capital and Income Fund Inc.

I

strains in financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction. The Fed went on to say: The Committee judges that, after this action, the upside risks to inflation roughly balance the downside risks to growth.

Despite periods of extreme volatility, the U.S. stock market overall produced strong results during the 12-month reporting period. After rising in six of the first seven months of the period, the market reversed course in June and July 2007. Earlier in the fiscal year, U.S. stock prices rose on the back of solid corporate profits, an active merger and acquisition (M&A) environment and hopes that the Fed would lower the federal funds rate in 2007. U.S. equity prices then faltered in June and July 2007 due to troubles in the housing market and expectations that the Fed would not lower short-term interest rates in the foreseeable future. U.S. stock prices then began to rally in late August 2007, as the Fed lowered the discount rate and indicated that it had not ruled out reducing the federal funds rate. The market's ascent continued in September and October, when the Fed lowered the federal funds rate twice. All told, the S&P 500 Index^{iv} returned 14.55% during the 12 months ended October 31, 2007.

During the 12-month reporting period, both short- and long-term Treasury yields experienced periods of significant volatility. Yields fluctuated early in the period, given mixed economic data and shifting expectations regarding the Fed's future monetary policy. After falling during the first three months of 2007, yields then moved steadily higher during much of the second quarter. This was due, in part, to inflationary fears, a solid job market and expectations that the Fed would not be cutting short-term rates in the foreseeable future. During the remainder of the reporting period, the U.S. fixed-income markets were extremely volatile, which negatively impacted market liquidity conditions. Initially, the concern on the part of market participants was limited to 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 turmoil triggered a significant flight to quality, causing Treasury yields to move sharply lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). Overall, during the 12 months ended October 31, 2007, two-year Treasury yields fell from 4.71% to 3.94%. Over the same period, 10-year Treasury yields fell from 4.61% to 4.48%. Looking at the 12-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Index^v, returned 5.38%.

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

Information About Your Fund

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

November 30, 2007

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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 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.

IV LMP Capital and Income Fund Inc.

Fund Overview

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

A. Despite a number of concerns over the course of the reporting period, the U.S. stock market posted solid gains across most segments for the 12 months ended October 31, 2007. After showing strength at the start of the period, the broad U.S. equity market sold off sharply in late February and early March of 2007. Investors were concerned over increased volatility in international markets, signs of deterioration in the U.S. subprime mortgage markets, and rising oil prices due to geopolitical developments in the Middle East and increasing demand from developing markets. Despite these challenges, the U.S. equity market rebounded sharply at the end of March and continued to make gains through the spring and the start of the summer.

The latter half of the reporting period saw the U.S. equities market reach several new milestones. The Dow Jones Industrial Average (DJIA)ⁱ reached a record high on July 19, 2007, closing above 14,000 for the first time in history, but then fell over 1,000 points during the following four weeks as widening concerns tied to collateralized debt obligations and a slumping housing market fed increasing bond and stock market volatility. Adding to the market's anxieties were record high oil prices and the decline of the U.S. dollar, which set record lows against the Euro.

Following reassurance from Federal Reserve Board (Fed)ⁱⁱ Chairman Ben Bernanke and Fed actions to inject liquidity in the markets, including a 50 basis point reduction in the discount rateⁱⁱⁱ on August 17, 2007 and a 50 basis point cut in the federal funds rate^{iv} on September 18, 2007, stocks, in general, recovered and continued upward to register gains in September and October, with the DJIA setting another record high on October 9, 2007. At the close of the reporting period on October 31, 2007, the Fed cut the federal funds rate by another 25 basis points, prompting a brief but sharp rally that helped most major U.S. equity market indexes capture respectable gains for the fiscal year.

During the fiscal year, the 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 4.71% and 4.61%, respectively. This inversion of the yield curve^v, when shorter-term yields eclipse their longer-term counterparts, has often been a precursor to weaker economic growth. However, after tepid gross domestic product (GDP)^{vi} growth in the first quarter of 2007, the economy rebounded, inflationary pressures increased and both short- and long-term Treasury yields moved sharply higher. By mid-June, two- and 10-year Treasuries were yielding 5.10% and 5.26%, respectively, and market sentiment was that the Fed's next move would be to raise interest rates.

After their June peaks, Treasury yields then moved sharply lower, as concerns regarding the subprime mortgage market and a severe credit crunch triggered a massive flight to

quality. During this time, investors were drawn to the relative safety of Treasuries, causing their prices to rise. At the same time, increased risk aversion caused other segments of the bond market to falter. As conditions in the credit market worsened in August, central banks around the world took action by injecting approximately \$500 billion of liquidity into the financial system. Additionally, the Fed aggressively lowered the discount rate and the federal funds rate toward the end of the reporting period. These actions appeared to lessen the credit crunch and supported the overall bond market. By October, the volatility in the bond market was less extreme and, at the end of the fiscal year, two- and 10-year Treasury yields were 3.94% and 4.48%, respectively.

Performance Review

For the 12 months ended October 31, 2007, LMP Capital and Income Fund Inc. returned 16.32% based on its net asset value (NAV)^{vii} and 18.22% 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^{viii} and the S&P 500 Index^{ix}, returned 5.38% and 14.55%, respectively, for the same period. The Fund's Lipper Income and Preferred Stock Closed-End Funds Category Average^x increased 0.70% over the same time frame. 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 \$1.55 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, 2007. **Past performance is no guarantee of future results.**

Performance Snapshot as of October 31, 2007 (unaudited)

	12-Month Total Return
Price Per Share	
\$22.95 (NAV)	16.32%
\$19.88 (Market Price)	18.22%

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 most significant factors affecting Fund performance? What were the leading contributors to performance?

A. Pursuant to the Fund's investment objective it has the ability to allocate assets across a broad range of equity and fixed-income investments. The Fund having made an allocation of its assets, over the reporting period, in a higher proportion to equities rather than fixed income was a significant contributor to the Fund's performance. In the equity portion of the Fund, stock selection in the Consumer Discretionary, Information Technology, Financials and Industrials sectors significantly enhanced the Fund's results, relative to the S&P 500 Index, during the reporting period. In terms of sector allocation, overweight positions in the Energy and Information Technology sectors and an underweight position in the Health Care sector made significant contributions to performance during the period. Individual stocks that made a significant positive contribution to performance included **Las Vegas Sands Corp.** in the Consumer Discretionary sector, **National Fuel Gas Co.** in the Utilities sector, **EMC Corp.** in the Information Technology sector, **General Electric Co.** in the Industrials sector and **Altria Group Inc.** in the Consumer Staples sector.

In the fixed-income portion of the Fund, duration^{xi} was managed tactically during the reporting period and was adjusted given changing market conditions. Overall, this contributed to performance, especially in the second half of the fiscal year. During that time, the portfolio's duration rose and this helped the Fund to benefit from the summer rally in the Treasury market. In terms of yield curve positioning, we structured the portfolio in anticipation of a steepening of the curve. This enhanced the Fund's performance during the financial turmoil that occurred in the summer. Over that time, the market priced in interest rate cuts by the Fed. This caused the curve to steepen, as yields on short-dated securities fell much more than those from their longer-dated counterparts. In addition, an allocation to U.S. Treasury Inflation-Protected Securities (TIPS)^{xii} was a modest contributor to performance as the market prepared for Fed interest rate cuts and the potential for inflationary pressures.

What were the leading detractors from performance?

A. In the equity portion of the Fund, stock selection in the Energy and Health Care sectors negatively impacted relative performance during the period. In addition, underweights in the Materials and Telecommunication Services sectors and an overweight to the Financials sector detracted from results. Individual holdings that had a negative impact on the Fund's performance included **Warner Music Group Corp.** in the Consumer Discretionary sector, **Fidelity National Financial Inc. Class A Shares**, **Marsh & McLennan Cos.** and **UBS AG**, all in the Financials sector, as well as **Kraft Foods Inc.** in the Consumer Staples sector.

In the fixed-income portion of the Fund, a large overweight to mortgages significantly detracted from performance as volatility and spreads both spiked in the wake of the subprime mortgage crisis. Elsewhere, issue selection within the Corporate Bond sector detracted from results.

The Fund reduced the amount of leverage it employed over the course of the reporting period, thereby reducing the amount of potential risk. However, due to the Fund's positive

performance over the period, maintaining a higher rate of leverage would have led to further positive performance.

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

A. During the reporting period, in the equity portion of the Fund, the Fund's portfolio shifted from an underweight position to an overweight position in the Energy, Industrials and Telecommunication Services sectors, and switched from an overweight to an underweight in the Financials sector. In terms of individual stocks, significant positions that were closed during the period included **McDonalds Corp., WellPoint Inc., Microsoft Corp., ACE Ltd., First American Corp., Chubb Corp., Capital One Financial Corp., Fidelity National Information Services Inc., Agilent Technologies Inc.** and **Honeywell International Inc.** Significant new additions to the portfolio during the period included **Invesco PLC ADR, Liberty Media Holding Corp. (Capital Group, Series A Shares), EMC Corp., Crown Castle International Corp., SBA Communications Corp. (Class A), Crosstex Energy Inc., United Technologies Corp., VeriSign Inc., Halliburton Co.** and **Covanta Holding Corp.**

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/individualinvestors.

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,

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Robert Gendelman
Portfolio Manager

ClearBridge Advisors, LLC (Equity Portion)

Western Asset Management Company (Fixed-Income Portion)

November 20, 2007

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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, 2007 and are subject to change and may not be representative of the Fund's current or future investments. The Fund's top ten holdings (as a percentage of net assets) as of this date were: American Express Co. (3.2%), Invesco PLC, ADR (3.1%), UBS AG (3.1%), Altria Group Inc. (3.1%), Liberty Media Holding Corp. (3.1%), Federal Home Loan Mortgage Corp. (FHLMC) (3.0%), EMC Corp. (2.9%), General Electric Co. (2.8%), Crown Castle International Corp. (2.8%) and Crosstex Energy Inc. (2.6%). Please refer to pages 7 through 23 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, 2007 were: Industrials (22.6%), Financials (18.8%), Energy (16.7%), Consumer Discretionary (15.1%) and Information Technology (13.9%). 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 Fund's share price. High-yield bonds are rated below investment grade and involve greater credit and liquidity risk than higher-rated securities. 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. The Fund is subject to certain risks of overseas investing not associated with domestic investing, including currency fluctuations and changes in political and economic conditions.

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 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 discount rate is the interest rate charged by the U.S. Federal Reserve Bank on short-term loans (usually overnight or weekend) to banks.

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

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

vii 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.

viii 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.

ix 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.

x Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended October 31, 2007, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 29 funds in the Fund's Lipper category.

xi 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.

xii U.S. Treasury Inflation-Protected Securities (TIPS) are inflation-indexed securities issued by the U.S. Treasury in 5-year, 10-year and 20-year maturities. The principal is adjusted to the Consumer Price Index, the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal.

Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments

Schedule of Investments (October 31, 2007)

LMP CAPITAL AND INCOME FUND INC.

Shares	Security	Value
COMMON STOCKS 73.0%		
CONSUMER DISCRETIONARY 9.5%		
Household Durables 0.0%		
1,226,577	Home Interiors & Gifts Inc. (a)(b)*	\$ 12,266
Media 6.7%		
208,660	E.W. Scripps Co., Class A Shares	9,391,787
100,900	Lamar Advertising Co., Class A Shares	5,394,114
167,970	Liberty Media Holding Corp., Capital Group, Series A Shares *	20,992,890
854,500	Time Warner Inc.	15,603,170
768,600	Warner Music Group Corp.	7,824,348
	Total Media	59,206,309
Multiline Retail 1.2%		
164,000	Target Corp.	10,063,040
Specialty Retail 1.6%		
280,410	Ross Stores Inc.	7,576,678
215,200	TJX Cos. Inc.	6,225,736
	Total Specialty Retail	13,802,414
	TOTAL CONSUMER DISCRETIONARY	83,084,029
CONSUMER STAPLES 2.4%		
Tobacco 2.4%		
288,300	Altria Group Inc.	21,025,719
ENERGY 12.1%		
Energy Equipment & Services 5.2%		
72,600	Diamond Offshore Drilling Inc.	8,220,498
402,600	Halliburton Co.	15,870,492
139,370	SEACOR Holdings Inc. *	12,773,261
73,800	Transocean Inc. *	8,809,506
	Total Energy Equipment & Services	45,673,757
Oil, Gas & Consumable Fuels 6.9%		
124,750	Anadarko Petroleum Corp.	7,362,745
487,565	Crosstex Energy Inc.	17,976,521
50,820	Devon Energy Corp.	4,746,588
205,100	Newfield Exploration Co. *	11,042,584
109,000	Southwestern Energy Co. *	5,638,570
176,560	Total SA, ADR	14,232,502
	Total Oil, Gas & Consumable Fuels	60,999,510
	TOTAL ENERGY	106,673,267

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

Shares	Security	Value
FINANCIALS 12.5%		
Capital Markets 6.2%		
35,600	Goldman Sachs Group Inc.	\$ 8,825,952
703,110	Invesco PLC, ADR	21,557,353
144,790	Pzena Investment Management Inc., Class A *	2,806,030
396,100	UBS AG	21,266,609
	Total Capital Markets	54,455,944
Consumer Finance 2.5%		
356,200	American Express Co.	21,710,390
Insurance 3.8%		
113,100	AFLAC Inc.	7,100,418
192,520	American International Group Inc.	12,151,862
939,510	Fidelity National Financial Inc., Class A Shares	14,459,059
	Total Insurance	33,711,339
	TOTAL FINANCIALS	109,877,673
HEALTH CARE 5.6%		
Health Care Equipment & Supplies 1.5%		
271,900	Medtronic Inc.	12,898,936
Health Care Providers & Services 2.5%		
229,530	Quest Diagnostics Inc.	12,206,405
199,900	UnitedHealth Group Inc.	9,825,085
	Total Health Care Providers & Services	22,031,490
Pharmaceuticals 1.6%		
218,000	Johnson & Johnson	14,207,060
	TOTAL HEALTH CARE	49,137,486
INDUSTRIALS 12.5%		
Aerospace & Defense 3.3%		
118,710	L-3 Communications Holdings Inc.	13,015,364
213,000	United Technologies Corp.	16,313,670
	Total Aerospace & Defense	29,329,034
Building Products 1.4%		
569,900	Assa Abloy AB	11,994,124
Commercial Services & Supplies 2.7%		
538,100	Covanta Holding Corp. *	14,587,891
214,600	Monster Worldwide Inc. *	8,708,468
	Total Commercial Services & Supplies	23,296,359
Industrial Conglomerates 2.2%		
475,300	General Electric Co.	19,563,348
Machinery 1.7%		
313,300	Dover Corp.	14,411,800

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

Shares	Security	Value
Road & Rail 1.2%		
55,600	Burlington Northern Santa Fe Corp.	\$ 4,845,540
133,600	CSX Corp.	5,981,272
	Total Road & Rail	10,826,812
	TOTAL INDUSTRIALS	109,421,477
INFORMATION TECHNOLOGY 10.6%		
Communications Equipment 3.9%		
451,900	Cisco Systems Inc. *	14,939,814
266,580	Corning Inc.	6,469,897
298,100	QUALCOMM Inc.	12,737,813
	Total Communications Equipment	34,147,524
Computers & Peripherals 2.2%		
779,500	EMC Corp. *	19,791,505
Internet Software & Services 3.0%		
84,270	Equinix Inc. *	9,830,938
479,900	VeriSign Inc. *	16,359,791
	Total Internet Software & Services	26,190,729
Software 1.5%		
584,500	Oracle Corp. *	12,958,365
	TOTAL INFORMATION TECHNOLOGY	93,088,123
TELECOMMUNICATION SERVICES 4.1%		
Wireless Telecommunication Services 4.1%		
467,950	Crown Castle International Corp. *	19,218,707
482,400	SBA Communications Corp., Class A *	17,173,440
	TOTAL TELECOMMUNICATION SERVICES	36,392,147
UTILITIES 3.7%		
Electric Utilities 1.1%		
166,700	Allegheny Energy Inc. *	10,112,022
Gas Utilities 1.5%		
267,460	National Fuel Gas Co.	12,969,135
Independent Power Producers & Energy Traders 1.1%		
207,000	NRG Energy Inc. *	9,451,620
	TOTAL UTILITIES	32,532,777
	TOTAL COMMON STOCKS	
	(Cost \$605,893,101)	641,232,698

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

Shares	Security	Value
PREFERRED STOCKS 0.0%		
FINANCIALS 0.0%		
Thrifts & Mortgage Finance 0.0%		
300	Federal National Mortgage Association (FNMA), 7.000% (Cost \$15,960)	\$15,872
Face Amount		
ASSET-BACKED SECURITIES 0.5%		
Home Equity 0.5%		
\$750,000	Asset-Backed Funding Certificates, 6.323% due 1/25/34 (c)	654,282
410,000	Countrywide Asset-Backed Certificates, 6.381% due 6/25/34 (c)	383,471
73,417	Finance America Net Interest Margin Trust, 5.250% due 6/27/34 (d)	66
186,805	Fremont Home Loan Trust, 5.973% due 2/25/34 (c)	164,043
1,005,000	GSAMP Trust, 6.023% due 11/25/34 (c)	904,513
2,951	Merrill Lynch Mortgage Investors Inc., 5.000% due 9/25/35 (d)	2,852
1,500,000	Option One Mortgage Loan Trust, 5.923% due 5/25/34 (c)	1,398,134
520,783	Renaissance Home Equity Loan Trust, 6.773% due 3/25/34 (c)	473,624
	Sail Net Interest Margin Notes:	
141,210	7.750% due 4/27/33 (d)	16
71,380	5.500% due 3/27/34 (d)	5,443
	TOTAL ASSET-BACKED SECURITIES	
	(Cost \$4,670,551)	3,986,444
COLLATERALIZED MORTGAGE OBLIGATIONS 0.4%		
260,000	American Home Mortgage Investment Trust, 5.673% due 11/25/45 (c)	254,346
172,490	Bear Stearns ARM Trust, 5.782% due 2/25/36 (c)	170,644
	Federal Home Loan Mortgage Corp. (FHLMC):	
65,097	6.000% due 3/15/34 (c)	59,079
549,289	PAC, 6.000% due 4/15/34 (c)	535,394
746,886	Harborview Mortgage Loan Trust, 6.091% due 11/19/35 (c)	597,276
451,505	Merit Securities Corp., 6.319% due 9/28/32 (c)(d)	415,273
	MLCC Mortgage Investors Inc.:	
387,528	5.793% due 4/25/29 (c)	386,836
653,239	5.753% due 5/25/29 (c)	653,659
	Thornburg Mortgage Securities Trust:	
257,169	6.220% due 7/25/37 (c)	255,883
277,634	6.231% due 7/25/37 (c)	279,673
	TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS	
	(Cost \$3,772,020)	3,608,063
COLLATERALIZED SENIOR LOANS 0.7%		
Aerospace & Defense 0.1%		
	Dubai Aerospace Enterprise, Term Loan:	
334,528	7.998% due 7/31/09 (c)	334,319
665,472	9.033% due 7/31/14	665,888
	Total Aerospace & Defense	1,000,207

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

	Face Amount	Security	Value
Airlines 0.1%			
\$	250,000	Delta Airlines Inc., Term Loan, 8.082% due 4/30/14	\$ 248,170
	250,000	United Airlines Inc., Term Loan B, 7.032% due 1/12/14	240,139
		Total Airlines	488,309
Commercial Banks 0.1%			
	570,000	First Data Corp., 7.960% due 10/15/14 (c)	550,465
Commercial Services & Supplies 0.0%			
	250,000	US Investigations Services Inc., Term Loan B, 0.000% due 2/21/15	243,125
Diversified Consumer Services 0.0%			
	250,000	Thomson Learning Hold, Term Loan B, 7.950% due 7/5/14 (c)	242,361
Diversified Telecommunication Services 0.0%			
	250,000	Insight Midwest, Term Loan B, 7.000% due 4/10/14 (c)	245,191
Electric Utilities 0.1%			
	500,000	TPF Generation Holdings LLC, Term Loan B, 0.000% due 10/10/14	500,155
Health Care Equipment & Supplies 0.1%			
	200,000	Bausch & Lomb Inc.:	
	50,000	Term Loan, 8.143% due 4/11/15 (c)	200,562
		Term Loan B, 0.000% due 4/11/15	50,141
		Total Health Care Equipment & Supplies	250,703
Health Care Providers & Services 0.1%			
	15,468	Community Health Systems Inc.:	
	234,532	Term Loan, 0.000% due 7/2/14	15,129
	249,372	Term Loan B, 7.756% due 7/2/14 (c)	229,402
		HCA Inc., Term Loan B, 7.448% due 11/1/13 (c)	244,054
		Total Health Care Providers & Services	488,585
Hotels, Restaurants & Leisure 0.0%			
	250,000	Aramark Corp., Term Loan, 0.000% due 1/31/14	244,406
Media 0.1%			
	250,000	Charter Communications, Term Loan B, 7.350% due 3/15/14	240,667
	250,000	CMP Susquehanna Corp., 0.000% due 6/7/13	242,500
	249,375	LodgeNet Entertainment Corp., Term Loan B, 7.200% due 4/4/14	245,245
	250,000	Regal Cinemas, Term Loan B, 0.000% due 10/19/10	244,815
		Total Media	973,227
Multiline Retail 0.0%			
	250,000	Neiman Marcus Group Inc., Term Loan B, 7.448% due 3/13/13 (c)	246,448
Road & Rail 0.0%			
	250,000	UPC, Term Loan N, 7.100% due 3/30/14	242,305
Specialty Retail 0.0%			
	250,000	Michaels Stores, Inc. Term Loan B, 7.619% due 10/31/13 (c)	240,057

See Notes to Financial Statements.

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Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Wireless Telecommunication Services 0.0%		
\$ 250,000	Telesat Ganada, Term Loan B, 7.901% due 10/15/14	\$ 247,969
	TOTAL COLLATERALIZED SENIOR LOANS	
	(Cost \$6,199,182)	6,203,513
CORPORATE BONDS & NOTES 9.5%		
Aerospace & Defense 0.1%		
275,000	Alliant Techsystems Inc., Senior Subordinated Notes, 6.750% due 4/1/16	275,000
250,000	Hawker Beechcraft Acquisition Co., Senior Notes, 8.875% due 4/1/15 (d)(e)	252,500
	Total Aerospace & Defense	527,500
Airlines 0.1%		
170,000	Continental Airlines Inc.: Notes, 8.750% due 12/1/11	168,300
122,925	Pass-Through Certificates: 8.312% due 4/2/11	122,437
380,000	7.339% due 4/19/14	359,765
460,000	DAE Aviation Holdings Inc., Senior Notes, 11.250% due 8/1/15 (d)	485,300
	Total Airlines	1,135,802
Auto Components 0.2%		
280,000	Allison Transmission Inc., 11.250% due 11/1/15 (d)(e)	277,550
295,000	Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13	241,162
1,075,000	Visteon Corp., Senior Notes, 8.250% due 8/1/10	1,005,125
	Total Auto Components	1,523,837
Automobiles 0.2%		
110,000	Ford Motor Co., Debentures, 8.875% due 1/15/22	95,425
630,000	General Motors Corp., Senior Debentures: 8.250% due 7/15/23	571,725
1,300,000	8.375% due 7/15/33	1,189,500
	Total Automobiles	1,856,650
Building Products 0.1%		
540,000	Associated Materials Inc., Senior Subordinated Notes, 9.750% due 4/15/12	553,500
490,000	NTK Holdings Inc., Senior Discount Notes, step bond to yield 11.186% due 3/1/14	323,400
	Total Building Products	876,900
Capital Markets 0.2%		
160,000	E*TRADE Financial Corp., Senior Notes: 7.375% due 9/15/13	150,400
65,000	7.875% due 12/1/15	62,075
1,200,000	Kaupthing Bank HF, Subordinated Notes, 7.125% due 5/19/16 (d)	1,190,969
20,000	Lehman Brothers Holdings Capital Trust VII, Medium-Term Notes, 5.857% due 11/29/49 (c)	18,686

See Notes to Financial Statements.

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Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Capital Markets 0.2% (continued)		
\$ 130,000	Lehman Brothers Holdings Inc., Senior Notes, Medium-Term Notes, 6.200% due 9/26/14	\$ 131,025
	Total Capital Markets	1,553,155
Chemicals 0.1%		
572,000	Equistar Chemicals LP, Senior Notes, 10.625% due 5/1/11	600,600
570,000	Georgia Gulf Corp., Senior Notes, 9.500% due 10/15/14	495,900
110,000	Huntsman International LLC, Senior Subordinated Notes, 7.875% due 11/15/14	118,800
6,000	PPG Industries Inc., Notes, 6.500% due 11/1/07	6,000
	Total Chemicals	1,221,300
Commercial Banks 0.3%		
54,545	Fifth Third Bank, Notes, 2.870% due 8/10/09	52,823
290,000	Glitnir Banki HF, Notes, 6.375% due 9/25/12 (d)	292,371
100,000	HBOS Capital Funding LP, Tier 1 Notes, Perpetual Bonds, 6.071% due 6/30/49 (c)(d)	96,171
1,300,000	Resona Preferred Global Securities Cayman Ltd., Bonds, 7.191% due 7/30/15 (c)(d)(f)	1,307,362
1,400,000	Shinsei Finance Cayman Ltd., Junior Subordinated Bonds, 6.418% due 7/20/14 (c)(d)(f)	1,306,129
	Total Commercial Banks	3,054,856
Commercial Services & Supplies 0.3%		
180,000	Allied Security Escrow Corp., Senior Subordinated Notes, 11.375% due 7/15/11	172,800
75,000	Allied Waste North America Inc., Senior Notes, 7.250% due 3/15/15	75,938
405,000	DynCorp International LLC/DIV Capital Corp., Senior Subordinated Notes, 9.500% due 2/15/13	430,312
600,000	Interface Inc., Senior Subordinated Notes, 9.500% due 2/1/14	636,000
290,000	Rental Services Corp., 9.500% due 12/1/14	280,212
790,000	US Investigations Services Inc., 10.500% due 11/1/15 (d)	756,425
225,000	Waste Management Inc., Senior Note, 6.375% due 11/15/12	234,279
	Total Commercial Services & Supplies	2,585,966
Consumer Finance 1.0%		
300,000	Aiful Corp., Notes: 6.000% due 12/12/11 (d)	286,491
100,000	5.000% due 8/10/10 (d)	94,721
1,050,000	Ford Motor Credit Co.: Notes, 7.000% due 10/1/13	943,603
750,000	Senior Notes: 5.800% due 1/12/09	723,767
135,000	9.750% due 9/15/10	134,516
559,000	10.944% due 6/15/11 (c)	559,316
1,600,000	9.875% due 8/10/11	1,598,811
170,000	8.000% due 12/15/16	157,631
500,000	General Motors Acceptance Corp., Notes: 5.625% due 5/15/09	476,512
320,000	7.750% due 1/19/10	309,901

See Notes to Financial Statements.

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Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Consumer Finance 1.0% (continued)		
\$ 1,580,000	6.875% due 9/15/11	\$ 1,457,343
1,900,000	6.625% due 5/15/12	1,707,298
300,000	6.750% due 12/1/14	266,188
125,000	SLM Corp., Medium-Term Notes, 5.284% due 1/26/09 (c)	121,864
	Total Consumer Finance	8,837,962
Containers & Packaging 0.1%		
285,000	Graham Packaging Co. Inc., Senior Subordinated Notes, 9.875% due 10/15/14	283,575
535,000	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13	564,425
195,000	Plastipak Holdings Inc., Senior Notes, 8.500% due 12/15/15 (d)	201,825
	Total Containers & Packaging	1,049,825
Diversified Consumer Services 0.0%		
20,000	Education Management LLC/Education Management Finance Corp.:	
210,000	Senior Notes, 8.750% due 6/1/14	20,750
	Senior Subordinated Notes, 10.250% due 6/1/16	221,550
	Total Diversified Consumer Services	242,300
Diversified Financial Services 0.4%		
150,000	AAC Group Holding Corp., Senior Discount Notes, step bond to yield 9.092% due 10/1/12	133,500
100,000	Bank of America Corp., Subordinated Notes, 5.420% due 3/15/17	97,298
610,000	Basell AF SCA, Senior Secured Subordinated Second Priority Notes, 8.375% due 8/15/15 (d)	549,000
125,000	Capital One Bank, Notes, 5.750% due 9/15/10	126,276
110,493	Core Investment Grade Bond Trust I, Pass-Through Certificates, 4.642% due 11/30/07 (c)	110,300
125,000	Countrywide Home Loans Inc., Medium-Term Notes, 4.125% due 9/15/09	109,297
250,000	General Electric Capital Corp., Medium-Term Notes, 5.450% due 1/15/13	253,088
200,000	Glen Meadow Pass-Through Certificates, 6.505% due 2/12/67 (c)(d)	192,416
125,000	HSBC Finance Corp., Senior Subordinated Notes, 5.875% due 2/1/09	126,271
210,000	Leucadia National Corp., Senior Notes, 8.125% due 9/15/15	212,887
10,000	Residential Capital LLC, Senior Notes:	
40,000	7.314% due 4/17/09 (c)	7,813
430,000	7.595% due 5/22/09 (c)	31,250
46,000	7.500% due 6/1/12 (c)	314,178
60,000	UCAR Finance Inc., Senior Notes, 10.250% due 2/15/12	48,300
	Vangent Inc., Senior Subordinated Notes, 9.625% due 2/15/15 (d)	55,800
620,000	Vanguard Health Holdings Co. I LLC, Senior Discount Notes, step bond to yield 10.257% due 10/1/15	486,700
260,000	Vanguard Health Holdings Co. II LLC, Senior Subordinated Notes, 9.000% due 10/1/14	254,800
	Total Diversified Financial Services	3,109,174
Diversified Telecommunication Services 0.6%		

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600,000

Deutsche Telekom International Finance, Senior Notes, 5.750%
due 3/23/16

602,569

See Notes to Financial Statements.

14 LMP Capital and Income Fund Inc. 2007 Annual Report

Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Diversified Telecommunication Services 0.6% (continued)		
\$ 170,000	Hawaiian Telcom Communications Inc., Senior Subordinated Notes, 12.500% due 5/1/15	\$ 185,300
180,000	Intelsat Bermuda Ltd.: 9.250% due 6/15/16	187,650
680,000	Senior Notes, 11.250% due 6/15/16	734,400
295,000	Level 3 Financing Inc.: 9.250% due 11/1/14	279,512
30,000	9.150% due 2/15/15 (c)	27,225
250,000	Nordic Telephone Co. Holdings, Senior Secured Bonds, 8.875% due 5/1/16 (d)	265,625
140,000	PAETEC Holding Corp., Senior Note, 9.500% due 7/15/15 (d)	144,200
740,000	Qwest Communications International Inc., Senior Notes, 7.500% due 2/15/14	752,950
100,000	Telecom Italia Capital S.p.A., Senior Notes, 5.250% due 10/1/15	96,521
450,000	Verizon Florida Inc., Senior Notes, 6.125% due 1/15/13	465,448
450,000	Virgin Media Finance PLC, Senior Notes: 8.750% due 4/15/14	466,875
220,000	9.125% due 8/15/16	233,200
660,000	Windstream Corp., Senior Notes, 8.625% due 8/1/16	709,500
	Total Diversified Telecommunication Services	5,150,975
Electric Utilities 0.1%		
325,000	FirstEnergy Corp., Notes, 7.375% due 11/15/31	355,843
100,000	Orion Power Holdings Inc., Senior Notes, 12.000% due 5/1/10	111,000
230,000	Pacific Gas & Electric Co., Senior Unsubordinated Notes, 5.800% due 3/1/37	222,037
	Total Electric Utilities	688,880
Electronic Equipment & Instruments 0.1%		
1,065,000	NXP BV/NXP Funding LLC, Senior Notes, 9.500% due 10/15/15	1,009,087
Energy Equipment & Services 0.1%		
725,000	Complete Production Services Inc., Senior Notes, 8.000% due 12/15/16	706,875
55,000	Pride International Inc., Senior Notes, 7.375% due 7/15/14	56,650
10,000	Southern Natural Gas Co., Senior Notes, 8.000% due 3/1/32	11,456
	Total Energy Equipment & Services	774,981
Food & Staples Retailing 0.0%		
150,000	Safeway Inc., Senior Notes, 6.500% due 11/15/08	151,914
Food Products 0.1%		
125,000	Dole Food Co. Inc., Senior Notes: 7.250% due 6/15/10	119,375
261,000	8.875% due 3/15/11	258,064
	Total Food Products	377,439
Health Care Providers & Services 0.3%		
460,000	Community Health Systems Inc., Senior Notes, 8.875% due 7/15/15 (d)	468,050
295,000	HCA Inc.: Notes, 6.375% due 1/15/15	253,331

See Notes to Financial Statements.

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Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Health Care Providers & Services 0.3% (continued)		
\$ 345,000	Senior Notes, 6.500% due 2/15/16	\$ 296,269
	Senior Secured Notes:	
215,000	9.250% due 11/15/16 (d)	226,825
285,000	9.625% due 11/15/16 (d)(e)	302,100
	IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes,	
425,000	8.750% due 6/15/14	431,375
	Tenet Healthcare Corp., Senior Notes:	
180,000	6.375% due 12/1/11	158,400
650,000	7.375% due 2/1/13	555,750
1,000	9.875% due 7/1/14	915
150,000	UnitedHealth Group Inc., Senior Notes, 3.300% due 1/30/08	149,483
	Total Health Care Providers & Services	2,842,498
Hotels, Restaurants & Leisure 0.8%		
1,000,000	Boyd Gaming Corp., Senior Subordinated Notes, 6.750% due 4/15/14	986,250
265,000	Buffets Inc., Senior Notes, 12.500% due 11/1/14	172,913
	Choctaw Resort Development Enterprise, Senior Notes, 7.250% due 11/15/19 (d)	308,700
315,000	Denny's Holdings Inc., Senior Notes, 10.000% due 10/1/12	567,875
550,000	El Pollo Loco Inc., Senior Notes, 11.750% due 11/15/13	101,000
100,000	Herbst Gaming Inc., Senior Subordinated Notes, 7.000% due 11/15/14	366,750
450,000	Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000% due 11/15/10	699,600
660,000	MGM MIRAGE Inc.:	
380,000	Notes, 6.750% due 9/1/12	376,200
	Senior Notes:	
575,000	5.875% due 2/27/14	536,187
320,000	7.625% due 1/15/17	321,600
203,000	Senior Subordinated Notes, 9.375% due 2/15/10	214,165
	Pinnacle Entertainment Inc., Senior Subordinated Notes, 8.250% due 3/15/12	517,500
500,000	Seneca Gaming Corp., Senior Notes, 7.250% due 5/1/12	632,812
625,000	Station Casinos Inc.:	
	Senior Notes:	
60,000	6.000% due 4/1/12	55,950
250,000	7.750% due 8/15/16	245,937
105,000	Senior Subordinated Notes, 6.875% due 3/1/16	87,413
	Turning Stone Casino Resort Enterprise, Senior Notes, 9.125% due 12/15/10 (d)	512,500
500,000		
	Total Hotels, Restaurants & Leisure	6,703,352
Household Durables 0.1%		
335,000	K Hovnanian Enterprises Inc., Senior Notes, 8.625% due 1/15/17	281,400
	Norcraft Cos. LP/Norcraft Finance Corp., Senior Subordinated Notes,	
325,000	9.000% due 11/1/11	334,750
	Norcraft Holdings LP/Norcraft Capital Corp., Senior Discount Notes, step bond to yield	
700,000	9.608% due 9/1/12	626,500
	Total Household Durables	1,242,650

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Independent Power Producers & Energy Traders 0.7%

720,000 AES Corp.:
7.750% due 10/15/17 (d)

724,500

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
	0.7% (continued)	
\$ 660,000	8.000% due 10/15/17 (d)	\$ 669,075
1,100,000	Senior Notes, 7.750% due 3/1/14	1,105,500
	Energy Future Holdings:	
270,000	10.875% due 11/1/17 (d)	274,387
1,490,000	11.250% due 11/1/17 (d)(e)	1,516,075
	Mirant Mid Atlantic LLC, Pass-Through Certificates, 9.125% due 6/30/17	167,467
152,070	NRG Energy Inc., Senior Notes:	
250,000	7.250% due 2/1/14	250,625
1,025,000	7.375% due 2/1/16	1,025,000
380,000	TXU Corp., Senior Notes, 5.550% due 11/15/14	298,302
	Total Independent Power Producers & Energy Traders	6,030,931
	Insurance 0.0%	
	Travelers Cos. Inc., Junior Subordinated Debentures, 6.250% due 3/15/37 (c)	116,731
120,000		
	IT Services 0.1%	
	Ceridian Corp.:	
110,000	11.250% due 11/15/15 (d)	109,175
170,000	12.250% due 11/15/15 (d)(e)	168,725
	SunGard Data Systems Inc.:	
400,000	Senior Notes, 9.125% due 8/15/13	410,000
270,000	Senior Subordinated Notes, 10.250% due 8/15/15	282,825
	Total IT Services	970,725
	Media 0.7%	
	Affinion Group Inc.:	
355,000	Senior Notes, 10.125% due 10/15/13	371,862
100,000	Senior Subordinated Notes, 11.500% due 10/15/15	104,750
	CCH I Holdings LLC/CCH I Holdings Capital Corp.:	
205,000	Senior Accreting Notes, 12.125% due 1/15/15	181,425
380,000	Senior Notes, 11.750% due 5/15/14	333,450
	CCH I LLC/CCH Capital Corp., Senior Secured Notes, 11.000% due 10/1/15	554,775
569,000	CCH II LLC/CCH II Capital Corp., Senior Notes:	
480,000	10.250% due 9/15/10	492,000
65,000	10.250% due 10/1/13	67,275
105,000	Charter Communications Holdings LLC/Charter Communications Holdings Capital Corp., Senior Discount Notes, 11.750% due 5/15/11	99,225
240,000	CMP Susquehanna Corp., 9.875% due 5/15/14	221,700
810,000	Comcast Corp., Notes, 6.500% due 1/15/17	848,469
700,000	Idearc Inc., Senior Notes, 8.000% due 11/15/16	705,250
	Lamar Media Corp., Senior Subordinated Notes, 6.625% due 8/15/15	173,700
180,000	R.H. Donnelley Corp.:	
655,000	Senior Discount Notes, 6.875% due 1/15/13	618,975
450,000	Senior Notes, 8.875% due 1/15/16	452,250
810,000	Time Warner Inc., Senior Notes, 6.875% due 5/1/12	854,521
260,000	TL Acquisitions Inc., Senior Notes, 10.500% due 1/15/15 (d)	260,000
	Total Media	6,339,627

See Notes to Financial Statements.

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Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Metals & Mining 0.3%		
\$ 960,000	Freeport-McMoRan Copper & Gold Inc., Senior Notes, 8.375% due 4/1/17	\$ 1,053,600
650,000	Metals USA Inc., Senior Secured Notes, 11.125% due 12/1/15	697,125
205,000	Noranda Aluminum Holding Corp., Senior Notes, 11.146% due 11/15/14 (c)(d)(e)	193,725
100,000	Novelis Inc., Senior Notes, 7.250% due 2/15/15	96,500
350,000	Ryerson Inc., 12.000% due 11/1/15 (d)	361,375
100,000	Steel Dynamics Inc., 7.375% due 11/1/12 (d)	100,500
200,000	Tube City IMS Corp., 9.750% due 2/1/15	197,500
156,000	Vale Overseas Ltd., Notes, 6.875% due 11/21/36	162,949
	Total Metals & Mining	2,863,274
Multi-Utilities 0.0%		
125,000	Keyspan Gas East Corp., Medium-Term Notes, 6.900% due 1/15/08	125,426
Multiline Retail 0.1%		
215,000	Dollar General Corp.: Senior Notes, 10.625% due 7/15/15 (d)	207,475
345,000	Senior Subordinated Notes, 11.875% due 7/15/17 (d)(e)	306,188
535,000	Neiman Marcus Group Inc., Senior Subordinated Notes, 10.375% due 10/15/15	584,487
	Total Multiline Retail	1,098,150
Office Electronics 0.0%		
290,000	Xerox Corp., Senior Notes, 6.750% due 2/1/17	303,253
Oil, Gas & Consumable Fuels 0.9%		
60,000	Anadarko Petroleum Corp., Senior Notes: 5.950% due 9/15/16	60,426
1,240,000	6.450% due 9/15/36	1,258,664
440,000	Belden & Blake Corp., Secured Notes, 8.750% due 7/15/12	451,000
775,000	Chesapeake Energy Corp., Senior Notes, 6.375% due 6/15/15	755,625
85,000	Compagnie Generale de Geophysique SA, Senior Notes, 7.500% due 5/15/15	87,125
330,000	ConocoPhillips Holding Co., Senior Notes, 6.950% due 4/15/29	376,878
180,000	El Paso Corp., Medium-Term Notes: 7.800% due 8/1/31	180,712
1,050,000	7.750% due 1/15/32	1,057,578
450,000	EXCO Resources Inc., Senior Notes, 7.250% due 1/15/11	446,625
260,000	International Coal Group Inc., Senior Notes, 10.250% due 7/15/14	253,500
140,000	Kerr-McGee Corp.: 6.950% due 7/1/24	149,362
300,000	Notes, 6.875% due 9/15/11	316,120
605,000	OPTI Canada Inc., Senior Secured Notes, 8.250% due 12/15/14 (d)	609,538
160,000	Petroplus Finance Ltd., Senior Note, 7.000% due 5/1/17 (d)	151,200
290,000	SemGroup LP, Senior Notes, 8.750% due 11/15/15 (d)	279,850
260,000	Stone Energy Corp., Senior Subordinated Notes, 8.250% due 12/15/11	260,000
100,000	Williams Cos. Inc.: Notes, 8.750% due 3/15/32	117,000
470,000	Senior Notes, 7.750% due 6/15/31	505,250
170,000	XTO Energy Inc., Senior Notes, 7.500% due 4/15/12	185,437
	Total Oil, Gas & Consumable Fuels	7,501,890

See Notes to Financial Statements.

18 LMP Capital and Income Fund Inc. 2007 Annual Report

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Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Paper & Forest Products 0.2%		
\$ 40,000	Abitibi-Consolidated Co. of Canada: Notes, 7.750% due 6/15/11	\$ 33,400
140,000	Senior Notes: 6.000% due 6/20/13	103,600
220,000	8.375% due 4/1/15	171,600
160,000	Abitibi-Consolidated Inc., Debentures, 7.400% due 4/1/18	113,600
545,000	Appleton Papers Inc., Senior Subordinated Notes, 9.750% due 6/15/14	545,000
435,000	NewPage Corp.: Senior Secured Notes, 11.606% due 5/1/12 (c)	470,887
200,000	Senior Subordinated Notes, 12.000% due 5/1/13	217,000
155,000	Verso Paper Holdings LLC, 9.125% due 8/1/14	160,813
150,000	Weyerhaeuser Co., Notes, 6.750% due 3/15/12	156,308
	Total Paper & Forest Products	1,972,208
Pharmaceuticals 0.1%		
445,000	Leiner Health Products Inc., Senior Subordinated Notes, 11.000% due 6/1/12	374,913
Real Estate Investment Trusts (REITs) 0.0%		
75,000	iStar Financial Inc., Senior Notes, 4.875% due 1/15/09	73,478
50,000	Simon Property Group LP, Notes, 6.375% due 11/15/07	50,010
85,000	Ventas Realty LP/Ventas Capital Corp., Senior Notes, 6.500% due 6/1/16	84,363
	Total Real Estate Investment Trusts (REITs)	207,851
Real Estate Management & Development 0.1%		
270,000	Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, 9.500% due 10/1/15	202,500
520,000	Realogy Corp., Senior Subordinated Notes, 12.375% due 4/15/15 (d)	380,900
	Total Real Estate Management & Development	583,400
Road & Rail 0.2%		
1,005,000	Hertz Corp., Senior Subordinated Notes, 10.500% due 1/1/16	1,085,400
50,000	Kansas City Southern de Mexico, Senior Notes, 7.625% due 12/1/13 (d)	51,125
430,000	Kansas City Southern Railway, Senior Notes, 7.500% due 6/15/09	437,525
	Total Road & Rail	1,574,050
Semiconductors & Semiconductor Equipment 0.0%		
195,000	Freescall Semiconductor Inc., 8.875% due 12/15/14	185,494
Specialty Retail 0.1%		
235,000	Blockbuster Inc., Senior Subordinated Notes, 9.000% due 9/1/12	212,675
165,000	Eye Care Centers of America, Senior Subordinated Notes, 10.750% due 2/15/15	175,312
	Total Specialty Retail	387,987
Textiles, Apparel & Luxury Goods 0.1%		
390,000	Levi Strauss & Co., Senior Notes, 9.750% due 1/15/15	409,012
180,000	Oxford Industries Inc., Senior Notes, 8.875% due 6/1/11	180,900
	Total Textiles, Apparel & Luxury Goods	589,912

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

	Face Amount	Security	Value
Tobacco	0.0%		
\$	150,000	Alliance One International Inc.:	
	90,000	8.500% due 5/15/12	\$ 150,000
		Senior Notes, 11.000% due 5/15/12	96,750
		Total Tobacco	246,750
Trading Companies & Distributors	0.1%		
	355,000	Ashtead Capital Inc., Notes, 9.000% due 8/15/16 (d)	346,125
	360,000	H&E Equipment Services Inc., Senior Notes, 8.375% due 7/15/16	351,000
	450,000	Penhall International Corp., Senior Secured Notes, 12.000% due 8/1/14 (d)	462,375
		Total Trading Companies & Distributors	1,159,500
Transportation Infrastructure	0.0%		
	435,000	Saint Acquisition Corp.:	
	130,000	Secured Notes, 12.500% due 5/15/17 (d)	279,488
		Senior Secured Notes, 13.308% due 5/15/15 (c)(d)	83,525
		Total Transportation Infrastructure	363,013
Wireless Telecommunication Services	0.5%		
	65,000	MetroPCS Wireless Inc., Senior Notes, 9.250% due 11/1/14 (d)	64,837
	1,270,000	New Cingular Wireless Services Inc., Notes, 8.125% due 5/1/12	1,417,714
	245,000	Rural Cellular Corp.:	
	110,000	Senior Notes, 9.875% due 2/1/10	256,637
	1,190,000	Senior Secured Notes, 8.250% due 3/15/12	115,225
	780,000	Sprint Capital Corp., Senior Notes, 8.375% due 3/15/12	1,300,856
		True Move Co., Ltd., 10.750% due 12/16/13 (d)	805,350
		Total Wireless Telecommunication Services	3,960,619
		TOTAL CORPORATE BONDS & NOTES	
		(Cost \$84,659,085)	83,472,707
MORTGAGE-BACKED SECURITIES	6.9%		
FHLMC	3.4%		
	3,280,401	Federal Home Loan Mortgage Corp. (FHLMC):	
	100,000	5.120% due 6/1/35 (c)	3,274,148
	676,442	6.126% due 9/1/37 (c)	101,687
	20,186,257	Gold:	
	324,657	7.000% due 6/1/17	701,167
	732,075	6.000% due 7/1/21-2/1/34 (g)	20,465,073
	4,508,840	8.500% due 9/1/25	348,759
		6.500% due 8/1/29	755,956
		6.000% due 2/1/36	4,539,466
		Total FHLMC	30,186,256

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

	Face Amount	Security	Value
FNMA 3.3%			
\$	718,206	Federal National Mortgage Association (FNMA):	\$ 734,628
	1,760,975	8.000% due 12/1/12	1,744,736
	1,670,507	5.500% due 1/1/14-4/1/35	1,752,168
	583,991	7.000% due 3/15/15-6/1/32	575,813
	800,831	4.204% due 12/1/34 (c)	803,593
	1,035,782	4.855% due 1/1/35 (c)	1,037,663
	1,372,909	5.051% due 3/1/35 (c)	1,400,013
	2,908,435	5.874% due 4/1/35 (c)	2,922,977
	4,838,023	5.636% due 4/1/36 (c)	4,861,246
	10,500,000	5.588% due 5/1/36 (c)	10,075,862
	2,800,000	5.000% due 11/13/37-12/12/37 (h)	2,820,563
		6.000% due 11/13/37 (h)	28,729,262
		Total FNMA	
GNMA 0.2%			
	1,285,504	Government National Mortgage Association (GNMA), 5.500% due 8/15/21	1,290,494
		TOTAL MORTGAGE-BACKED SECURITIES	
		(Cost \$60,114,011)	60,206,012
	Face Amount		
SOVEREIGN BOND 0.0%			
Argentina 0.0%			
	69,931ARS	Republic of Argentina, GDP Linked Securities, 0.649% due 12/15/35 (c) (Cost - \$560)	2,433
U.S. GOVERNMENT & AGENCY OBLIGATIONS 1.1%			
U.S. Government Agency 0.0%			
	100,000	Federal Home Loan Bank (FHLB), Global Bonds, 5.500% due 7/15/36	104,362
U.S. Government Obligations 1.1%			
	3,090,000	U.S. Treasury Bonds:	
	40,000	4.750% due 2/15/37	3,089,277
		5.000% due 5/15/37	41,603
	45,000	U.S. Treasury Notes:	
	6,200,000	4.250% due 9/30/12	45,204
		4.750% due 8/15/17 (g)	6,338,533
		Total U.S. Government Obligations	9,514,617
		TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS	
		(Cost \$9,485,983)	9,618,979

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
U.S. TREASURY INFLATION PROTECTED SECURITIES 0.9%		
1,948,722	U.S. Treasury Bonds, Inflation Indexed, 2.375% due 1/15/27	\$ 1,999,572
98,781	U.S. Treasury Notes, Inflation Indexed: 0.875% due 4/15/10	96,544
3,048,434	2.375% due 4/15/11 (g)	3,096,782
2,783,889	2.375% due 1/15/17	2,844,135
	TOTAL U.S. TREASURY INFLATION PROTECTED SECURITIES	
	(Cost \$7,690,198)	8,037,033
Contracts		
PURCHASED OPTIONS 0.7%		
337	Eurodollar Futures, Call @ \$94.00, expires 6/16/08	1,364,850
	Johnson & Johnson:	
1,803	Call @ \$60.00, expires 1/17/09	1,442,400
909	Call @ \$65.00, expires 1/17/09	519,948
627	Marsh & McLennan Cos. Inc., Call @ \$25.00, expires 1/19/08	115,995
1,260	S & P 500 Index, Put @ \$1,480.00, expires 12/22/07	2,419,200
184	Sterling Futures, Call @ \$93.00, expires 3/19/08	0
347	Target Corp., Call @ \$55.00, expires 1/17/09	454,570
	U.S. Treasury Notes 10 Year Futures, Put @ \$106.00, expires 11/22/07	2,735
	TOTAL PURCHASED OPTIONS	
	(Cost \$8,647,339)	6,319,698
	TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS	
	(Cost \$791,147,990)	822,703,452
Face		
Amount		
SHORT-TERM INVESTMENTS 6.3%		
U.S. Government Agencies 4.4%		
\$ 39,000,000	Federal Home Loan Bank (FHLB), Discount Notes, 0.000% due 11/1/07 (g)	39,000,000
100,000	Federal National Mortgage Association (FNMA), Discount Notes, 5.178% due 3/17/08	98,400
	Total U.S. Government Agencies	
	(Cost \$39,098,093)	39,098,400
Repurchase Agreements 1.9%		
2,327,000	Interest in \$839,650,000 joint tri-party repurchase agreement dated 10/31/07 with Greenwich Capital Markets Inc., 4.780% due 11/1/07; Proceeds at maturity \$2,327,309; (Fully collateralized by various U.S. government agency obligations, 2.750% to 5.500% due 11/15/07 to 7/17/09; Market value \$2,373,553)	2,327,000

See Notes to Financial Statements.

Schedule of Investments (October 31, 2007) (continued)

Face Amount	Security	Value
Repurchase Agreements 1.9% (continued)		
\$ 13,966,000	Morgan Stanley repurchase agreement dated 10/31/07, 4.800% due 11/1/07; Proceeds at maturity \$13,967,862; (Fully collateralized by U.S. government agency obligation, 0.00% due 12/7/07; Market value \$14,320,268) (g)	\$ 13,966,000
	Total Repurchase Agreements	
	(Cost \$16,293,000)	16,293,000
	TOTAL SHORT-TERM INVESTMENTS	
	(Cost \$55,391,093)	55,391,400
	TOTAL INVESTMENTS 100.0% (Cost \$846,539,083#)	\$ 878,094,852

Face amount denominated in U.S. dollars, unless otherwise noted.

* Non-income producing security.

(a) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).

(b) Illiquid security.

(c) Variable rate security. Interest rate disclosed is that which is in effect at October 31, 2007.

(d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(e) Payment-in-kind security for which part of the income earned may be paid as additional principal.

(f) Security has no maturity date. The date shown represents the next call date.

(g) All or a portion of this security is segregated for open futures contracts, written options, foreign currency contracts and Securities traded on a to-be-announced (TBA) basis.

(h) This security is traded on a TBA basis (See Note 1).

Aggregate cost for federal income tax purposes is \$848,751,082.

Abbreviations used in this schedule:

ADR	American Depositary Receipt
ARM	Adjustable Rate Mortgage
ARS	Argentine Peso
GDP	Gross Domestic Product
PAC	Planned Amortization Class

Schedule of Options Written

Contracts	Security	Expiration Date	Strike Price	Value
10	Eurodollar Futures, Put (Premiums received \$9,169)	2/22/08	\$ 107.00	\$ 2,969

See Notes to Financial Statements.

Statement of Assets and Liabilities (October 31, 2007)**ASSETS:**

Investments, at value (Cost \$846,539,083)	\$ 878,094,852
Foreign currency, at value (Cost \$1,685,800)	1,905,565
Cash	51,562
Receivable for securities sold	19,014,955
Dividends and interest receivable	2,539,246
Receivable for open forward currency contracts	107,934
Receivable from broker variation margin	15,180
Principal paydown receivable	1,004
Prepaid expenses	16,186
Total Assets	901,746,484

LIABILITIES:

Loan payable (Note 4)	170,000,000
Payable for securities purchased	41,445,041
Interest payable	743,984
Excise tax payable	714,895
Investment management fee payable	617,502
Payable for open forward currency contracts	240,994
Directors fees payable	16,678
Options written, at value (premium received \$9,169)	2,969
Accrued expenses	204,301
Total Liabilities	213,986,364
Total Net Assets	\$ 687,760,120

NET ASSETS:

Par value (\$0.001 par value; 29,964,106 shares issued and outstanding; 100,000,000 shares authorized)	\$ 29,964
Paid-in capital in excess of par value	560,319,797
Undistributed net investment income	5,727,873
Accumulated net realized gain on investments, futures contracts, options written, foreign currency transactions and short sales	89,463,586
Net unrealized appreciation on investments, futures contracts, options written and foreign currencies	32,218,900
Total Net Assets	\$ 687,760,120
Shares Outstanding	29,964,106
Net Asset Value	\$22.95

See Notes to Financial Statements.

Statement of Operations (For the year ended October 31, 2007)**INVESTMENT INCOME:**

Interest	\$ 14,968,078
Dividends	9,492,911
Less: Foreign taxes withheld	(313,944)
Total Investment Income	24,147,045

EXPENSES:

Interest expense (Note 4)	10,274,950
Investment management fee (Note 2)	7,187,892
Excise tax (Note 1)	1,613,180
Commitment fees (Note 4)	427,235
Shareholder reports	294,959
Directors' fees	117,251
Audit and tax	70,371
Legal fees	56,594
Stock exchange listing fees	25,926
Custody fees	21,437
Transfer agent fees	17,881
Insurance	9,762
Miscellaneous expenses	17,485
Total Expenses	20,134,923
Less: Fee waivers and/or expense reimbursements (Note 2)	(2,388)
Net Expenses	20,132,535
Net Investment Income	4,014,510

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS,
FUTURES CONTRACTS, OPTIONS
WRITTEN, FOREIGN CURRENCY**

TRANSACTIONS AND SHORT SALES (NOTES 1 AND 3):

Net Realized Gain (Loss) From:	
Investment transactions	92,134,903
Futures contracts	2,332,647
Options written	2,116,705
Foreign currency transactions	(87,221)
Short sales	(383,689)
Net Realized Gain	96,113,345
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	(385,174)
Futures contracts	455,273
Options written	19,242
Foreign currencies	99,185
Change in Net Unrealized Appreciation/Depreciation	188,526
Net Gain on Investments, Futures Contracts, Options Written, Foreign Currency Transactions and Short Sales	96,301,871
Increase in Net Assets From Operations	\$ 100,316,381

See Notes to Financial Statements.

Statements of Changes in Net Assets (For the years ended October 31,)

	2007		2006
OPERATIONS:			
Net investment income	\$ 4,014,510	\$	14,932,146
Net realized gain	96,113,345		63,622,130
Change in net unrealized appreciation/depreciation	188,526		(2,901,844)
Increase in Net Assets From Operations	100,316,381		75,652,432
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):			
Net investment income	(248,702)		(17,048,795)
Net realized gains	(46,195,662)		(20,449,892)
Decrease in Net Assets From Distributions to Shareholders	(46,444,364)		(37,498,687)
FUND SHARE TRANSACTIONS:			
Net increase in net assets due to an adjustment of initial offering costs			442,559
Cost of shares repurchased (2,418,600 shares repurchased)			(42,362,520)
Decrease in Net Assets From Fund Share Transactions			(41,919,961)
Increase (Decrease) in Net Assets	53,872,017		(3,766,216)
NET ASSETS:			
Beginning of year	633,888,103		637,654,319
End of year*	\$ 687,760,120	\$	633,888,103

* Includes undistributed net investment income of:

\$ 5,727,873 \$ 6,922

Upon the initial public offering of the Fund, the Fund estimated \$1,318,000 of offering costs. The actual offering cost amounted to \$875,441 at the end of the offering period.

See Notes to Financial Statements.

Statement of Cash Flows (For the year ended October 31, 2007)**CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:**

Interest and dividends received	\$ 22,909,288
Operating expenses paid	(8,695,197)
Net purchases of short-term investments	39,550,232
Realized loss on foreign currency transactions	(87,221)
Realized loss on options	(3,415,191)
Realized gain on futures contracts	2,332,647
Net change in unrealized appreciation on futures contracts	455,273
Net change in unrealized appreciation on foreign currencies	236,757
Purchases of long-term investments	(1,357,723,842)
Proceeds from disposition of long-term investments	1,411,929,473
Premium for written swaps	9,169
Change in payable to broker variation margin	(34,063)
Change in payable for open forward currency contracts	126,138
Interest paid	(10,896,971)
Net Cash Provided By Operating Activities	96,696,492

CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:

Cash distributions paid on Common Stock	(46,444,364)
Proceeds from loan	(50,000,000)
Net Cash Flows Used By Financing Activities	(96,444,364)
Net Increase in Cash	252,128
Cash, Beginning of year	1,704,999
Cash, End of year	\$ 1,957,127

RECONCILIATION OF INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:

Increase in Net Assets From Operations	\$ 100,316,381
Accretion of discount on investments	(1,714,157)
Amortization of premium on investments	266,025
Increase in investments, at value	(25,489,658)
Increase in payable for securities purchased	26,583,679
Decrease in interest and dividends receivable	210,375
Decrease in premium for written options	(206,689)
Increase in receivable for securities sold	(3,901,906)
Increase in payable for open forward currency contracts	126,138
Decrease in payable to broker variation margin	(34,063)
Increase in prepaid expenses	(2,514)
Decrease in interest payable	(194,786)
Increase in accrued expenses	737,667
Total Adjustments	(3,619,889)
Net Cash Flows Provided By Operating Activities	\$ 96,696,492

See Notes to Financial Statements.

Financial Highlights

For a share of capital stock outstanding throughout each year ended October 31:

	2007	2006⁽¹⁾	2005⁽¹⁾	2004⁽¹⁾⁽²⁾
Net Asset Value, Beginning of Year	\$21.15	\$19.69	\$18.64	\$19.06(3)
Income (Loss) From Operations:				
Net investment income	0.13	0.48	0.69	0.37
Net realized and unrealized gain (loss)	3.22	2.18	1.52	(0.19)
Total Income From Operations	3.35	2.66	2.21	0.18
Gain From Repurchase of Treasury Stock			0.04	
Less Distributions From:				
Net investment income	(0.01)	(0.55)	(0.98)	(0.40)
Net realized gains	(1.54)	(0.65)	(0.22)	
Return of capital				(0.20)
Total Distributions	(1.55)	(1.20)	(1.20)	(0.60)
Net Asset Value, End of Year	\$22.95	\$21.15	\$19.69	\$18.64
Market Price, End of Year	\$19.88	\$18.19	\$17.19	\$17.24
Total Return, Based on NAV⁽⁴⁾⁽⁵⁾	16.32%	13.89%	12.34% ⁽⁶⁾	1.06%
Total Return, Based on Market Price⁽⁵⁾	18.22%	13.24%	6.85% ⁽⁶⁾	(10.74)%
Net Assets, End of Year (000s)	\$687,760	\$633,888	\$637,654	\$614,324
Ratios to Average Net Assets:				
Gross expenses	3.03% ⁽⁷⁾	3.13% ⁽⁸⁾	2.45%	1.54% ⁽⁹⁾
Gross expenses, excluding interest expense	1.42 ⁽⁷⁾	1.33 ⁽⁸⁾	1.23	1.15 ⁽⁹⁾
Net expenses	3.03 ⁽⁷⁾⁽⁸⁾	3.13 ⁽⁸⁾	2.45	1.54 ⁽⁹⁾
Net expenses, excluding interest expense	1.42 ⁽⁷⁾⁽⁸⁾	1.33 ⁽⁸⁾	1.23	1.15 ⁽⁹⁾
Net investment income	0.60	2.33	3.55	2.97 ⁽⁹⁾
Portfolio Turnover Rate	180%	193%	64%	39%
Supplemental Data:				
Loans Outstanding, End of Year (000s)	\$170,000	\$220,000	\$220,000	\$220,000
Asset Coverage for Loan Outstanding	505%	388%	390%	379%
Weighted Average Loan (000s)	\$181,370	\$220,000	\$220,000	\$105,783
Weighted Average Interest Rate on Loans	5.67%	5.26%	3.54%	2.22%

- (1) Per share amounts have been calculated using the average shares method.
- (2) For the period February 24, 2004 (inception date) through October 31, 2004.
- (3) Initial public offering price of \$20.00 per share less offering costs and sales load totaling \$0.94 per share.
- (4) Performance figures may reflect fee waivers and/or expense reimbursements. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.
- (5) The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.
- (6) The prior investment manager fully reimbursed the Fund for losses incurred resulting from an investment transaction error. Without this reimbursement, total return would not have changed.
- (7) Included in the expense ratios are certain non-recurring restructuring (and reorganization, if applicable) fees that were incurred by the Fund during the period. Without these fees, the gross and net expense ratios would not have changed.
- (8) Reflects fee waivers and/or expense reimbursements.
- (9) Annualized.

See Notes to Financial Statements.

28 LMP Capital and Income Fund Inc. 2007 Annual Report

Notes to Financial Statements

1. Organization and Significant Accounting Policies

LMP Capital and Income Fund Inc. (the Fund) was incorporated in Maryland on November 12, 2003 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended, (the 1940 Act). The Board of Directors authorized 100 million shares of \$0.001 par value common stock. The Fund's investment objective is total return with an emphasis on income. The Fund pursues 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.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

(a) Investment Valuation. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. Debt securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the last quoted bid and asked prices as of the close of business of that market. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

(b) Repurchase Agreements. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market to ensure the adequacy of the collateral. If the seller defaults, and the market value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Short Sales. A short sale is a transaction in which the Fund sells a security it does not own (but has borrowed) in anticipation of a decline in the market price of that security. To complete a short sale, the Fund may arrange through a broker to borrow the security to be delivered to the buyer. The proceeds received by the Fund for the short sale are

retained by the broker until the Fund replaces the borrowed security. In borrowing the security to be delivered to the buyer, the Fund becomes obligated to replace the security borrowed at the market price at the time of replacement, whatever that price may be. A

Notes to Financial Statements (continued)

gain, limited to the price at which the Fund sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale.

Dividends declared on short positions existing on the record date are recorded on the ex-dividend date as an expense.

(d) Written Options. When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily to reflect the current market value of the option written. If the option expires, the Fund realizes a gain from investments equal to the amount of the premium received. When a written call option is exercised, the difference between the premium received plus the option exercise price and the Fund's basis in the underlying security (in the case of a covered written call option), or the cost to purchase the underlying security (in the case of an uncovered written call option), including brokerage commission, is treated as a realized gain or loss. When a written put option is exercised, the amount of the premium received is added to the cost of the security purchased by the Fund from the exercise of the written put option to form the Fund's basis in the underlying security purchased. The writer or buyer of an option traded on an exchange can liquidate the position before the exercise of the option by entering into a closing transaction. The cost of a closing transaction is deducted from the original premium received resulting in a realized gain or loss to the Fund.

The risk in writing a covered call option is that the Fund may forego the opportunity of profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised. The risk in writing a call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(e) Financial Futures Contracts. The Fund may enter into financial futures contracts typically, but not necessarily, to hedge a portion of the portfolio. Upon entering into a financial futures contract, the Fund is required to deposit cash or securities as initial margin, equal to a certain percentage of the contract amount (initial margin deposit). Additional securities are also segregated up to the current market value of the financial futures contracts. Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying financial instruments. The Fund recognizes an unrealized gain or loss equal to the daily variation margin. When the financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund's basis in the contracts.

The risks associated with entering into financial futures contracts include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying financial instruments. In addition, investing in financial futures contracts involves the risk that the Fund could lose more than the initial margin deposit and subsequent payments required for a futures transaction. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

Notes to Financial Statements (continued)

(f) Forward Foreign Currency Contracts. The Fund may enter into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected in the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

(g) Mortgage Dollar Rolls. The Fund may enter into dollar rolls in which the Fund sells mortgage-backed securities for delivery in the current month, realizing a gain or loss, and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities to settle on a specified future date. During the roll period, the Fund forgoes interest paid on the securities. The Fund is compensated by the interest earned on the cash proceeds of the initial sale and by the lower repurchase price at the specified future date. The Fund maintains a segregated account, the dollar value of which is at least equal to its obligations with respect to dollar rolls.

The Fund executes its mortgage dollar rolls entirely in the to-be-announced (TBA) market, where the Fund makes a forward commitment to purchase a security and, instead of accepting delivery, the position is offset by a sale of the security with a simultaneous agreement to repurchase at a future date.

The risk of entering into a mortgage dollar roll is that the market value of the securities the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a mortgage dollar roll files for bankruptcy or becomes insolvent, the Fund's use of proceeds of the dollar roll may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

(h) Securities Traded on a To-Be-Announced Basis. The Fund may trade securities on a to-be-announced (TBA) basis. In a TBA transaction, the Fund commits to purchasing or selling securities which have not yet been issued by the issuer and for which specific information is not known, such as the face amount and maturity date and the underlying pool of investments in U.S. government agency mortgage pass-through securities. Securities purchased on a TBA basis are not settled until they are delivered to the Fund, normally 15 to 45 days after purchase. Beginning on the date the Fund enters into a TBA transaction, cash, U.S. government securities or other liquid high-grade debt obligations are segregated in an amount equal in value to the purchase price of the TBA security. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities.

Notes to Financial Statements (continued)

(i) Credit and Market Risk. The Fund invests in high yield and emerging market instruments that are subject to certain credit and market risks. The yields of high yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investment in non-dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

(j) Cash Flow Information. The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(k) Security Transactions and Investment Income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practical after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund's policy is to generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

(l) Foreign Currency Translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities, at the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of,

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Notes to Financial Statements (continued)

among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(m) Distributions to Shareholders. Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, the rate 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 value of the Fund's net investment income and net realized capital gain are 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 or suspend 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 or suspension could have an adverse effect on the market price for Fund's shares.

(n) Federal and Other Taxes. It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute substantially all of its taxable income and net realized gains on investments, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund's financial statements. However due to the timing of when distributions are made, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income exceeds the distributions from such taxable income for the year. Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(o) Reclassification. GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Gain	Paid-in Capital
(a)	\$1,613,180		\$(1,613,180)
(b)	341,963	\$(341,963)	

- (a) Reclassifications are primarily due to a non-deductible excise tax paid by the Fund.
- (b) Reclassifications are primarily due to foreign currency transactions treated as ordinary income for tax purposes, differences between book and tax amortization of premium on fixed income securities, income from mortgage backed securities treated as capital gains for tax purposes, and book/tax differences in the treatment of distributions from real estate investment trusts.

2. Investment Management Agreement and Other Transactions with Affiliates

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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. (Legg Mason).

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Notes to Financial Statements (continued)

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.85% of the Fund's average daily net assets plus the proceeds of any outstanding borrowings used for leverage. LMPFA delegates to ClearBridge the day-to-day portfolio management of the Fund. ClearBridge provides investment advisory services to the Fund by both determining the allocation of the Fund's assets between equity and fixed-income investments and performing day-to-day management of the Fund's investments in equity securities. Western Asset provides advisory services to the Fund by performing the day-to-day management of the Fund's fixed-income investments. For its services, LMPFA pays the subadvisers 70% of the net management fee it receives from the Fund. This fee will be divided on a pro rata basis, based on assets allocated to each subadviser, from time to time.

Western Asset Limited provides certain advisory services to the Fund relating to currency transactions and investments in non-U.S. dollar denominated securities. Western Asset Limited does not receive any compensation from the Fund but is paid by Western Asset for its services to the Fund.

During periods in which the Fund is utilizing leverage, the fees which are payable to the manager as a percentage of the Fund's net assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund's net assets, including those investments purchased with leverage.

During the year ended October 31, 2007, the Fund was reimbursed for expenses amounting to \$2,388 for a portion of non-recurring payments due to retiring Directors.

Certain officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended October 31, 2007, the aggregate cost of purchases and proceeds from sales of investments and U.S Government & Agency Obligations (excluding short-term investments) were as follows:

	Investments	U.S. Government & Agency Obligations
Purchases	\$ 1,282,392,933	\$ 101,682,041
Sales	1,332,853,756	82,783,938

At October 31, 2007, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

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Gross unrealized appreciation	\$ 60,986,119
Gross unrealized depreciation	(31,642,349)
Net unrealized appreciation	\$ 29,343,770

Notes to Financial Statements (continued)

During the year ended October 31, 2007, written option transactions for the Fund were as follows:

	Number of Contracts	Premiums
Options written, Outstanding October 31, 2006	1,090	\$ 215,858
Options written	4,733	5,044,997
Options closed	(5,813)	(5,251,686)
Options expired		
Options Written, Outstanding October 31, 2007	10	\$ 9,169

At October 31, 2007, the Fund had the following open forward foreign currency contracts as described below:

Foreign Currency Contracts to Buy:	Local Currency	Market Value	Settlement Date	Unrealized Gain (Loss)
Euro	2,830,000	\$4,094,787	11/7/07	\$ 66,848
Japanese Yen	72,660,000	630,787	11/7/07	9,761
Japanese Yen	72,660,000	637,651	2/12/08	(7,412)