

LMP CAPITAL & INCOME FUND INC.  
Form N-CSRS  
June 30, 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)

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

10041  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4<sup>th</sup> 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 October 31,  
end:

Date of reporting period: April 30, 2008

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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**SEMI-ANNUAL REPORT / APRIL 30, 2008**

**LMP**

**Capital and Income Fund Inc.**

**(SCD)**

Managed by **CLEARBRIDGE ADVISORS**

**WESTERN ASSET**

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

**Fund objective**

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

**What's inside**

Letter from the chairman	I
Fund at a glance	1
Schedule of investments	2
Statement of assets and liabilities	22
Statement of operations	23
Statements of changes in net assets	24
Statement of cash flows	25
Financial highlights	26
Notes to financial statements	27
Board approval of management and subadvisory agreements	38
Additional shareholder information	43
Dividend reinvestment plan	44

**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,

The U.S. economy was lackluster at best during the six-month reporting period ended April 30, 2008. Third quarter 2007 U.S. gross domestic product ( GDP )<sup>i</sup> growth was 4.9%, its strongest showing in four years. However, continued weakness in the housing market, an ongoing credit crunch and soaring oil and food prices then took their toll on the economy. During the fourth quarter of 2007, GDP growth was 0.6%. The U.S. Commerce Department then reported that its preliminary estimate for first quarter 2008 GDP growth was a modest 0.9%. While it was once debated whether or not the U.S. would fall into a recession, it is now looking more likely that the U.S could experience a mild recession. Even areas of the economy that had once been fairly resilient have begun to falter, including the job market. The U.S. Department of Labor reported that payroll employment declined in each of the first four months of 2008 the longest consecutive monthly decline since early 2003.

Ongoing issues related to the housing and subprime mortgage markets and an abrupt tightening in the credit markets prompted the Federal Reserve Board ( Fed )<sup>ii</sup> to take aggressive and, in some cases, unprecedented actions during the reporting period. At its meeting in September 2007, the Fed reduced the federal funds rate<sup>iii</sup> from 5.25% to 4.75%. This marked the first reduction in the federal funds rate since June 2003. The Fed reduced the federal funds rate an additional 25 basis points in October 2007. Then, over the course of the reporting period, the Fed lowered rates on five more occasions, bringing the federal funds rate to 2.00% as of April 30, 2008. In its statement accompanying the April rate cut, the Fed stated: Recent information indicates that economic activity remains weak. Household and business spending has been subdued and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters.

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In addition to lowering short-term interest rates, the Fed took several actions to improve liquidity in the credit markets. In March 2008, the Fed established a new lending program allowing certain brokerage firms, known

LMP Capital and Income Fund Inc. I

**Letter from the chairman *continued***

as primary dealers, to also borrow from its discount window. The Fed also increased the maximum term for discount window loans from 30 to 90 days. Then, in mid-March, the Fed played a major role in facilitating the purchase of Bear Stearns by JPMorgan Chase.

The U.S. stock market generated poor results during the six-month reporting period. Stock prices fell during the first five months of the reporting period before rallying somewhat in April 2008. The market's troubles were due, in part, to the severe credit crunch, weakening corporate profits, rising inflation and increasing fears of a recession. All told, the S&P 500 Index<sup>iv</sup> returned -9.64% over the six-month reporting period ended April 30, 2008.

Looking at U.S. stock prices more closely, the market's weakness was broad in scope. Mid-cap stocks outperformed their large- and small-cap counterparts on a relative basis, as the Russell Midcap<sup>v</sup>, Russell 1000<sup>vi</sup> and Russell 2000<sup>vii</sup> Indexes returned -8.77%, -9.54% and -12.92%, respectively, during the six-month reporting period. From an investment style perspective, growth stocks modestly outperformed value stocks, with the Russell 3000 Growth<sup>viii</sup> and Russell 3000 Value<sup>ix</sup> Indexes returning -9.68% and -9.97%, respectively.

Turning to the bond market, during the six-month reporting period, both short- and long-term Treasury yields experienced periods of volatility. This was due, in part, to mixed economic and inflation data, the fallout from the subprime mortgage market crisis and shifting expectations regarding the Fed's monetary policy. Within the bond market, investors were initially focused on the subprime segment of the mortgage-backed market. These concerns broadened, however, to include a wide range of financial institutions and markets. As a result, other fixed-income instruments also experienced increased price volatility. This turmoil triggered several flights 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 six months ended April 30, 2008, two-year Treasury yields fell from 3.94% to 2.29%. Over the same time frame, 10-year Treasury yields fell from 4.48% to 3.77%. Short-term yields fell sharply in concert with the Fed's rate cuts while longer-term yields fell less dramatically due to inflationary concerns, resulting in a steepening of the U.S. yield curve<sup>x</sup> during the reporting period. Looking at the six-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Index<sup>xi</sup>, returned 4.08%.

II LMP Capital and Income Fund Inc.

**Performance review**

For the six months ended April 30, 2008, LMP Capital and Income Fund Inc. returned -9.51% based on its net asset value ( NAV )<sup>xii</sup> and -5.82% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmarks, the Lehman Brothers U.S. Aggregate Index and the S&P 500 Index, returned 4.08% and -9.64%, respectively, over the same time frame. The Lipper Income and Preferred Stock Closed-End Funds Category Average<sup>xiii</sup> returned -10.71% for the same period. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$2.37 per share, which may have included a return of capital. The performance table shows the Fund's six-month total return based on its NAV and market price as of April 30, 2008. **Past performance is no guarantee of future results.**

**PERFORMANCE SNAPSHOT as of April 30, 2008 (unaudited)**

<b>PRICE PER SHARE</b>	<b>6-MONTH TOTAL RETURN*</b>
\$18.47 (NAV)	-9.51%
\$16.52 (Market Price)	-5.82%

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

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

**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.

**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



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financial websites, as well as [www.leggmason.com/individualinvestors](http://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.

LMP Capital and Income Fund Inc. III

**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

May 30, 2008

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

**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. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. These risks are magnified in emerging or developing markets. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Leverage may magnify gains and increase losses in the Fund's portfolio.

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

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

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- v The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.
- vi The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.
- vii The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- viii The Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.)
- ix The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.
- x The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- xi 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.
- xii 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.
- xiii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended April 30, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 31 funds in the Fund's Lipper category.

IV LMP Capital and Income Fund Inc.

**Fund at a glance (unaudited)**

**INVESTMENT BREAKDOWN (%)** As a percent of total investments April 30, 2008





## Schedule of investments (unaudited)

April 30, 2008

## LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
COMMON STOCKS 62.8%		
CONSUMER DISCRETIONARY 7.5%		
1,226,577	<b>Household Durables 0.0%</b>	
	Home Interiors & Gifts Inc.(a)(b)*	\$ 1
352,170	<b>Media 6.3%</b>	
617,080	Lamar Advertising Co., Class A Shares*	13,924,802
678,060	Liberty Media Corp. - Entertainment, Series A*	16,013,226
511,700	Time Warner Inc.	10,069,191
	Warner Music Group Corp.	4,446,673
	<i>Total Media</i>	44,453,892
155,100	<b>Multiline Retail 1.2%</b>	
	Target Corp.	8,240,463
	TOTAL CONSUMER DISCRETIONARY	52,694,356
CONSUMER STAPLES 1.9%		
264,800	<b>Tobacco 1.9%</b>	
	Philip Morris International Inc.*	13,512,744
ENERGY 10.9%		
406,120	<b>Energy Equipment &amp; Services 6.1%</b>	
108,300	Halliburton Co.	18,644,969
73,300	National-Oilwell Varco Inc.*	7,413,135
63,800	Schlumberger Ltd.	7,370,315
	Transocean Inc.*	9,407,948
	<i>Total Energy Equipment &amp; Services</i>	42,836,367
500,865	<b>Oil, Gas &amp; Consumable Fuels 4.8%</b>	
75,445	Crosstex Energy Inc.	17,334,938
129,170	Devon Energy Corp.	8,555,463
	Newfield Exploration Co.*	7,848,369
	<i>Total Oil, Gas &amp; Consumable Fuels</i>	33,738,770
	TOTAL ENERGY	76,575,137
FINANCIALS 11.8%		
494,200	<b>Capital Markets 4.3%</b>	
491,820	Charles Schwab Corp.	10,674,720
338,857	Invesco Ltd.	12,615,183
	Och-Ziff Capital Management Group	6,577,214
	<i>Total Capital Markets</i>	29,867,117
350,600	<b>Commercial Banks 1.5%</b>	
	Wells Fargo & Co.	10,430,350
296,700	<b>Consumer Finance 2.0%</b>	
	American Express Co.	14,247,534
309,500	<b>Diversified Financial Services 2.1%</b>	
	JPMorgan Chase & Co.	14,747,675

See Notes to Financial Statements.

2 LMP Capital and Income Fund Inc. 2008 Semi-Annual Report



LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
295,390	<b>Insurance 1.9%</b> American International Group Inc.	\$ 13,647,018
HEALTH CARE 7.7%	TOTAL FINANCIALS	82,939,694
248,220	<b>Health Care Equipment &amp; Supplies 1.7%</b> Medtronic Inc.	12,083,350
160,700	<b>Health Care Providers &amp; Services 0.7%</b> UnitedHealth Group Inc.	5,243,641
1,007,400	<b>Health Care Technology 1.6%</b> HLTH Corp.*	11,202,288
178,600	<b>Pharmaceuticals 3.7%</b> Johnson & Johnson	11,982,274
316,400	Wyeth	14,070,308
	<i>Total Pharmaceuticals</i>	26,052,582
INDUSTRIALS 10.6%	TOTAL HEALTH CARE	54,581,861
739,300	<b>Building Products 1.6%</b> Assa Abloy AB	11,532,387
495,770	<b>Commercial Services &amp; Supplies 1.9%</b> Covanta Holding Corp.*	13,202,355
221,500	<b>Electrical Equipment 1.0%</b> ABB Ltd., ADR	6,793,405
554,970	<b>Industrial Conglomerates 3.4%</b> General Electric Co.	18,147,519
114,300	McDermott International Inc.*	6,124,194
	<i>Total Industrial Conglomerates</i>	24,271,713
382,300	<b>Machinery 2.7%</b> Dover Corp.	18,912,381
INFORMATION TECHNOLOGY 8.4%	TOTAL INDUSTRIALS	74,712,241
441,970	<b>Communications Equipment 3.5%</b> Cisco Systems Inc.*	11,332,111
297,890	QUALCOMM Inc.	12,865,869
	<i>Total Communications Equipment</i>	24,197,980
786,120	<b>Computers &amp; Peripherals 1.7%</b> EMC Corp.*	12,106,248
293,350	<b>Internet Software &amp; Services 1.5%</b> VeriSign Inc.*	10,575,267
586,340	<b>Software 1.7%</b> Oracle Corp.*	12,225,189
	TOTAL INFORMATION TECHNOLOGY	59,104,684

See Notes to Financial Statements.

Schedule of investments (unaudited) *continued*

April 30, 2008

## LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
MATERIALS 0.9%		
174,500	<b>Metals &amp; Mining 0.9%</b>	
TELECOMMUNICATION SERVICES 0.1%	Goldcorp Inc.	\$ 6,233,140
16,550	<b>Wireless Telecommunication Services 0.1%</b>	
UTILITIES 3.0%	Crown Castle International Corp.*	642,967
195,370	<b>Gas Utilities 1.4%</b>	
247,540	National Fuel Gas Co.	9,999,037
	<b>Independent Power Producers &amp; Energy Traders 1.6%</b>	
	NRG Energy Inc.*	10,879,383
	TOTAL UTILITIES	20,878,420
PREFERRED STOCKS 0.3%	TOTAL COMMON STOCKS (Cost \$456,091,721)	441,875,244
FINANCIALS 0.3%		
30,000	<b>Diversified Financial Services 0.1%</b>	
	Citigroup Inc., 8.125%(c)	760,500
25,950	<b>Thriffs &amp; Mortgage Finance 0.2%</b>	
300	Federal Home Loan Mortgage Corp. (FHLMC), 8.375%(c)	664,320
17,650	Federal National Mortgage Association (FNMA), 7.000%(d)	14,025
	Federal National Mortgage Association (FNMA), 8.250%(c)	441,956
	<i>Total Thriffs &amp; Mortgage Finance</i>	<i>1,120,301</i>
	TOTAL PREFERRED STOCKS (Cost \$1,855,960)	1,880,801
<b>FACE AMOUNT</b>		
ASSET-BACKED SECURITIES 0.8%		
\$ 750,000	<b>Home Equity 0.8%</b>	
137,278	Asset-Backed Funding Certificates, 4.345% due 1/25/34(a)(c)(d)	485,040