

LMP CAPITAL & INCOME FUND INC.

Form N-CSR

January 07, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

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

Investment Company Act file number 811-21467

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

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

10041
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 451-2010

Date of fiscal year end: October 31

Date of reporting period: October 31, 2008

ITEM 1. REPORT TO STOCKHOLDERS.

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

ANNUAL REPORT / OCTOBER 31, 2008

LMP

**Capital and Income
Fund Inc.**

(SCD)

Managed by **CLEARBRIDGE ADVISORS**

WESTERN ASSET

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

Fund objective

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

What's inside

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Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund's investment manager. ClearBridge Advisors, LLC (ClearBridge), Western Asset Management Company (Western Asset) and Western Asset Management Company Limited (Western Asset Limited) are the Fund's subadvisers. LMPFA, ClearBridge, Western Asset and Western Asset Limited are wholly-owned subsidiaries of Legg Mason, Inc.

Letter from the chairman

Dear Shareholder,

Economic growth in the U.S. was mixed during the 12-month reporting period ended October 31, 2008. Looking back, third quarter 2007 U.S. gross domestic product (GDP)i growth was a strong 4.8%. However, continued weakness in the housing market, an ongoing credit crunch and soaring oil and food prices then took their toll on the economy, as fourth quarter 2007 GDP declined 0.2%. The economy then expanded 0.9% and 2.8% during the first and second quarters of 2008, respectively. This rebound was due, in part, to rising exports that were buoyed by a weakening U.S. dollar, and solid consumer spending, which was aided by the government's tax rebate program. The dollar's rally and the end of the rebate program, combined with other strains on the economy, then caused GDP to take a step backward in the third quarter of 2008. According to the preliminary estimate released by the U.S. Department of Commerce, third quarter 2008 GDP declined 0.5%.

The latest Bureau of Economic Research release indicates that the U.S. is currently in recession. Evidence supporting this conclusion includes a slowdown in consumer spending, with four consecutive months of declining retail sales from July through October 2008. According to the Department of Commerce, October's 2.8% fall in retail sales is the sharpest decline since it began tracking this data in 1992. In terms of the job market, the U.S. Department of Labor reported that payroll employment declined in each of the first 10 months of 2008. Year-to-date through October, roughly 1.2 million jobs have been shed and the unemployment rate now stands at 6.5%, its highest level since 1994.

Ongoing issues related to the housing and subprime mortgage markets and seizing credit markets prompted the Federal Reserve Board (Fed)ii to take aggressive and, in some cases, unprecedented actions. Beginning in September 2007, the Fed reduced the federal funds rateiii from 5.25% to 4.75%. This marked the first such reduction since June 2003. The Fed then reduced the federal funds rate on six additional occasions through April 2008, bringing the federal funds rate to 2.00%. The Fed then shifted

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

Letter from the chairman *continued*

gears in the face of mounting inflationary prices and a weakening U.S. dollar. At its meetings in June, August and September 2008, the Fed held rates steady. Then, on October 8, 2008, in a global coordination effort with six central banks around the world, interest rates were cut in an attempt to reduce the strains in the global financial markets. At that time, the Fed lowered the federal funds rate from 2.00% to 1.50%. The Fed again cut rates from 1.50% to 1.00% at its regularly scheduled meeting on October 29, 2008. In conjunction with its October meeting, the Fed stated: The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. ... Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit.

In addition to the interest rate cuts, 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 as primary dealers, to also borrow from its discount window. Also in March, the Fed played a major role in facilitating the purchase of Bear Stearns by JPMorgan Chase. In mid-September 2008, it announced an \$85 billion rescue plan for ailing AIG and pumped \$70 billion into the financial system as Lehman Brothers' bankruptcy and mounting troubles at other financial firms roiled the markets.

The U.S. Department of the Treasury has also taken an active role in attempting to stabilize the financial system, as it orchestrated the government's takeover of mortgage giants Fannie Mae and Freddie Mac in September. In addition, on October 3, 2008, the Treasury's \$700 billion Troubled Asset Relief Program (TARP) was approved by Congress and signed into law by President Bush. As part of TARP, the Treasury had planned to make a \$250 billion capital injection into some of the nation's largest banks. However, in November 2008 (after the reporting period ended), Treasury Secretary Paulson said the Treasury no longer intended to use TARP to purchase bad loans and other troubled financial assets.

The U.S. stock market was extremely volatile and generated poor results during the 12 months ended October 31, 2008. Stock prices declined during each of the first five months of the reporting period. This was due, in part, to the credit crunch, weakening corporate profits, rising inflation and fears of an impending recession. The market then reversed course and posted positive returns in April and May 2008. The market's rebound was largely attributed to hopes that the U.S. would skirt a recession and that corporate profits would rebound as the year progressed. However, given the escalating credit crisis and the mounting turmoil in the financial markets, stock prices moved lower during four of the last five months of the period, including S&P 500 Indexiv declines of 8.91% and 16.79% in September and October,

II LMP Capital and Income Fund Inc.

respectively. All told, the S&P 500 Index returned -36.10% during the 12-month reporting period ended October 31, 2008.

Looking at the U.S. bond market, both short- and long-term Treasury yields experienced periods of extreme volatility during the reporting period. 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 unrest triggered several flights to quality, causing Treasury yields to move lower (and their prices higher), while riskier segments of the market saw their yields move higher (and their prices lower). This was particularly true toward the end of the reporting period, as the turmoil in the financial markets and sharply falling stock prices caused investors to flee securities that were perceived to be risky, even high-quality corporate bonds and high-grade municipal bonds. At one point in September 2008, the yield available from the three-month Treasury bill fell to 0.04%, as investors were essentially willing to forgo any return potential in order to access the relative safety of government-backed securities. During the 12 months ended October 31, 2008, two-year Treasury yields fell from 3.94% to 1.56%. Over the same time frame, 10-year Treasury yields moved from 4.48% to 4.01%. Looking at the 12-month period as a whole, the overall bond market, as measured by the Barclays Capital U.S. Aggregate Index^v, returned 0.30%.

Special shareholder notice

On November 18, 2008, the Fund announced changes to its managed distribution policy that will take effect beginning in 2009. The Fund, which had declared previously monthly distributions of \$0.1400 per common share payable in the months of November and December 2008, will pay distributions quarterly beginning with the quarter ended March 2009. In addition, the Fund will change the methodology it uses to determine its distribution rate. The Fund, which previously had declared a set monthly distribution rate, will begin setting its quarterly distribution rate based on a percentage of the Fund's net asset value (NAV)^{vi} per share on December 31, 2008. The Board of Directors of the Fund has approved an annual distribution rate, for the 2009 calendar year, of a minimum of approximately 5% of the NAV of the Fund as of the close of trading on December 31, 2008. The Fund may make additional distributions as necessary to meet certain tax requirements.

The Fund cited the deteriorating economic environment and the decline in equity and fixed-income valuations during the past year, which accelerated beginning in the second half of 2008. These declines have led to a reduction in the level of capital gains and income available from the Fund's equity and fixed-income investments. Whereas the Fund's distribution strategy

Letter from the chairman *continued*

previously encompassed a combination of net investment income and potential short-term and long-term capital gains, the current environment makes it more likely that future distributions will rely less heavily on a capital gains component and more on net investment income generated by the portfolio.

The Fund also utilizes a line of credit to enhance portfolio returns; this line of credit provides the Fund with the ability to moderate its use as market conditions and opportunities change. As a result of the manager's investment outlook and the need to maintain asset coverage requirements, the Fund has reduced its use of leverage to \$145 million as of October 31, 2008. This is down from \$170 million as reported in the Fund's semi-annual report dated April 30, 2008.

These changes are intended to help improve the overall, long-term performance of the Fund. It is anticipated that these actions will, over time, allow the Fund to rebuild its asset base through the capital appreciation of the underlying investments and will allow the investment manager to focus on longer-term performance that could ultimately result in increased distributions should the Fund's NAV increase. There can be no assurance, however, that the investment manager will be able to achieve these goals.

Under the terms of the Fund's revised managed distribution policy, the Fund will seek to maintain a consistent quarterly distribution level stated as a fixed percentage of its December 31, 2008 NAV, that may be paid in part or in full from net investment income and realized capital gains, or a combination thereof. Stockholders should note, however, that if the Fund's aggregate net investment income and net realized capital gains are less than the amount of the quarterly distribution level, the difference will be distributed from the Fund's assets and will constitute a return of the shareholder's capital. A return of capital is not taxable as a dividend; rather it reduces a shareholder's tax basis in his or her shares of the Fund with any balance in excess of the tax basis treated as a capital gain.

The Board of Directors may reduce the Fund's quarterly distribution rate in the future or terminate or suspend the managed distribution policy at any time. Any such reduction in the quarterly distribution rate, termination or suspension could have an adverse effect on the market price of the Fund's shares.

IV LMP Capital and Income Fund Inc.

A special note regarding increased market volatility

In recent months, we have experienced a series of events that have impacted the financial markets and created concerns among both novice and seasoned investors alike. In particular, we have witnessed the failure and consolidation of several storied financial institutions, periods of heightened market volatility, and aggressive actions by the U.S. federal government to steady the financial markets and restore investor confidence. While we hope that the worst is over in terms of the issues surrounding the credit and housing crises, it is likely that the fallout will continue to impact the financial markets and the U.S. economy during the remainder of the year and into 2009 as well.

Like all asset management firms, Legg Mason has not been immune to these difficult and, in some ways, unprecedented times. However, today's challenges have only strengthened our resolve to do everything we can to help you reach your financial goals. Now, as always, we remain committed to providing you with excellent service and a full spectrum of investment choices. And rest assured, we will continue to work hard to ensure that our investment managers make every effort to deliver strong long-term results.

We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our enhanced website, www.leggmason.com/cef. Here you can gain immediate access to many special features to help guide you through difficult times, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

During periods of market unrest, it is especially important to work closely with your financial advisor and remember that reaching one's investment goals unfolds over time and through multiple market cycles. Time and again, history has shown that, over the long run, the markets have eventually recovered and grown.

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

Letter from the chairman *continued*

Information about your fund

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

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

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

December 1, 2008

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 and is generally representative of the performance of larger companies in the U.S.
- v

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The Barclays Capital (formerly Lehman Brothers) U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

vi Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.

VI LMP Capital and Income Fund Inc.

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund seeks total return with an emphasis on income. The Fund invests in a broad range of equity and fixed-income securities of both U.S. and foreign issuers. The Fund varies its allocation between equity and fixed-income securities depending on the portfolio manager's view of economic, market or political conditions, fiscal and monetary policy and security valuation. The portfolio manager manages the equity side of the Fund with a bottom-up approach focused on the risk and reward of each investment opportunity. A portfolio management team at Western Asset Management Company manages the fixed-income allocation of the Fund.

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

A. The Fund's reporting period began amid a rallying bull market for equities that was rapidly overwhelmed by a global credit crisis, centered on defaulting subprime mortgages and related collateralized mortgage securities. As the fiscal year progressed, the mortgage crisis metastasized into a series of escalating financial institution failures and international economic events that constituted a major historical disruption of the global stock and credit markets.

In early October of 2007, shortly before the start of the period, several major U.S. equity market indexes, including the Dow Jones Industrial Average (DJIA)ⁱ and the S&P 500 Indexⁱⁱ reached new record highs, with the DJIA closing above 14,000 for the first time. The rally was short-lived, however, as early indicators of the growing mortgage market crisis and a weakening economy soon came to dominate the headlines. The stock market tested lows shortly after the start of the Fund's fiscal year in late November, with selling driven by the broadening impact of the subprime mortgage market collapse and its impact on the global credit markets. By the end of calendar year 2007, many of the largest U.S. financial institutions were forced to raise capital in order to shore up their balance sheets.

The market rallied again briefly after the start of 2008, but soon reversed course amid significant volatility and growing concerns about the overall health of the U.S. financial system. The credit markets continued to show signs of weakness and, as a result, a number of money center and investment banks were forced to take asset markdowns and raise capital, culminating in the collapse of Bear Stearns in mid-March and the rescue of the firm by JPMorgan Chase and the Federal Reserve Board (Fed)ⁱⁱⁱ. By the end of March, the major averages closed down across the board and had lost between 10% and 20% of their value since the summer of 2007.

The spring of 2008 brought another broad but short-lived market rally, leaving the S&P 500 Index and other major averages up mid-single digits by the end of May. However, the month of June saw a dramatic decline in

Fund overview *continued*

equity prices, the likes of which had not been seen in decades. The DJIA fell over 10% in the month of June alone, its biggest June loss since 1930, putting the major averages in, or near, bear market territory (defined as down 20% from peak to trough). Key reasons for the sharp sell-off included the continued stress on the financial system, especially the credit markets, along with a sharp rise in commodity prices, particularly crude oil and energy prices.

In early September of 2008, a rapidly unfolding series of events linked to the ongoing credit market crisis led to the collapse and subsequent rescue by the Fed of the world's largest insurance company, American International Group, the distressed acquisition of financial services firm Merrill Lynch by Bank of America, and the bankruptcy filing of investment bank Lehman Brothers, the largest in U.S. history. In response, the Fed and the U.S. Department of the Treasury took several steps in an effort to stabilize the credit markets and Congress approved a \$700 billion program to clear much of the bad debt from the books of major financial companies.

As the fiscal year drew to a close, the month of October took its place in the history books as one of the worst ever for the U.S. stock market, second only to the "Black Monday" crash of October 1987 for the DJIA (which dropped over 22% on a single day), and the most volatile month for the S&P 500 Index since November 1929. The difficulty was not isolated to the U.S., as fears of a recession and worldwide slowdown led global stock markets to lose trillions in value, while a global sell-off in commodities continued. Consumer confidence in the U.S. dropped a record amount against the prior month, as unemployment rose and headlines highlighted a shift of concerns from commercial and real estate credit to consumer debt and speculation on the severity of an anticipated recession.

During the fiscal year, the U.S. 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 3.94% and 4.48%, respectively. Treasury yields moved lower and their prices moved higher toward the end of 2007 and during the first quarter of 2008, as concerns regarding the subprime mortgage market and a severe credit crunch caused a flight to quality. During this period, investors were drawn to the relative safety of Treasuries, while increased investor risk aversion caused other segments of the bond market to falter.

Treasury yields then moved higher in April, May and early June 2008, as the economy performed better than expected and inflation moved higher. Over this period, riskier fixed-income asset classes, such as high-yield bonds and emerging market debt rallied. However, the credit crunch resumed in mid-June, resulting in another flight to quality. Investors' risk

aversion then intensified in September and October 2008 given the severe disruptions in the global financial markets. During this time, virtually every asset class, with the exception of short-term Treasuries, performed poorly. At the end of the fiscal year, two- and 10-year Treasury yields were 1.56% and 4.01%, respectively.

The Fed attempted to stimulate economic growth by cutting the federal funds rate from 5.25% to 2.00% from September 2007 through April 2008. It then held rates steady until October 2008, citing inflationary pressures triggered by soaring oil prices. However, with the global economy moving toward a recession, oil prices falling sharply, and the financial markets in disarray, the Fed lowered interest rates twice in October 2008. The first cut occurred on October 8th, as the Fed and several other central banks around the world lowered rates in a coordinated effort. At that time, the Fed reduced the federal funds rate from 2.00% to 1.50%. Three weeks later, at its regularly scheduled meeting on October 29th, the Fed lowered rates from 1.50% to 1.00%. The Fed also left the door open to further actions, saying:

The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

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

A. We entered the fiscal year concerned about the health of the overall financial system and had positioned the Fund's equity portfolio with what we felt was an appropriately defensive posture. We had relatively low exposure to the Financials sector, an overweight in the Energy sector, and the balance of the equity portfolio focused in what we believed to be high-quality companies with relatively defensive fundamental business characteristics.

In the fixed-income market, many asset prices remained well below their fundamental value as a result of market fears. We underestimated the degree to which the entire financial superstructure would decline. Despite the difficult market environment, we believed that our focus on spread sectors, such as agency pass-through mortgages and corporate bonds, was still valid.

Fund overview *continued*

Performance review

For the 12 months ended October 31, 2008, LMP Capital and Income Fund Inc. returned -42.09% based on its net asset value (NAV)^v and -44.95% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays Capital U.S. Aggregate Index^{vi} and the S&P 500 Index, returned 0.30% and -36.10%, respectively, over the same time frame. The Fund's Lipper Income and Preferred Stock Closed-End Funds Category Average^{vii} returned -47.54% for the same period. 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 \$3.21 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, 2008. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of October 31, 2008 (unaudited)

	12-MONTH TOTAL RETURN*
PRICE PER SHARE	
\$11.20 (NAV)	-42.09%
\$9.07 (Market Price)	-44.95%

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

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

Q. What were the leading contributors to performance?

A. For the equity portion of the Fund, relative to the S&P 500 Index, stock selection in the Consumer Staples, Materials, Telecommunication Services and Information Technology (IT) sectors contributed to performance for the period. The Fund's overweights to the Energy and Utilities sectors and its underweights to the IT and Health Care sectors helped relative performance. In terms of individual Fund holdings, leading contributors to performance for the period included **Fidelity National Financial Inc.** in the Financials sector, **Schlumberger Ltd.** in the Energy sector, **QUALCOMM Inc.** and **Visa Inc.**, both in the IT sector, and **Philip Morris International Inc.** in the Consumer Staples sector.

In the fixed-income portion of the Fund, our tactically-driven duration^{viii} posture contributed to returns, as did our positioning in anticipation of the yield curve^{ix} steepening, as the spread between two- and 10-year Treasury yields widened.

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Q. What were the leading detractors from performance?

A. For the equity portion of the Fund, relative to the S&P 500 Index, stock selection in the Energy, Consumer Discretionary, Financials and Utilities sectors detracted from performance for the period. The Fund's overweight to the Industrials sector and its underweights to the Consumer Staples and Materials sectors also hurt relative performance. In terms of individual Fund holdings, leading detractors from performance for the period included positions in **Crosstex Energy Inc.** in the Energy sector, **American International Group Inc.** and **Och-Ziff Capital Management Group LLC**, both in the Financials sector, **General Electric Co.** in the Industrials sector and **Lamar Advertising Co. (Class A Shares)** in the Consumer Discretionary sector.

Our fixed-income positions, especially our high-yield holdings, performed poorly during the reporting period. Our concentration of high-yield Industrials issues and bank loans, especially of lower-rated quality, were hit hard by the credit crisis and declining commodity prices. Our investment grade Financials suffered from a series of bankruptcies, government conservatorships and mergers. In addition, non-agency structured product mortgages reached new lows amid all the market turmoil and weakness in the housing market.

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

A. During the fiscal year, we made three strategic changes to the Fund. First, we increased the Fund's allocation to fixed-income from a low 20% to a high 30% range. Second, we increased the Fund's exposure to high-yield fixed-income securities during the course of the year as credit spreads expanded and, therefore, made high-yield securities a more attractive investment in our view. We also increased the Fund's allocation to the investment grade credit sector and reduced its allocation to agency mortgage-backed securities.

On the equity side, as of the close of the fiscal year, we maintained a preference for the Fund's existing holdings in the Energy sector and other high-quality companies, even though they may not have performed significantly better than the overall market in the recent difficult economic environment.

Fund overview *continued*

Looking for additional information?

The Fund is traded under the symbol **SCD** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XSCDX** on most financial websites. *Barron's* and *The Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites, as well as www.leggmason.com/cef.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in LMP Capital and Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Robert Gendelman

Portfolio Manager

ClearBridge Advisors, LLC (Equity Portion)

Western Asset Management Company (Fixed-Income Portion)

November 18, 2008

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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, 2008 and are subject to change and may not be representative of the portfolio managers current or future investments. The Fund's top 10 holdings (as a percentage of net assets) as of this date were: Covanta Holding Corp. (3.5%), General Electric Co. (3.0%), Total SA, ADR (2.9%), JPMorgan Chase & Co. (2.8%), El Paso Corp. (2.7%), Assa Abloy AB (2.5%), Kimberly-Clark Corp. (2.3%), Time Warner Inc. (2.2%), Novartis AG, ADR (2.1%) and Kraft Foods Inc., Class A Shares (2.0%). Please refer to pages 9 through 30 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, 2008 were: Industrials (21.5%), Financials (16.7%), Energy (16.0%), Health Care (13.6%), and Consumer Discretionary (12.4%). The Fund's portfolio composition is subject to change at any time.

RISKS: Stock and bond prices are subject to fluctuation. As interest rates rise, bond prices fall, reducing the value of the 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 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 S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.
- iii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iv The 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 Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.
- vi The Barclays Capital (formerly Lehman Brothers) U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- vii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the 12-month period ended October 31, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 30 funds in the Fund's Lipper category.
- viii

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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.

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

Fund at a glance (unaudited)

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

Schedule of investments

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
COMMON STOCKS 50.8%		
CONSUMER DISCRETIONARY 4.2%		
161,020	Auto Components 0.6% Johnson Controls Inc.	\$ 2,854,885
1,226,577	Household Durables 0.0% Home Interiors & Gifts Inc.(a)(b)*	1
145,700	Media 3.6% Lamar Advertising Co., Class A Shares*	2,210,269
342,880	Liberty Media Corp. - Entertainment, Series A*	5,520,368
748,160	Time Warner Inc.	7,548,934
511,700	Warner Music Group Corp.	2,118,438
	<i>Total Media</i>	17,398,009
	TOTAL CONSUMER DISCRETIONARY	20,252,895
CONSUMER STAPLES 4.3%		
235,600	Food Products 1.4% Kraft Foods Inc., Class A Shares	6,865,384
124,800	Household Products 2.9% Kimberly-Clark Corp.	7,648,992
98,800	Procter & Gamble Co.	6,376,552
	<i>Total Household Products</i>	14,025,544
	TOTAL CONSUMER STAPLES	20,890,928
ENERGY 8.2%		
44,710	Energy Equipment & Services 2.5% Diamond Offshore Drilling Inc.	3,970,248
206,920	Halliburton Co.	4,094,947
137,340	National-Oilwell Varco Inc.*	4,105,092
	<i>Total Energy Equipment & Services</i>	12,170,287
499,741	Oil, Gas & Consumable Fuels 5.7% Crosstex Energy Inc.	5,102,356
41,095	Devon Energy Corp.	3,322,942
950,610	El Paso Corp.	9,220,917
177,530	Total SA, ADR	9,842,263
	<i>Total Oil, Gas & Consumable Fuels</i>	27,488,478
	TOTAL ENERGY	39,658,765
FINANCIALS 4.9%		
321,700	Capital Markets 2.6% Charles Schwab Corp.	6,150,904
307,220	Invesco Ltd.	4,580,650
333,237	Och-Ziff Capital Management Group	1,549,552
	<i>Total Capital Markets</i>	12,281,106

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
	Commercial Banks 0.4%	
54,400	Wells Fargo & Co.	\$ 1,852,320
	Diversified Financial Services 1.9%	
225,300	JPMorgan Chase & Co.	9,293,625
	TOTAL FINANCIALS	23,427,051
HEALTH CARE 7.1%		
	Health Care Equipment & Supplies 1.2%	
142,020	Medtronic Inc.	5,727,667
	Health Care Providers & Services 1.0%	
209,000	UnitedHealth Group Inc.	4,959,570
	Health Care Technology 1.4%	
824,980	HLTH Corp.*	6,839,084
	Pharmaceuticals 3.5%	
78,200	Johnson & Johnson	4,796,788
135,200	Novartis AG, ADR	6,893,848
158,500	Wyeth	5,100,530
	<i>Total Pharmaceuticals</i>	<i>16,791,166</i>
	TOTAL HEALTH CARE	34,317,487
INDUSTRIALS 12.7%		
	Aerospace & Defense 3.2%	
74,020	L-3 Communications Holdings Inc.	6,008,203
86,790	TransDigm Group Inc.*	2,615,851
124,800	United Technologies Corp.	6,859,008
	<i>Total Aerospace & Defense</i>	<i>15,483,062</i>
	Air Freight & Logistics 0.5%	
68,170	Expeditors International of Washington Inc.	2,225,750
	Building Products 1.7%	
737,600	Assa Abloy AB	8,269,746
	Commercial Services & Supplies 2.4%	
548,680	Covanta Holding Corp.*	11,829,541
	Industrial Conglomerates 3.0%	
519,470	General Electric Co.	10,134,860
247,030	McDermott International Inc.*	4,231,624
	<i>Total Industrial Conglomerates</i>	<i>14,366,484</i>
	Machinery 1.2%	
175,700	Dover Corp.	5,581,989
	Road & Rail 0.7%	
76,220	CSX Corp.	3,484,778
	TOTAL INDUSTRIALS	61,241,350

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

SHARES	SECURITY	VALUE
INFORMATION TECHNOLOGY 3.3%		
220,900	Communications Equipment 1.3%	
76,810	Nokia Oyj, ADR	\$ 3,353,262
	QUALCOMM Inc.	2,938,750
	<i>Total Communications Equipment</i>	6,292,012
326,420	Computers & Peripherals 0.8%	
	EMC Corp.*	3,845,228
98,600	Software 1.2%	
196,300	Autodesk Inc.*	2,101,166
	Oracle Corp.*	3,590,327
	<i>Total Software</i>	5,691,493
	TOTAL INFORMATION TECHNOLOGY	15,828,733
MATERIALS 3.4%		
67,990	Chemicals 2.5%	
163,510	Air Products & Chemicals Inc.	3,952,259
66,600	Celanese Corp., Series A Shares	2,266,248
	Monsanto Co.	5,926,068
	<i>Total Chemicals</i>	12,144,575
239,200	Metals & Mining 0.9%	
58,430	Commercial Metals Co.	2,655,120
	Freeport-McMoRan Copper & Gold Inc., Class B Shares	1,700,313
	<i>Total Metals & Mining</i>	4,355,433
	TOTAL MATERIALS	16,500,008
TELECOMMUNICATION SERVICES 1.4%		
205,240	Wireless Telecommunication Services 1.4%	
	American Tower Corp., Class A Shares*	6,631,305
UTILITIES 1.3%		
170,150	Gas Utilities 1.3%	
	National Fuel Gas Co.	6,157,729
	TOTAL COMMON STOCKS	
	(Cost \$365,140,645)	244,906,251
CONVERTIBLE PREFERRED STOCKS 0.2%		
ENERGY 0.2%		
1,100	Oil, Gas & Consumable Fuels 0.2%	
	El Paso Corp., 4.990%	
	(Cost \$885,005)	872,025
PREFERRED STOCKS 0.1%		
FINANCIALS 0.1%		
30,000	Diversified Financial Services 0.1%	
	Citigroup Inc., 8.125%	505,500

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	SHARES	SECURITY	VALUE
		Thriffs & Mortgage Finance 0.0%	
	25,950	Federal Home Loan Mortgage Corp. (FHLMC), 8.375% ^{(e)*}	\$ 40,223
	300	Federal National Mortgage Association (FNMA), 7.000% ^{(c)(e)*}	750
	17,650	Federal National Mortgage Association (FNMA), 8.250% ^{(e)*}	37,065
		<i>Total Thriffs & Mortgage Finance</i>	78,038
		TOTAL PREFERRED STOCKS	
		(Cost \$1,855,960)	583,538
	FACE AMOUNT		
ASSET-BACKED SECURITIES	1.8%		
FINANCIALS	1.8%		
\$	658,646	Home Equity 1.7%	
	129,379	Asset-Backed Funding Certificates, 4.709% due 1/25/34 ^(c)	352,639
		Countrywide Asset-Backed Certificates, 4.509% due 6/25/34 ^(c)	57,720
	720,000	Credit-Based Asset Servicing & Securitization LLC, 5.704% due 12/25/36	562,804
	73,417	Finance America Net Interest Margin Trust, 5.250% due 6/27/34 ^{(a)(b)(d)(g)}	7
	160,514	Fremont Home Loan Trust, 4.909% due 2/25/34 ^(c)	80,320
	1,820,000	Green Tree, 8.970% due 4/25/38 ^{(a)(c)(d)}	1,330,875
		GSAA Home Equity Trust:	
	1,770,000	3.559% due 3/25/37 ^(c)	656,458
	1,790,000	3.529% due 7/25/37 ^(c)	552,585
	1,720,000	3.559% due 5/25/47 ^(c)	622,256
	1,005,000	GSAMP Trust, 4.409% due 11/25/34 ^(c)	804,832
	771,228	Lehman XS Trust, 3.329% due 6/25/46 ^(c)	721,868
	547,107	MASTR Specialized Loan Trust, 3.609% due 5/25/37 ^{(a)(c)(d)}	366,562
	1,468,810	Option One Mortgage Loan Trust, 4.309% due 5/25/34 ^(c)	1,182,521
	712,555	RAAC, 3.639% due 10/25/46 ^{(c)(d)}	499,932
	458,567	Renaissance Home Equity Loan Trust, 5.159% due 3/25/34 ^(c)	246,067
		Sail Net Interest Margin Notes:	
	141,210	7.750% due 4/27/33 ^{(b)(d)(g)}	14
	71,380	5.500% due 3/27/34 ^{(b)(d)(g)}	8
	504,409	Structured Asset Securities Corp., 3.509% due 11/25/37 ^(c)	453,968
		<i>Total Home Equity</i>	8,491,436
		Student Loan 0.1%	
	350,000	Nelnet Student Loan Trust, 5.015% due 4/25/24 ^(c)	292,761
		TOTAL ASSET-BACKED SECURITIES (Cost \$11,656,319)	8,784,197
COLLATERALIZED MORTGAGE OBLIGATIONS	2.4%		
	260,000	American Home Mortgage Investment Trust, 4.059% due 11/25/45 ^(c)	39,800
	1,374,505	BCAP LLC Trust, 3.449% due 10/25/36 ^(c)	843,909
	156,180	Bear Stearns ARM Trust, 5.785% due 2/25/36 ^(c)	95,529

See Notes to Financial Statements.

12 LMP Capital and Income Fund Inc. 2008 Annual Report

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
\$	32,247	Countrywide Alternative Loan Trust: 6.000% due 2/25/34	\$ 27,434
	1,473,856	4.488% due 7/20/46(c)	801,164
	60,576	Federal Home Loan Mortgage Corp. (FHLMC): 6.000% due 3/15/34(c)(e)	49,843
	520,941	PAC, 6.000% due 4/15/34(c)(e)	458,815
	746,310	Harborview Mortgage Loan Trust, 5.348% due 11/19/35(c)	52,242
	2,110,000	JPMorgan Mortgage Trust: 5.907% due 6/25/37(a)(c)	1,750,302
	1,060,000	6.000% due 8/25/37	637,389
	905,719	MASTR ARM Trust, 4.574% due 9/25/33(c)	802,933
	1,570,596	MASTR Reperforming Loan Trust, 5.425% due 5/25/36(a)(c)(d)	1,319,411
	339,500	Merit Securities Corp., 4.740% due 9/28/32(c)(d)	237,913
	300,171	MLCC Mortgage Investors Inc.: 4.179% due 4/25/29(c)	257,026
	484,041	4.139% due 5/25/29(c)	463,377
	1,054,301	RBS Greenwich Capital, Mortgage Pass-Through Certificates, 7.000% due 4/25/35	669,228
	1,723,292	Structured ARM Loan Trust: 5.365% due 5/25/35(c)	1,241,772
	631,603	5.895% due 5/25/36(c)	422,399
	213,555	Thornburg Mortgage Securities Trust: 6.214% due 7/25/37(c)	173,726
	221,404	6.217% due 7/25/37(c)	182,438
	779,248	Washington Mutual Mortgage Pass-Through Certificates, 3.655% due 6/25/46(c)	354,558
	781,515	Wells Fargo Alternative Loan Trust, 3.689% due 6/25/37(c)	483,081
		TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS (Cost \$13,316,111)	11,364,289
COLLATERALIZED SENIOR LOANS	2.6%		
CONSUMER DISCRETIONARY	0.9%		
	247,500	Diversified Consumer Services 0.0% Thomson Learning Hold, Term Loan B, 4.960% due 7/5/14(c)	185,762
	14,607	Hotels, Restaurants & Leisure 0.1% Aramark Corp.: Letter of Credit Facility Deposits, 1.875% due 1/31/14(c)	12,266
	229,916	Term Loan, 6.705% due 1/31/14 <i>Total Hotels, Restaurants & Leisure</i>	193,072 205,338
	248,117	Media 0.7% Charter Communications, Term Loan B, 7.350% due 3/15/14	186,824
	248,029	CMP Susquehanna Corp., Term Loan, 4.669% due 6/7/13(c)	111,613

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Media 0.7% <i>continued</i>	
\$	1,075,000	Direct TV, Term Loan C, 5.250% due 4/13/13(c)	\$ 984,969
	496,862	Idearc Inc., Term Loan B, 4.860% due 11/1/14(c)	214,479
	242,875	LodgeNet Entertainment Corp., Term Loan B, 4.700% due 4/4/14(c)	142,082
	1,000,000	Newsday LLC, 9.750% due 7/15/13	840,000
	247,475	Regal Cinemas Corp., Term Loan B, 4.196% due 10/19/10(c)	187,118
	250,000	UPC Broadband Holding BV, Term Loan N, 4.214% due 3/30/14(c)	179,375
	1,000,000	Virgin Media Inc., Term Loan, 7.500% due 1/15/14	692,500
		<i>Total Media</i>	3,538,960
	250,000	Multiline Retail 0.1% Neiman Marcus Group Inc., Term Loan B, 6.939% due 3/13/13(c)	190,078
	247,481	Specialty Retail 0.0% Michaels Stores Inc., Term Loan B, 4.750% due 10/31/13(c)	146,076
		TOTAL CONSUMER DISCRETIONARY	4,266,214
HEALTH CARE 0.2%		Health Care Equipment & Supplies 0.0% Bausch & Lomb Inc.: Term Loan, 8.080% due 4/11/15(c)	161,116
	198,500	Term Loan B, 6.511% due 4/11/15	40,583
	50,000	<i>Total Health Care Equipment & Supplies</i>	201,699
		Health Care Providers & Services 0.1% Community Health Systems Inc.: Delayed Draw Term Loan, 7.756% due 7/2/14	12,434
	15,468	Term Loan B, 4.713% due 7/2/14(c)	182,282
	226,754	HCA Inc., Term Loan B, 7.080% due 11/1/13(c)	204,331
	246,851	<i>Total Health Care Providers & Services</i>	399,047
	247,487	Pharmaceuticals 0.1% Royalty Pharma, Term Loan B, 5.511% due 5/15/14(c)	217,170
		TOTAL HEALTH CARE	817,916
INDUSTRIALS 0.1%		Aerospace & Defense 0.1% Dubai Aerospace Enterprise, Term Loan: 6.410% due 7/31/14(c)	212,018
	284,588	6.450% due 7/31/14(c)	213,989
	287,234	<i>Total Aerospace & Defense</i>	426,007
		Airlines 0.0% Delta Airlines Inc., Term Loan, 8.082% due 4/30/14	1,441
	2,506	United Airlines Inc., Term Loan B, 4.500% due 1/12/14(c)	102,174
	177,694	<i>Total Airlines</i>	103,615
	247,494	Commercial Services & Supplies 0.0% US Investigations Services Inc., Term Loan B, 7.910% due 2/21/15	175,721
		TOTAL INDUSTRIALS	705,343

See Notes to Financial Statements.

14 LMP Capital and Income Fund Inc. 2008 Annual Report

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
INFORMATION TECHNOLOGY 0.1%			
\$	564,300	IT Services 0.1% First Data Corp., Term Loan, 5.687% due 10/15/14(c)	\$ 417,784
MATERIALS 0.4%			
	1,000,000	Chemicals 0.1% Lyondell Chemical Co., Term Loan B2, 0.000% due 12/20/14(c)	605,000
	492,726	Containers & Packaging 0.1% Graphic Packaging International, Term Loan C, 7.496% due 5/16/14(c)	419,741
	1,000,000	Paper & Forest Products 0.2% Georgia-Pacific Corp., Term Loan, 4.544% due 12/23/13(c)	833,056
	248,125	NewPage Corp., Term Loan, Tranche B, 7.156% due 11/5/14(c)	202,577
		<i>Total Paper & Forest Products</i>	1,035,633
		TOTAL MATERIALS	2,060,374
TELECOMMUNICATION SERVICES 0.6%			
	1,000,000	Diversified Telecommunication Services 0.4% Cablevision Systems Corp., Term Loan B, 4.214% due 3/30/13(c)	869,286
	168,750	Insight Midwest, Term Loan B, 4.470% due 4/10/14(c)	133,594
	996,183	Intelsat Corp., Term Loan, 5.288% due 6/30/13(c)	826,832
	500,000	Level 3 Communications Inc., Term Loan, 4.946% due 3/1/14(c)	373,750
		<i>Total Diversified Telecommunication Services</i>	2,203,462
	997,455	Wireless Telecommunication Services 0.2% MetroPCS Wireless Inc., Term Loan, 5.402% due 2/20/14(c)	828,137
		TOTAL TELECOMMUNICATION SERVICES	3,031,599
UTILITIES 0.3%			
	498,750	Electric Utilities 0.1% TXU Corp., Term Loan B, 6.169% due 10/10/14(c)	391,242
	997,487	Independent Power Producers & Energy Traders 0.2% Calpine Corp., Term Loan, 6.645% due 3/29/09(c)	802,621
		TOTAL UTILITIES	1,193,863
		TOTAL COLLATERALIZED SENIOR LOANS (Cost \$15,598,112)	12,493,093
CONVERTIBLE BONDS & NOTES 1.1%			
INFORMATION TECHNOLOGY 1.1%			
	7,473,000	Internet Software & Services 1.1% VeriSign Inc., 3.250% due 8/15/37 (Cost \$4,927,908)	5,109,664
CORPORATE BONDS & NOTES 23.5%			
CONSUMER DISCRETIONARY 3.6%			
	280,000	Auto Components 0.3% Allison Transmission Inc., Senior Notes, 11.250% due 11/1/15(d)(f)	149,800
	295,000	Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13	134,225

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Auto Components 0.3% <i>continued</i>	
\$ 1,507,000	Visteon Corp., Senior Notes:	\$ 881,595
845,000	8.250% due 8/1/10	291,525
	12.250% due 12/31/16(d)	1,457,145
	<i>Total Auto Components</i>	
	Automobiles 0.1%	
110,000	Ford Motor Co., Debentures, 8.875% due 1/15/22	34,650
	General Motors Corp., Senior Debentures:	
600,000	8.250% due 7/15/23	195,000
1,300,000	8.375% due 7/15/33	429,000
	<i>Total Automobiles</i>	658,650
	Diversified Consumer Services 0.0%	
	Education Management LLC/Education Management Finance Corp.:	
20,000	Senior Notes, 8.750% due 6/1/14	14,700
210,000	Senior Subordinated Notes, 10.250% due 6/1/16	145,950
	<i>Total Diversified Consumer Services</i>	160,650
	Hotels, Restaurants & Leisure 1.1%	
1,000,000	Boyd Gaming Corp., Senior Subordinated Notes, 6.750% due 4/15/14	635,000
255,000	Buffets Inc., Senior Notes, 12.500% due 11/1/14(g)	1,913
810,000	Caesars Entertainment Inc., Senior Subordinated Notes, 8.125% due 5/15/11	291,600
305,000	Choctaw Resort Development Enterprise, Senior Notes, 7.250% due 11/15/19(d)	175,375
550,000	Denny's Holdings Inc., Senior Notes, 10.000% due 10/1/12	420,750
160,000	El Pollo Loco Inc., Senior Notes, 11.750% due 11/15/13	132,000
660,000	Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000% due 11/15/10	293,700
600,000	McDonald's Corp., Medium Term Notes, 5.350% due 3/1/18	536,198
	MGM MIRAGE Inc.:	
380,000	Notes, 6.750% due 9/1/12	245,100
575,000	Senior Notes, 5.875% due 2/27/14	343,562
203,000	Senior Subordinated Notes, 9.375% due 2/15/10	134,995
750,000	River Rock Entertainment Authority, Senior Secured Notes, 9.750% due 11/1/11	661,875
270,000	Sbarro Inc., Senior Notes, 10.375% due 2/1/15	157,950
625,000	Seneca Gaming Corp., Senior Notes, 7.250% due 5/1/12	421,875
	Station Casinos Inc.:	
	Senior Notes:	
60,000	6.000% due 4/1/12	22,350
530,000	7.750% due 8/15/16	180,200
100,000	Senior Subordinated Notes, 6.875% due 3/1/16	9,500

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Hotels, Restaurants & Leisure 1.1% <i>continued</i>	
\$ 500,000	Turning Stone Casino Resort Enterprise, Senior Notes, 9.125% due 12/15/10(d)	\$ 437,500
	<i>Total Hotels, Restaurants & Leisure</i>	<i>5,101,443</i>
	Household Durables 0.2%	
185,000	K Hovnanian Enterprises Inc., Senior Notes, 8.625% due 1/15/17	55,500
485,000	Norcraft Cos. LP/Norcraft Finance Corp., Senior Subordinated Notes, 9.000% due 11/1/11	424,375
700,000	Norcraft Holdings LP/Norcraft Capital Corp., Senior Discount Notes, 9.750% due 9/1/12	577,500
	<i>Total Household Durables</i>	<i>1,057,375</i>
	Internet & Catalog Retail 0.0%	
30,000	Expedia Inc., Senior Notes, 8.500% due 7/1/16(d)	22,350
	Media 1.3%	
	Affinion Group Inc.:	
355,000	Senior Notes, 10.125% due 10/15/13	250,275
340,000	Senior Subordinated Notes, 11.500% due 10/15/15	205,700
3,419,000	CCH I LLC/CCH I Capital Corp., Senior Secured Notes, 11.000% due 10/1/15	1,555,645
325,000	CCH II LLC/CCH II Capital Corp., Senior Notes, 10.250% due 10/1/13	204,750
105,000	Charter Communications Holdings LLC/Charter Communications Holdings Capital Corp., Senior Discount Notes, 11.750% due 5/15/11	42,000
390,000	Charter Communications Inc., Senior Secured Notes, 10.875% due 9/15/14(d)	318,825
	Comcast Corp.:	
1,320,000	5.700% due 5/15/18	1,092,580
840,000	Senior Notes, 6.500% due 1/15/17	739,517
225,000	Dex Media West LLC/Dex Media Finance Co., Senior Notes, 8.500% due 8/15/10	173,250
1,485,000	Idearc Inc., Senior Notes, 8.000% due 11/15/16	213,469
20,000	News America Inc., Senior Notes, 6.650% due 11/15/37	15,885
	R.H. Donnelley Corp.:	
655,000	Senior Discount Notes, 6.875% due 1/15/13	153,925
450,000	Senior Notes, 8.875% due 1/15/16	96,750
10,000	Time Warner Cable Inc., Senior Notes, 5.850% due 5/1/17	8,205
810,000	Time Warner Inc., Senior Notes, 6.875% due 5/1/12	728,344
360,000	TL Acquisitions Inc., Senior Notes, 10.500% due 1/15/15(d)	216,000
	<i>Total Media</i>	<i>6,015,120</i>
	Multiline Retail 0.5%	
1,020,000	Dollar General Corp., Senior Subordinated Notes, 11.875% due 7/15/17(f)	838,950
2,105,000	Neiman Marcus Group Inc., Senior Notes, 9.000% due 10/15/15(f)	1,452,450
	<i>Total Multiline Retail</i>	<i>2,291,400</i>

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Specialty Retail 0.0%	
\$	315,000	Blockbuster Inc., Senior Subordinated Notes, 9.000% due 9/1/12	\$ 181,125
		Textiles, Apparel & Luxury Goods 0.1%	
	270,000	Oxford Industries Inc., Senior Notes, 8.875% due 6/1/11	222,750
		TOTAL CONSUMER DISCRETIONARY	17,168,008
CONSUMER STAPLES	0.6%		
		Beverages 0.1%	
	760,000	Constellation Brands Inc., Senior Notes, 8.375% due 12/15/14	680,200
		Food & Staples Retailing 0.2%	
	423,774	CVS Caremark Corp., Pass-Through Certificates, 6.943% due 1/10/30(d)	359,570
		Kroger Co., Senior Notes:	
	200,000	5.500% due 2/1/13	184,484
	400,000	6.150% due 1/15/20	329,008
	150,000	Safeway Inc., Senior Notes, 6.500% due 11/15/08	149,988
		<i>Total Food & Staples Retailing</i>	<i>1,023,050</i>
		Food Products 0.1%	
		Dole Food Co. Inc., Senior Notes:	
	125,000	7.250% due 6/15/10	91,875
	261,000	8.875% due 3/15/11	181,395
		<i>Total Food Products</i>	<i>273,270</i>
		Tobacco 0.2%	
		Alliance One International Inc., Senior Notes:	
	150,000	8.500% due 5/15/12	116,250
	380,000	11.000% due 5/15/12	323,000
	580,000	Reynolds American Inc., 6.750% due 6/15/17	435,822
		<i>Total Tobacco</i>	<i>875,072</i>
		TOTAL CONSUMER STAPLES	2,851,592
ENERGY	2.7%		
		Energy Equipment & Services 0.3%	
	965,000	Complete Production Services Inc., Senior Notes, 8.000% due 12/15/16	661,025
	250,000	Key Energy Services Inc., Senior Notes, 8.375% due 12/1/14	186,250
	55,000	Pride International Inc., Senior Notes, 7.375% due 7/15/14	45,375
	10,000	Southern Natural Gas Co., Senior Notes, 8.000% due 3/1/32	7,776
	460,000	Transocean Inc., Senior Notes, 5.250% due 3/15/13	419,296
		<i>Total Energy Equipment & Services</i>	<i>1,319,722</i>
		Oil, Gas & Consumable Fuels 2.4%	
	750,000	Amerada Hess Corp., Senior Notes, 6.650% due 8/15/11	704,198
		Anadarko Petroleum Corp., Senior Notes:	
	60,000	5.950% due 9/15/16	50,121
	1,240,000	6.450% due 9/15/36	886,758

See Notes to Financial Statements.

18 LMP Capital and Income Fund Inc. 2008 Annual Report

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Oil, Gas & Consumable Fuels 2.4% <i>continued</i>	
\$ 200,000	Apache Corp., Senior Notes:	\$ 189,405
540,000	5.250% due 4/15/13	471,124
440,000	5.625% due 1/15/17	356,400
	Belden & Blake Corp., Secured Notes, 8.750% due 7/15/12	
	Chesapeake Energy Corp., Senior Notes:	
775,000	6.375% due 6/15/15	598,688
400,000	6.500% due 8/15/17	296,500
85,000	Compagnie Generale de Geophysique SA, Senior Notes, 7.500% due 5/15/15	57,375
330,000	ConocoPhillips Holding Co., Senior Notes, 6.950% due 4/15/29	288,374
750,000	Devon Financing Corp. ULC, Notes, 6.875% due 9/30/11	745,358
	El Paso Corp., Medium-Term Notes:	
180,000	7.800% due 8/1/31	125,823
1,050,000	7.750% due 1/15/32	731,541
870,000	Energy Transfer Partners LP, Senior Notes, 6.700% due 7/1/18	709,770
320,000	Enterprise Products Operating LP, Junior Subordinated Notes, 8.375% due 8/1/66(c)	237,906
970,000	EXCO Resources Inc., Senior Notes, 7.250% due 1/15/11	790,550
260,000	International Coal Group Inc., Senior Notes, 10.250% due 7/15/14	219,700
	Kerr-McGee Corp., Notes:	
300,000	6.875% due 9/15/11	300,498
140,000	6.950% due 7/1/24	111,267
	Kinder Morgan Energy Partners LP:	
580,000	Medium-Term Notes, 6.950% due 1/15/38	426,452
	Senior Notes:	
540,000	6.000% due 2/1/17	432,112
100,000	5.950% due 2/15/18	78,384
605,000	OPTI Canada Inc., Senior Secured Notes, 8.250% due 12/15/14	363,000
240,000	Overseas Shipholding Group Inc., Senior Notes, 7.500% due 2/15/24	181,200
410,000	Parker Drilling Co., Senior Notes, 9.625% due 10/1/13	344,400
160,000	Petroplus Finance Ltd., Senior Notes, 7.000% due 5/1/17(d)	105,600
780,000	SemGroup LP, Senior Notes, 8.750% due 11/15/15(b)(d)(g)	50,700
260,000	Stone Energy Corp., Senior Subordinated Notes, 8.250% due 12/15/11	214,500
330,000	Teekay Corp., Senior Notes, 8.875% due 7/15/11	303,600
180,000	VeraSun Energy Corp., Senior Notes, 9.375% due 6/1/17(g)	16,200
355,000	Whiting Petroleum Corp., Senior Subordinated Notes, 7.250% due 5/1/12	282,225
	Williams Cos. Inc.:	
100,000	Notes, 8.750% due 3/15/32	81,677
470,000	Senior Notes, 7.750% due 6/15/31	355,646

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Oil, Gas & Consumable Fuels 2.4% <i>continued</i>	
\$	170,000	XTO Energy Inc., Senior Notes: 7.500% due 4/15/12	\$ 163,880
	350,000	5.650% due 4/1/16	276,265
	300,000	5.500% due 6/15/18	236,555
		<i>Total Oil, Gas & Consumable Fuels</i>	<i>11,783,752</i>
		TOTAL ENERGY	13,103,474
FINANCIALS 4.8%		Capital Markets 0.4%	
	300,000	Bear Stearns Co. Inc., Senior Notes, 6.400% due 10/2/17	267,086
	30,000	Goldman Sachs Capital II, Junior Subordinated Bonds, 5.793% due 6/1/12(c)(h)	13,786
	600,000	Goldman Sachs Group Inc., Senior Notes, 6.150% due 4/1/18	497,874
	1,200,000	Kaupthing Bank HF, Subordinated Notes, 7.125% due 5/19/16(d)(g)	18,000
	50,000	Lehman Brothers Holdings Capital Trust VII, Medium-Term Notes, 5.857% due 5/31/12(c)(g)(h)	25
	1,110,000	Lehman Brothers Holdings Inc., Medium-Term Notes: 6.750% due 12/28/17(g)	4,163
	130,000	Senior Notes, 6.200% due 9/26/14(g)	17,550
	520,000	Merrill Lynch & Co. Inc.: Notes, 6.875% due 4/25/18	462,628
	100,000	Senior Notes, 5.450% due 2/5/13	90,219
	940,000	Morgan Stanley, Medium-Term Notes, 5.625% due 1/9/12	818,641
		<i>Total Capital Markets</i>	<i>2,189,972</i>
		Commercial Banks 0.8%	
	20,000	BAC Capital Trust XIV, Junior Subordinated Notes, 5.630% due 3/15/12(c)(h)	9,409
	27,272	Fifth Third Bank, Notes, 2.870% due 8/10/09	26,765
	290,000	Glitnir Banki HF, Notes, 6.375% due 9/25/12(d)(g)	10,150
	100,000	HBOS Capital Funding LP, Tier 1 Notes, Perpetual Bonds, 6.071% due 6/30/14(c)(d)(h)	43,986
	1,300,000	Resona Preferred Global Securities Cayman Ltd., Bonds, 7.191% due 7/30/15(c)(d)(h)	624,633
	1,400,000	Shinsei Finance Cayman Ltd., Junior Subordinated Bonds, 6.418% due 7/20/16(c)(d)(h)	315,258
	700,000	SunTrust Capital, Trust Preferred Securities, 6.100% due 12/15/36(c)	360,300
	1,520,000	Wachovia Corp., Medium Term Notes, 5.500% due 5/1/13	1,428,437
	200,000	Wells Fargo & Co.: Medium Term Notes, 4.375% due 1/31/13	184,825
	690,000	Senior Notes, 5.625% due 12/11/17	609,756
	380,000	Wells Fargo Capital X, Capital Securities, 5.950% due 12/15/36	249,151
		<i>Total Commercial Banks</i>	<i>3,862,670</i>

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See Notes to Financial Statements.

20 LMP Capital and Income Fund Inc. 2008 Annual Report

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Consumer Finance 1.8%	
\$ 300,000	Aiful Corp., Notes, 6.000% due 12/12/11(d)	\$ 181,607
610,000	American Express Co., Subordinated Debentures, 6.800% due 9/1/66(c)	340,027
300,000	Caterpillar Financial Services Corp., Medium-Term Notes, 5.450% due 4/15/18	247,299
	Ford Motor Credit Co.:	
	Notes:	
750,000	5.700% due 1/15/10	556,863
1,050,000	7.000% due 10/1/13	582,170
	Senior Notes:	
135,000	9.750% due 9/15/10	91,840
559,000	8.069% due 6/15/11(c)	365,782
1,600,000	9.875% due 8/10/11	1,008,797
310,000	12.000% due 5/15/15	197,066
170,000	8.000% due 12/15/16	93,217
	General Motors Acceptance Corp.:	
1,700,000	Bonds, 8.000% due 11/1/31	771,885
	Notes:	
500,000	5.625% due 5/15/09	424,050
320,000	7.750% due 1/19/10	239,738
1,580,000	6.875% due 9/15/11	925,845
1,900,000	6.625% due 5/15/12	1,053,736
300,000	6.750% due 12/1/14	151,655
500,000	John Deere Capital Corp., Medium-Term Notes, 5.350% due 4/3/18	417,745
	SLM Corp.:	
125,000	Medium-Term Notes, 3.735% due 1/26/09(c)	118,526
1,340,000	Senior Notes, 8.450% due 6/15/18	911,615
	<i>Total Consumer Finance</i>	<i>8,679,463</i>
	Diversified Financial Services 1.3%	
150,000	AAC Group Holding Corp., Senior Discount Notes, 10.250% due 10/1/12(d)	143,250
100,000	Aiful Corp., Notes, 5.000% due 8/10/10(d)	60,705
	Bank of America Corp.:	
970,000	Senior Notes, 5.650% due 5/1/18	835,209
100,000	Subordinated Notes, 5.420% due 3/15/17	76,125
125,000	Capital One Bank, Notes, 5.750% due 9/15/10	116,305
	Citigroup Inc.:	
550,000	Notes, 6.875% due 3/5/38	457,208
570,000	Senior Notes, 6.500% due 8/19/13	540,879
125,000	Countrywide Home Loans Inc., Medium-Term Notes, 4.125% due 9/15/09	119,899

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Diversified Financial Services 1.3% <i>continued</i>	
\$ 250,000	General Electric Capital Corp.: Medium-Term Notes, 5.450% due 1/15/13	\$ 231,265
1,290,000	Senior Notes, 5.625% due 5/1/18	1,063,824
20,000	Subordinated Debentures, 6.375% due 11/15/67(c)	12,952
200,000	Glen Meadow Pass-Through Certificates, 6.505% due 2/12/67(c)(d)	97,938
125,000	HSBC Finance Corp., Senior Subordinated Notes, 5.875% due 2/1/09	124,381
1,610,000	JPMorgan Chase & Co., Subordinated Notes, 6.125% due 6/27/17	1,391,858
	Leucadia National Corp., Senior Notes:	
370,000	8.125% due 9/15/15	329,300
70,000	7.125% due 3/15/17	60,200
	Residential Capital LLC:	
344,000	Junior Secured Notes, 9.625% due 5/15/15(d)	87,720
45,000	Senior Secured Notes, 8.500% due 5/15/10(d)	22,050
620,000	Vanguard Health Holdings Co., I LLC, Senior Discount Notes, step bond to yield 10.257% due 10/1/15	489,800
300,000	Vanguard Health Holdings Co., II LLC, Senior Subordinated Notes, 9.000% due 10/1/14	250,500
	<i>Total Diversified Financial Services</i>	<i>6,511,368</i>
	Insurance 0.3%	
1,170,000	American International Group Inc., Medium-Term Notes, 5.850% due 1/16/18	425,097
650,000	MetLife Inc., Junior Subordinated Debentures, 6.400% due 12/15/36	324,194
600,000	Pacific Life Global Funding, Notes, 5.150% due 4/15/13(d)	503,321
140,000	Travelers Cos. Inc., Junior Subordinated Debentures, 6.250% due 3/15/37(c)	83,565
	<i>Total Insurance</i>	<i>1,336,177</i>
	Real Estate Investment Trusts (REITs) 0.1%	
220,000	Forest City Enterprises Inc., Senior Notes, 6.500% due 2/1/17	144,100
75,000	iStar Financial Inc., Senior Notes, 4.875% due 1/15/09	62,253
85,000	Ventas Realty LP/Ventas Capital Corp., Senior Notes, 6.500% due 6/1/16	70,125
	<i>Total Real Estate Investment Trusts (REITs)</i>	<i>276,478</i>
	Real Estate Management & Development 0.0%	
270,000	Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, 9.500% due 10/1/15(g)	55,350
570,000	Realogy Corp., Senior Subordinated Notes, 12.375% due 4/15/15	115,425
	<i>Total Real Estate Management & Development</i>	<i>170,775</i>
	Thriffs & Mortgage Finance 0.1%	
270,000	Countrywide Home Loans Inc., Notes, 5.625% due 7/15/09	261,384
	TOTAL FINANCIALS	23,288,287

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
HEALTH CARE	2.2%		
\$	690,000	Health Care Equipment & Supplies 0.1% Biomet Inc., Senior Notes, 10.375% due 10/15/17(f)	\$ 577,875
	550,000	Health Care Providers & Services 1.9% Cardinal Health Inc., Senior Notes, 5.800% due 10/15/16	446,515
	460,000	Community Health Systems Inc., Senior Notes, 8.875% due 7/15/15	387,550
	220,000	DaVita Inc.: Senior Notes, 6.625% due 3/15/13	194,150
	730,000	Senior Subordinated Notes, 7.250% due 3/15/15	627,800
	295,000	HCA Inc.: Notes, 6.375% due 1/15/15	177,000
	800,000	Senior Secured Notes: 9.125% due 11/15/14	690,000
	215,000	9.250% due 11/15/16	183,288
	2,270,000	9.625% due 11/15/16(f)	1,833,025
	425,000	IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes, 8.750% due 6/15/14	337,875
	180,000	Tenet Healthcare Corp., Senior Notes: 6.375% due 12/1/11	155,700
	870,000	6.500% due 6/1/12	730,800
	650,000	7.375% due 2/1/13	533,000
	801,000	9.875% due 7/1/14	658,822
	600,000	UnitedHealth Group Inc., Senior Notes, 5.250% due 3/15/11	579,676
	961,000	US Oncology Holdings Inc., Senior Notes, 8.334% due 3/15/12(c)(f)	677,505
	720,000	WellPoint Inc., Senior Notes: 5.000% due 1/15/11	710,319
	30,000	5.875% due 6/15/17	24,563
		<i>Total Health Care Providers & Services</i>	<i>8,947,588</i>
	650,000	Pharmaceuticals 0.2% Abbott Laboratories, Senior Notes, 5.600% due 11/30/17	599,665
	445,000	Leiner Health Products Inc., Senior Subordinated Notes, 11.000% due 6/1/12(b)(g)	23,363
	370,000	Wyeth, Notes, 5.950% due 4/1/37	301,294
		<i>Total Pharmaceuticals</i>	<i>924,322</i>
		TOTAL HEALTH CARE	10,449,785
INDUSTRIALS	2.1%		
	2,280,000	Aerospace & Defense 0.3% Hawker Beechcraft Acquisition Co., Senior Notes, 8.875% due 4/1/15(f)	1,333,800

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Airlines 0.2%	
	Continental Airlines Inc., Pass-Through Certificates:	
\$ 94,289	8.312% due 4/2/11(a)	\$ 75,431
380,000	7.339% due 4/19/14	252,700
800,000	DAE Aviation Holdings Inc., Senior Notes, 11.250% due 8/1/15(d)	604,000
	<i>Total Airlines</i>	<i>932,131</i>
	Building Products 0.4%	
	Associated Materials Inc.:	
625,000	Senior Discount Notes, step bond to yield 18.865% due 3/1/14	340,625
1,110,000	Senior Subordinated Notes, 9.750% due 4/15/12	993,450
1,790,000	NTK Holdings Inc., Senior Discount Notes, step bond to yield 21.028% due 3/1/14	545,950
	<i>Total Building Products</i>	<i>1,880,025</i>
	Commercial Services & Supplies 0.5%	
220,000	Allied Waste North America Inc., Senior Notes, 6.875% due 6/1/17	192,500
550,000	DynCorp International LLC/DIV Capital Corp., Senior Subordinated Notes, 9.500% due 2/15/13	470,250
600,000	Interface Inc., Senior Subordinated Notes, 9.500% due 2/1/14	531,000
440,000	Rental Services Corp., Senior Notes, 9.500% due 12/1/14	266,200
790,000	US Investigations Services Inc., Senior Subordinated Notes, 10.500% due 11/1/15(d)	612,250
225,000	Waste Management Inc., Senior Notes, 6.375% due 11/15/12	205,083
	<i>Total Commercial Services & Supplies</i>	<i>2,277,283</i>
	Construction & Engineering 0.2%	
1,000,000	CSC Holdings Inc., Senior Notes, 8.500% due 6/15/15(d)	850,000
	Industrial Conglomerates 0.0%	
	Sequa Corp., Senior Notes:	
140,000	11.750% due 12/1/15(d)	87,500
144,725	13.500% due 12/1/15(d)(f)	83,217
	<i>Total Industrial Conglomerates</i>	<i>170,717</i>
	Road & Rail 0.2%	
1,195,000	Hertz Corp., Senior Subordinated Notes, 10.500% due 1/1/16	743,888
50,000	Kansas City Southern de Mexico, Senior Notes, 7.625% due 12/1/13	39,375
430,000	Kansas City Southern Railway, Senior Notes, 7.500% due 6/15/09	414,950
	<i>Total Road & Rail</i>	<i>1,198,213</i>
	Trading Companies & Distributors 0.3%	
1,035,000	Ashtead Capital Inc., Notes, 9.000% due 8/15/16(d)	657,225
440,000	H&E Equipment Services Inc., Senior Notes, 8.375% due 7/15/16	235,400
650,000	Penhall International Corp., Senior Secured Notes, 12.000% due 8/1/14(d)	451,750
	<i>Total Trading Companies & Distributors</i>	<i>1,344,375</i>

See Notes to Financial Statements.

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Transportation Infrastructure 0.0%	
		Swift Transportation Co., Senior Secured Notes:	
\$	150,000	10.554% due 5/15/15(c)(d)	\$ 30,750
	405,000	12.500% due 5/15/17(d)	93,150
		<i>Total Transportation Infrastructure</i>	<i>123,900</i>
		TOTAL INDUSTRIALS	10,110,444
INFORMATION TECHNOLOGY 0.3%			
		Electronic Equipment, Instruments & Components 0.1%	
	695,000	NXP BV/NXP Funding LLC, Senior Notes, 9.500% due 10/15/15	236,300
		IT Services 0.2%	
	170,000	Ceridian Corp., Senior Notes, 12.250% due 11/15/15(d)(f)	106,250
	360,000	First Data Corp., Senior Notes, 9.875% due 9/24/15	232,200
	660,000	SunGard Data Systems Inc., Senior Subordinated Notes, 10.250% due 8/15/15	465,300
		<i>Total IT Services</i>	<i>803,750</i>
		Office Electronics 0.0%	
	290,000	Xerox Corp., Senior Notes, 6.750% due 2/1/17	213,364
		Semiconductors & Semiconductor Equipment 0.0%	
	35,000	Freescall Semiconductor Inc., Senior Notes, 8.875% due 12/15/14	15,750
		TOTAL INFORMATION TECHNOLOGY	1,269,164
MATERIALS 1.9%			
		Chemicals 0.1%	
		Georgia Gulf Corp., Senior Notes:	
	90,000	9.500% due 10/15/14	38,250
	515,000	10.750% due 10/15/16	136,475
	60,000	Huntsman International LLC, Senior Subordinated Notes, 7.875% due 11/15/14	53,700
	100,000	Methanex Corp., Senior Notes, 8.750% due 8/15/12	95,500
	360,000	PPG Industries Inc., Senior Notes, 6.650% due 3/15/18	308,093
		<i>Total Chemicals</i>	<i>632,018</i>
		Containers & Packaging 0.1%	
	285,000	Graham Packaging Co. Inc., Senior Subordinated Notes, 9.875% due 10/15/14	180,975
	465,000	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13	320,850
	195,000	Plastipak Holdings Inc., Senior Notes, 8.500% due 12/15/15(d)	140,400
		<i>Total Containers & Packaging</i>	<i>642,225</i>
		Metals & Mining 1.1%	
	1,560,000	Freeport-McMoRan Copper & Gold Inc., Senior Notes, 8.375% due 4/1/17	1,226,294
	650,000	Metals USA Inc., Senior Secured Notes, 11.125% due 12/1/15	458,250
	205,000	Noranda Aluminium Holding Corp., Senior Notes, 8.578% due 11/15/14(c)(f)	77,900

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Metals & Mining 1.1% <i>continued</i>	
\$	2,610,000	Novelis Inc., Senior Notes, 7.250% due 2/15/15	\$ 1,761,750
	1,400,000	Ryerson Inc., Senior Secured Notes, 12.000% due 11/1/15(d)	959,000
		Steel Dynamics Inc., Senior Notes:	
	100,000	7.375% due 11/1/12	74,875
	785,000	7.750% due 4/15/16(d)	523,987
	200,000	Tube City IMS Corp., Senior Subordinated Notes, 9.750% due 2/1/15	117,000
	156,000	Vale Overseas Ltd., Notes, 6.875% due 11/21/36	112,864
		<i>Total Metals & Mining</i>	5,311,920
		Paper & Forest Products 0.6%	
	1,640,000	Abitibi-Consolidated Co. of Canada, Senior Secured Notes, 13.750% due 4/1/11(d)	1,303,800
	1,185,000	Appleton Papers Inc., Senior Subordinated Notes, 9.750% due 6/15/14	716,925
	435,000	NewPage Corp., Senior Secured Notes, 9.051% due 5/1/12(c)	306,675
	750,000	Verso Paper Holdings LLC, 11.375% due 8/1/16	303,750
	150,000	Weyerhaeuser Co., Senior Notes, 6.750% due 3/15/12	129,191
		<i>Total Paper & Forest Products</i>	2,760,341
		TOTAL MATERIALS	9,346,504
TELECOMMUNICATION SERVICES	3.0%	Diversified Telecommunication Services 2.3%	
		AT&T Inc.:	
	630,000	5.600% due 5/15/18	538,458
	1,210,000	Senior Notes, 6.400% due 5/15/38	971,115
	460,000	British Telecommunications PLC, Bonds, 9.125% due 12/15/30	417,468
	600,000	Deutsche Telekom International Finance, Senior Notes, 5.750% due 3/23/16	491,922
	730,000	Embarq Corp., Senior Notes, 6.738% due 6/1/13	635,699
		Hawaiian Telcom Communications Inc.:	
	120,000	Senior Notes, 9.750% due 5/1/13	9,000
	660,000	Senior Subordinated Notes, 12.500% due 5/1/15	19,800
	680,000	Intelsat Bermuda Ltd., Senior Notes, 11.250% due 6/15/16	584,800
		Level 3 Financing Inc., Senior Notes:	
	1,295,000	9.250% due 11/1/14	744,625
	30,000	6.845% due 2/15/15(c)	13,800
	1,095,000	Nordic Telephone Co. Holdings, Senior Secured Bonds, 8.875% due 5/1/16(d)	925,275
	1,150,000	Qwest Communications International Inc., Senior Notes, 7.500% due 2/15/14	796,375
	100,000	Telecom Italia Capital S.p.A., Senior Notes, 5.250% due 10/1/15	68,681
	790,000	Telefonica Emisones SAU, Senior Notes, 6.221% due 7/3/17	667,834

See Notes to Financial Statements.

26 LMP Capital and Income Fund Inc. 2008 Annual Report

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Diversified Telecommunication Services 2.3% continued	
\$	660,000	Verizon Communications Inc. Senior Notes:	\$ 554,888
	890,000	5.500% due 2/15/18	698,419
	450,000	6.400% due 2/15/38	401,323
	800,000	Verizon Florida Inc., Senior Notes, 6.125% due 1/15/13	532,000
	650,000	Virgin Media Finance PLC, Senior Notes, 9.125% due 8/15/16	503,750
	1,915,000	Wind Acquisition Finance SA, Senior Bonds, 10.750% due 12/1/15(d)	1,455,400
		Windstream Corp., Senior Notes, 8.625% due 8/1/16	11,030,632
		<i>Total Diversified Telecommunication Services</i>	
		Wireless Telecommunication Services 0.7%	
	420,000	ALLTEL Communications Inc., Senior Notes, 10.375% due 12/1/17(d)(f)	459,900
	65,000	MetroPCS Wireless Inc., Senior Notes, 9.250% due 11/1/14	54,438
	1,270,000	New Cingular Wireless Services Inc., Notes, 8.125% due 5/1/12	1,259,865
		Sprint Capital Corp., Senior Notes:	
	1,190,000	8.375% due 3/15/12	958,605
	330,000	6.875% due 11/15/28	193,438
	300,000	Sprint Nextel Corp., 6.000% due 12/1/16	208,051
	780,000	True Move Co., Ltd., Notes, 10.750% due 12/16/13(d)	276,900
		<i>Total Wireless Telecommunication Services</i>	3,411,197
		TOTAL TELECOMMUNICATION SERVICES	14,441,829
UTILITIES 2.3%			
		Electric Utilities 0.2%	
	365,000	FirstEnergy Corp., Notes, 7.375% due 11/15/31	283,773
		Pacific Gas & Electric Co. Senior Notes:	
	320,000	5.625% due 11/30/17	276,114
	230,000	5.800% due 3/1/37	171,914
	670,000	Texas Competitive Electric Holding Co. LLC, Senior Notes, 10.500% due 11/1/16(d)(f)	422,100
		<i>Total Electric Utilities</i>	1,153,901
		Gas Utilities 0.1%	
	770,000	Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes, 6.875% due 12/15/13	596,750
		Independent Power Producers & Energy Traders 2.0%	
		AES Corp., Senior Notes:	
	1,100,000	7.750% due 3/1/14	896,500
	720,000	7.750% due 10/15/15	567,900
	660,000	8.000% due 10/15/17	511,500
	490,000	Dynegy Holdings Inc., Senior Notes, 7.750% due 6/1/19	330,750
	990,000	Dynegy Inc., Bonds, 7.670% due 11/8/16	743,490

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Independent Power Producers & Energy Traders 2.0%	
		<i>continued</i>	
		Edison Mission Energy, Senior Notes:	
\$	480,000	7.750% due 6/15/16	\$ 387,600
	350,000	7.200% due 5/15/19	264,250
	750,000	7.625% due 5/15/27	491,250
	3,920,000	Energy Future Holdings, Senior Notes, 11.250% due 11/1/17(d)(f)	2,469,600
	670,896	Mirant Mid Atlantic LLC, Pass-Through Certificates, 9.125% due 6/30/17	603,806
		NRG Energy Inc., Senior Notes:	
	250,000	7.250% due 2/1/14	219,375
	2,175,000	7.375% due 2/1/16	1,881,375
	380,000	TXU Corp., Senior Notes, 5.550% due 11/15/14	207,587
		<i>Total Independent Power Producers & Energy Traders</i>	9,574,983
		TOTAL UTILITIES	11,325,634
		TOTAL CORPORATE BONDS & NOTES (Cost \$161,396,940)	113,354,721
MORTGAGE-BACKED SECURITIES 4.0%			
FHLMC 2.7%		Federal Home Loan Mortgage Corp. (FHLMC):	
	2,624,898	5.114% due 6/1/35(c)(e)	2,629,363
	88,042	6.100% due 9/1/37(c)(e)	89,655
		Gold:	
	446,386	7.000% due 6/1/17(e)	470,851
	296,864	8.500% due 9/1/25(e)	319,694
	572,305	6.500% due 8/1/29(e)	585,486
	8,991,059	6.000% due 9/1/32-2/1/36(e)	8,999,639
		TOTAL FHLMC	13,094,688
FNMA 1.3%		Federal National Mortgage Association (FNMA):	
	381,507	8.000% due 12/1/12(e)	390,425
	1,533,020	5.500% due 1/1/14-4/1/35(e)	1,508,059
	1,356,423	7.000% due 3/15/15-6/1/32(e)	1,418,461
	491,731	4.212% due 12/1/34(c)(e)	493,879
	677,889	4.851% due 1/1/35(c)(e)	695,243
	881,681	5.040% due 3/1/35(c)(e)	904,052
	812,619	4.855% due 4/1/35(c)(e)	821,269
		TOTAL FNMA	6,231,388
		TOTAL MORTGAGE-BACKED SECURITIES (Cost \$19,396,557)	19,326,076
SOVEREIGN BONDS 0.0%			
		Argentina 0.0%	
	22,931ARS	Republic of Argentina, GDP Linked Securities, 1.384% due 12/15/35(a)(c) (Cost \$266)	414

See Notes to Financial Statements.

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LMP CAPITAL AND INCOME FUND INC.

	FACE AMOUNT	SECURITY	VALUE
U.S. GOVERNMENT & AGENCY OBLIGATIONS		1.0%	
		U.S. Government Agencies 1.0%	
\$	100,000	Federal Home Loan Bank (FHLB), Global Bonds, 5.500% due 7/15/36	\$ 97,018
	700,000	Federal Home Loan Mortgage Corp. (FHLMC), Notes: 4.875% due 2/17/09(e)	704,502
	3,900,000	4.210% due 10/19/09(c)(e)	3,895,258
	110,000	Federal National Mortgage Association (FNMA), Subordinated Notes, 5.250% due 8/1/12(e)	110,041
		TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS (Cost \$4,805,183)	4,806,819
U.S. TREASURY INFLATION PROTECTED SECURITIES		0.6%	
	839,025	U.S. Treasury Bonds, Inflation Indexed: 2.000% due 1/15/26	688,983
	2,053,542	2.375% due 1/15/27(i)	1,777,599
	760,571	U.S. Treasury Notes, Inflation Indexed, 2.375% due 1/15/17	693,784
		TOTAL U.S. TREASURY INFLATION PROTECTED SECURITIES (Cost \$3,576,090)	3,160,366
		TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost \$602,555,096)	424,761,453
SHORT-TERM INVESTMENTS	11.9%		
		U.S. Government Agencies 0.3%	
	740,000	Federal National Mortgage Association (FNMA), Discount Notes: 1.825%-2.716% due 12/15/08(e)(j)	737,789
	500,000	2.614% due 12/17/08(e)(j)	498,351
	145,000	2.554% due 12/26/08(e)(j)	144,442
		Total U.S. Government Agencies (Cost \$1,380,582)	1,380,582
		Repurchase Agreements 11.6%	
	45,216,000	Interest in \$586,627,000 joint tri-party repurchase agreement dated 10/31/08 with Barclays Capital Inc., 0.200% due 11/3/08; Proceeds at maturity \$45,216,754; (Fully collateralized by various U.S. government agency obligations, 0.000% to 5.360% due 11/19/08 to 12/11/20; Market value \$46,120,322)	45,216,000
	10,583,000	Morgan Stanley tri-party repurchase agreement dated 10/31/08, 0.150% due 11/3/08; Proceeds at maturity \$10,583,132; (Fully collateralized by U.S. government agency obligation, 3.375% due 6/24/11; Market value \$10,797,451)	10,583,000
		Total Repurchase Agreements (Cost \$55,799,000)	55,799,000
		TOTAL SHORT-TERM INVESTMENTS (Cost \$57,179,582)	57,179,582
		TOTAL INVESTMENTS 100.0% (Cost \$659,734,678#)	\$481,941,035

See Notes to Financial Statements.

Schedule of investments *continued*

October 31, 2008

LMP CAPITAL AND INCOME FUND INC.

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, 2008.
- (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) On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into Conservatorship.
- (f) Payment-in-kind security for which part of the income earned may be paid as additional principal.
- (g) Security is currently in default.
- (h) Security has no maturity date. The date shown represents the next call date.
- (i) All or a portion of this security is held at the broker as collateral for open futures contracts.
- (j) Rate shown represents yield-to-maturity.
- # Aggregate cost for federal income tax purposes is \$663,908,894.

Abbreviations used in this schedule:

ADR	American Depositary Receipt
ARM	Adjustable Rate Mortgage
ARS	Argentine Peso
GDP	Gross Domestic Product
GSAMP	Goldman Sachs Alternative Mortgage Products
MASTR	Mortgage Asset Securitization Transactions Inc.
MLCC	Merrill Lynch Credit Corporation
PAC	Planned Amortization Class

SCHEDULE OF WRITTEN OPTIONS

CONTRACTS	SECURITY	EXPIRATION DATE	STRIKE PRICE	VALUE
14	Eurodollar Futures, Call	3/16/09	\$ 97.75	\$ 12,688
14	Eurodollar Futures, Call	3/16/09	97.50	20,300
1,126	JPMorgan Chase & Co., Call	12/20/08	42.50	286,588
158	Monsanto Co., Call	12/20/08	100.00	75,848
217	Qualcomm Inc., Call	12/20/08	42.50	32,116
544	Wells Fargo & Co., Call	12/20/08	36.00	108,527
TOTAL WRITTEN OPTIONS				
(Premiums Received \$523,246)				\$ 536,067

See Notes to Financial Statements.

Statement of assets and liabilities

October 31, 2008

ASSETS:		
Investments, at value (Cost \$603,935,678)	\$	426,142,035
Repurchase agreements, at value (Cost \$55,799,000)		55,799,000
Foreign currency, at value (Cost \$638)		474
Receivable for securities sold		11,458,948
Interest and dividends receivable		4,551,817
Receivable for open forward currency contracts		3,389,668
Deposits with brokers for open swap contracts		450,002
Receivable from broker variation margin on open futures contracts		420,432
Unrealized appreciation on swap contracts		67,236
Principal paydown receivable		39,666
Interest receivable for open swap contracts		20,273
Receivable for swap contracts closed		17,772
Premiums received for open swap contracts		2,860
Prepaid expenses		11,416
<i>Total Assets</i>		<i>502,371,599</i>
LIABILITIES:		
Loan payable (Note 4)		145,000,000
Payable for securities purchased		12,869,953
Due to custodian		4,194,074
Payable for open forward currency contracts		3,120,640
Written options, at value (premium received \$523,246)		536,067
Interest payable (Note 4)		391,145
Investment management fee payable		361,067
Unrealized depreciation on swap contracts		32,950
Directors fees payable		12,432
Interest payable for open swap contracts		6,378
Accrued expenses		258,980
<i>Total Liabilities</i>		<i>166,783,686</i>
TOTAL NET ASSETS	\$	335,587,913
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		559,713,252
Undistributed net investment income		9,656,195
Accumulated net realized loss on investments, futures contracts, written options, short sales, swap contracts and foreign currency transactions		(57,566,925)
Net unrealized depreciation on investments, futures contracts, written options, swap contracts and foreign currencies		(176,244,573)
TOTAL NET ASSETS	\$	335,587,913
Shares Outstanding		29,964,106
Net Asset Value		\$11.20

See Notes to Financial Statements.

Statement of operations**For the Year Ended October 31, 2008**

INVESTMENT INCOME:		
Interest	\$	16,072,628
Dividends		7,858,645
<i>Total Investment Income</i>		23,931,273
EXPENSES:		
Interest expense (Note 4)		6,657,094
Investment management fee (Note 2)		6,066,804
Excise tax (Note 1)		606,545
Commitment fees (Note 4)		481,837
Shareholder reports		245,670
Legal fees		191,373
Directors' fees		119,977
Dividend expense on securities sold short		118,621
Audit and tax		77,877
Stock exchange listing fees		25,756
Transfer agent fees		17,943
Custody fees		16,721
Insurance		12,473
Miscellaneous expenses		6,919
<i>Total Expenses</i>		14,645,610
Less: Fees paid indirectly (Note 1)		(367)
<i>Net Expenses</i>		14,645,243
NET INVESTMENT INCOME		9,286,030
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FUTURES CONTRACTS, WRITTEN OPTIONS, SHORT SALES, SWAP CONTRACTS AND FOREIGN CURRENCY TRANSACTIONS (NOTES 1 AND 3):		
Net Realized Gain (Loss) From:		
Investment transactions		(68,233,451)
Futures contracts		6,776,713
Written options		3,021,958
Short sales		1,604,163
Swap contracts		32,735
Foreign currency transactions		(12,103)
<i>Net Realized Loss</i>		(56,809,985)
Change in Net Unrealized Appreciation/Depreciation From:		
Investments		(209,532,023)
Futures contracts		872,757
Written options		(19,021)
Swap contracts		34,286
Foreign currencies		180,528
<i>Change in Net Unrealized Appreciation/Depreciation</i>		(208,463,473)
NET LOSS ON INVESTMENTS, FUTURES CONTRACTS, WRITTEN OPTIONS, SHORT SALES, SWAP CONTRACTS AND FOREIGN CURRENCY TRANSACTIONS		(265,273,458)
DECREASE IN NET ASSETS FROM OPERATIONS	\$	(255,987,428)

See Notes to Financial Statements.

Statements of changes in net assets

FOR THE YEARS ENDED OCTOBER 31,	2008	2007
OPERATIONS:		
Net investment income	\$ 9,286,030	\$ 4,014,510
Net realized gain (loss)	(56,809,985)	96,113,345
Change in net unrealized appreciation/depreciation	(208,463,473)	188,526
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>(255,987,428)</i>	<i>100,316,381</i>
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):		
Net investment income	(6,133,652)	(248,702)
Net realized gains	(90,051,127)	(46,195,662)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(96,184,779)</i>	<i>(46,444,364)</i>
INCREASE (DECREASE) IN NET ASSETS	(352,172,207)	53,872,017
NET ASSETS:		
Beginning of year	687,760,120	633,888,103
End of year*	\$ 335,587,913	\$687,760,120
* Includes undistributed net investment income of:	\$9,656,195	\$5,727,873

See Notes to Financial Statements.

Statement of cash flows**For the Year Ended October 31, 2008****CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:**

Interest and dividends received	\$	20,615,300
Operating expenses paid		(8,903,618)
Net purchases of short-term investments		6,858,850
Realized loss on foreign currency transactions		(12,103)
Realized gain on options		4,745,831
Realized gain on futures contracts		6,776,713
Realized gain on swap contracts		32,735
Net change in unrealized appreciation on futures contracts		872,757
Net change in unrealized depreciation on foreign currencies		(219,928)
Purchases of long-term investments		(1,155,645,766)
Proceeds from disposition of long-term investments		1,247,654,450
Premium for written swaps		2,860
Premium for written options		523,246
Change in receivable from broker variation margin		(405,252)
Change in payable for open forward currency contracts		(402,088)
Interest paid		(7,009,933)
<i>Net Cash Provided by Operating Activities</i>		<i>115,484,054</i>

CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:

Cash distributions paid on Common Stock		(96,184,779)
Paydown on loan		(25,000,000)
Due to custodian		4,194,074
Deposits with brokers for swap contracts		(450,002)
<i>Net Cash Flows Used By Financing Activities</i>		<i>(117,440,707)</i>
NET DECREASE IN CASH		(1,956,653)
Cash, Beginning of year		1,957,127
Cash, End of year	\$	474

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

Decrease in Net Assets From Operations	\$	(255,987,428)
Accretion of discount on investments		(1,547,020)
Amortization of premium on investments		120,553
Decrease in investments, at value		397,565,019
Decrease in payable for securities purchased		(28,575,088)
Increase in interest and dividends receivable		(2,071,506)
Increase in premium for written swaps		2,860
Increase in premium for written options		514,077
Decrease in receivable for securities sold		7,538,235
Decrease in payable for open forward currency contracts		(402,088)
Increase in receivable from broker variation margin		(405,252)
Decrease in prepaid expenses		4,770
Decrease in interest payable		(352,839)
Decrease in accrued expenses		(920,239)
<i>Total Adjustments</i>		<i>371,471,482</i>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$	115,484,054

See Notes to Financial Statements.

Financial highlights**FOR A SHARE OF CAPITAL STOCK OUTSTANDING THROUGHOUT EACH YEAR ENDED OCTOBER 31, UNLESS OTHERWISE NOTED:**

	2008 ¹	2007 ¹	2006 ¹	2005 ¹	2004 ^{1,2}
NET ASSET VALUE, BEGINNING OF YEAR	\$22.95	\$21.15	\$19.69	\$18.64	\$19.06 ³
INCOME (LOSS) FROM OPERATIONS:					
Net investment income	0.31	0.13	0.48	0.69	0.37
Net realized and unrealized gain (loss)	(8.85)	3.22	2.18	1.52	(0.19)
<i>Total income (loss) from operations</i>	<i>(8.54)</i>	<i>3.35</i>	<i>2.66</i>	<i>2.21</i>	<i>0.18</i>
<i>Gain from Repurchase of Treasury Stock</i>				<i>0.04</i>	
LESS DISTRIBUTIONS FROM:					
Net investment income	(0.20)	(0.01)	(0.55)	(0.98)	(0.40)
Net realized gains	(3.01)	(1.54)	(0.65)	(0.22)	
Return of capital					(0.20)
<i>Total distributions</i>	<i>(3.21)</i>	<i>(1.55)</i>	<i>(1.20)</i>	<i>(1.20)</i>	<i>(0.60)</i>
NET ASSET VALUE, END OF YEAR	\$11.20	\$22.95	\$21.15	\$19.69	\$18.64
MARKET PRICE, END OF YEAR	\$9.07	\$19.88	\$18.19	\$17.19	\$17.24
<i>Total return, based on NAV^{4,5}</i>	<i>(42.09)%</i>	<i>16.32%</i>	<i>13.89%</i>	<i>12.34%</i>	<i>1.06%</i>
<i>Total return, based on Market Price⁵</i>	<i>(44.95)%</i>	<i>18.22%</i>	<i>13.24%</i>	<i>6.85%</i>	<i>(10.74)%</i>
NET ASSETS, END OF YEAR (000s)	\$335,588	\$687,760	\$633,888	\$637,654	\$614,324
RATIOS TO AVERAGE NET ASSETS:					
Gross expenses	2.72%	3.03% ⁶	3.13%	2.45%	1.54% ⁷
Gross expenses, excluding interest expense and dividend expense	1.46	1.42 ⁶	1.33	1.23	1.15 ⁷
Net expenses	2.72 ⁸	3.03 ^{6,9}	3.13 ⁹	2.45	1.54 ⁷
Net expenses, excluding interest expense and dividend expense	1.46 ⁸	1.42 ^{6,9}	1.33 ⁹	1.23	1.15 ⁷
Net investment income	1.73	0.60	2.33	3.55	2.97 ⁷
PORTFOLIO TURNOVER RATE	169% ¹⁰	180%	193%	64%	39%
AUCTION RATE PREFERRED STOCK:					
SUPPLEMENTAL DATA:					
Loans Outstanding, End of Year (000s)	\$145,000	\$170,000	\$220,000	\$220,000	\$220,000
Asset Coverage for Loan Outstanding	331%	505%	388%	390%	379%
Weighted Average Loan (000s)	\$168,497	\$181,370	\$220,000	\$220,000	\$105,783
Weighted Average Interest Rate on Loans	3.89%	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 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.

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- 7 Annualized.
- 8 The impact to the expense ratio was less than 0.01% as a result of fees paid indirectly.
- 9 Reflects fee waivers and/or expense reimbursements.
- 10 Excluding mortgage dollar roll transactions. If mortgage dollar roll transactions had been included, the portfolio turnover rate would have been 177% for the year ended October 31, 2008.

See Notes to Financial Statements.

LMP Capital and Income Fund Inc. 2008 Annual Report **35**

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) 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.

(d) 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 in value 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. For foreign currency denominated futures contracts, variation margins are not settled daily. The Fund recognizes an unrealized gain or loss equal to the fluctuation in the value. 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*

(e) 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.

(f) Short sales of securities. 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 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.

(g) Swap contracts. Swaps involve the exchange by the Fund with another party of the respective amounts payable with respect to a notional principal amount related to one or more indices or securities. The Fund may enter into these transactions to preserve a return or spread on a particular investment or portion of its assets, as a duration management technique, or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund may also use these transactions for speculative purposes, such as to obtain the price performance of a security without actually purchasing the security in circumstances where, for example, the subject security is illiquid, is unavailable for direct investment or available only on less attractive terms.

Swaps are marked-to-market daily based upon quotations from market makers and the change in value, if any, is recorded as an unrealized gain or loss in the Statement of Operations. Net receipts or payments of interest are recorded as realized gains or losses, respectively.

Swaps have risks associated with them, including possible default by the counterparty to the transaction, illiquidity and, where swaps are used as hedges, the risk that the use of a swap could result in losses greater than if the swap had not been employed.

(h) Credit default swaps. The Fund may enter into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate issuers or sovereign issuers of an emerging country, on a specified obligation. The Fund may use a CDS to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where a Fund has exposure to the sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a fixed rate of income throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will pay to the buyer of the protection an amount up to the notional value of the swap, and in certain instances take delivery of the security. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Payments received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities. These upfront payments are recorded as realized gain or loss on the Statement of Operations and are amortized over the life of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Fund are recorded as realized gain or loss on the Statement of Operations.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

(i) 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

Notes to financial statements *continued*

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.

(j) 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 typically 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 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.

(k) 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.

(l) 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.

(m) 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 practicable 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.

(n) 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 at 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, 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.

(o) Distributions to shareholders. Distributions from net investment income for the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, which 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 is less than the amount of the distribution, the difference will be distributed from the Fund's assets (and constitute a return of capital). The

Notes to financial statements continued

Board of Directors may modify, 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 modification, termination or suspension could have an adverse effect on the market price for Fund's shares. Distributions are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

Effective in 2009, the Fund will pay distributions quarterly beginning with the quarter ended March 2009.

(p) Fees paid indirectly. The Fund's custody fees are reduced according to a fee arrangement, which provides for a reduction based on the level of cash deposited with the custodian by the Fund. If material, the amount is shown as a reduction of expenses on the Statement of Operations.

(q) 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, 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. The Fund paid \$1,321,440 of Federal excise taxes attributable to calendar year 2007 in March 2008. The fund does not anticipate being subject to an excise tax for calendar year 2008. Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years and has concluded that as of October 31, 2008, no provision for income tax would be required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

(r) 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 LOSS	PAID-IN CAPITAL
(a)	\$606,545		
(b)	169,399	\$(169,399)	\$(606,545)

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- (a) Reclassifications are primarily due to a non-deductible excise tax accrued 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, book/tax differences in the treatment of swap contracts and book/tax differences in the treatment of distributions.

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2. Investment management agreement and other transactions with affiliates

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).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays 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 has delegated 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. In turn, Western Asset pays Western Asset Limited a subadvisory fee of 0.30% on the assets managed by Western Asset Limited.

During periods in which the Fund is utilizing leverage, the fees which are payable to LMPFA 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.

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, 2008, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S Government & Agency Obligations were as follows:

	INVESTMENTS	U.S. GOVERNMENT & AGENCY OBLIGATIONS
Purchases	\$ 958,563,892	\$117,565,622
Sales	1,012,350,444	163,667,474

Notes to financial statements continued

At October 31, 2008, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 1,557,411
Gross unrealized depreciation	(183,525,270)
Net unrealized depreciation	\$(181,967,859)

During the year ended October 31, 2008, written option transactions for the Fund were as follows:

	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
Written options, outstanding October 31, 2007	10	\$ 9,169
Options written	20,545	5,208,896
Options closed	(17,783)	(4,550,187)
Options expired	(699)	(144,632)
Written options, outstanding October 31, 2008	2,073	\$ 523,246

At October 31, 2008, the Fund had the following open forward foreign currency contracts:

FOREIGN CURRENCY	LOCAL CURRENCY	MARKET VALUE	SETTLEMENT DATE	UNREALIZED GAIN(LOSS)
Contracts to buy:				
British Pound	808,000	\$1,304,799	11/5/08	\$ (6,989)
Euro	1,320,254	1,679,954	11/5/08	(392,673)
Euro	2,830,000	3,601,027	11/5/08	(41,749)
Japanese Yen	72,660,000	739,493	11/5/08	64,214
Euro	5,320,192	6,761,694	12/4/08	(1,073,352)
Swedish Krona	49,111,284	6,333,320	12/4/08	(1,223,425)
Swiss Franc	4,428,000	3,814,348	12/4/08	(302,309)
Euro	1,320,254	1,676,272	2/3/09	(76,075)
Japanese Yen	72,660,000	742,614	2/3/09	1,186
				(3,051,172)
Contracts to sell:				
British Pound	808,000	\$1,304,799	11/5/08	\$ 285,345
Euro	2,830,000	3,601,027	11/5/08	796,793
Euro	1,320,254	1,679,954	11/5/08	75,984
Japanese Yen	72,660,000	739,493	11/5/08	(4,068)
Euro	5,320,192	6,761,694	12/4/08	838,306
Swedish Krona	49,111,284	6,333,320	12/4/08	1,066,680
Swiss Franc	4,428,000	3,814,348	12/4/08	185,652
British Pound	808,000	1,299,030	2/3/09	7,506
Euro	2,830,000	3,593,134	2/3/09	43,416
Japanese Yen	72,350,000	739,446	2/3/09	24,586
				3,320,200

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Net unrealized gain on open forward foreign currency
contracts

\$ 269,028

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At October 31, 2008, the Fund had the following open futures contracts:

	NUMBER OF CONTRACTS	EXPIRATION DATE	BASIS VALUE	MARKET VALUE	UNREALIZED GAIN(LOSS)
Contracts to Buy:					
90 Day Eurodollar	139	3/09	\$33,471,895	\$33,978,550	\$ 506,655
90 Day Eurodollar	14	6/09	3,420,938	3,415,300	(5,638)
90 Day Eurodollar	46	9/09			