

LMP CAPITAL & INCOME FUND INC.
Form N-CSRS
August 26, 2011

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)

620 Eight Avenue, New York, NY
(Address of principal executive offices)

10018
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

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

Registrant's telephone number, including area code: (888)777-0102

Date of fiscal year end: December 31

Date of reporting period: June 30, 2011

ITEM 1. REPORT TO STOCKHOLDERS.

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

June 30, 2011

Semi-Annual Report

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

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
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LMP Capital and Income Fund Inc.

Fund objective

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

What's inside

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Letter from the chairman

Dear Shareholder,

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We are pleased to provide the semi-annual report of LMP Capital and Income Fund Inc. for the six-month reporting period ended June 30, 2011. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.leggmason.com/cef. Here you can gain immediate access to market and investment information, including:

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

Special shareholder notices

Increased managed distribution rate and Fund repositioning

In late May 2011, the Fund announced an increased quarterly managed distribution rate of \$0.28 per share payable September 30, 2011 (to shareholders of record as of September 23, 2011), as well as a repositioning of its equity portfolio. In declaring the new rate, the Fund cited a repositioning of its equity assets, which ClearBridge Advisors, LLC (ClearBridge), the Fund's equity subadvisor, believes is likely to increase the level of income available from the Fund's equity investments. The Fund's equity allocation will be repositioned to include a broader range of higher-yielding securities such as real estate investment trusts (REITs) and master limited partnerships (MLPs). The Fund may increase its international exposure and may opportunistically employ other techniques such as option writing. The Fund continues to utilize 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.

LMP Capital and Income Fund Inc.

While the quarterly distributions are anticipated to be derived from a combination of net investment income and potential short- and long-term capital gains, these managed distributions also may include a return of capital. A return of capital is generally not taxable; however, under certain circumstances, a return of capital may be deemed to be a taxable distribution to shareholders. 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.

Equity team changes

As part of the repositioning, the Fund announced changes to the ClearBridge portfolio management team that is responsible for the day-to-day management of the Fund's equity assets and for the allocation of the Fund's assets between equity and fixed-income investments effective immediately. The portfolio management team consists of Peter Vanderlee, CFA, Mark McAllister, CFA, Tim Daubenspeck and Tatiana Thibodeau. Mr. Vanderlee continues to be responsible for the Fund's asset allocation and will focus on dividend-paying securities. Other members of the portfolio management team will focus on their respective areas of investment expertise: Mr. McAllister on REITs, Mr. Daubenspeck on telecommunications, and Ms. Thibodeau on utilities. The portfolio management team from Western Asset Management Company will continue to be responsible for the Fund's fixed-income investments and there are no changes to its portfolio management team.

Tender offer program

In March 2011, the Fund's Board of Directors approved a tender offer for up to 30% of the Fund's outstanding shares of common stock. In addition, upon the prior occurrence of certain events as set forth below as well as certain other terms and conditions, the Fund's Board of Directors also approved three subsequent quarterly conditional tender offers of up to 5% of the outstanding shares of common stock. All tender offers will be conducted at a price equal to at least 98% of the Fund's net asset value (NAV) per share on the dates the tender offers expire.

The Fund commenced its initial tender offer of up to 30% of the Fund's common stock, equivalent to up to 8,989,232 shares of its issued and outstanding shares of common stock on June 1, 2011. The offer expired at 5:00 p.m., New York time, on June 30, 2011. On July 7, 2011, the Fund announced that it had accepted 8,989,232 shares for payment at \$14.15 per share. These shares represent approximately 30% of the Fund's outstanding shares.

A total of 16,711,593 were properly tendered and not withdrawn by June 30, 2011, the final date for withdrawals. As more than 8,989,232 shares were tendered, the tender offer was oversubscribed. Therefore, the Fund purchased shares from tendering stockholders on a pro-rata basis (disregarding fractional shares), in accordance with the terms and conditions specified in the Offer to Purchase. Accordingly, on a pro rata basis, 53.790% of shares for each stockholder who properly tendered shares were accepted for payment. The Fund transmitted payment to purchase the duly tendered and accepted shares on July 8, 2011.

The Fund's three subsequent tender offers are conditioned on the failure to meet certain threshold requirements related to the discount at which the Fund's shares trade from their NAV during a thirty-calendar day measuring

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LMP Capital and Income Fund Inc.

Letter from the chairman (cont d)

period (measuring period). If the Fund's shares have traded at a market price that represents an average daily discount from NAV of more than 5%, the Fund will commence a tender offer on the first day of the month following the end of the measuring period for up to 5% of outstanding common stock at a price equal to at least 98% of the Fund's NAV on the date each of these three respective tender offers expires. The measuring periods for the three conditional tenders will be July 20 to August 19, 2011, October 19 to November 18, 2011 and January 19 to February 18, 2012, respectively. The average of the Fund's daily premium or discount to NAV for each trading day in the applicable measuring period will be the percentage difference between the NAV and the volume-weighted average price (VWAP) of the Fund on each trading day during such measuring period.

If the Fund's market price is discounted to its NAV by 5% or less during the measuring period, the Fund will not commence a tender offer during that quarter or in any subsequent quarters.

Further information about the initial tender offer, and any subsequent tender offers, will be announced by press release. The tender offers will be made and shareholders will be notified in accordance with the requirements of the Securities Exchange Act of 1934, as amended, and the Investment Company Act of 1940, as amended, either by publication or mailing or both.

The Fund also announced that, pursuant to a previously announced repurchase program of up to 1,000,000 shares of the Fund's common stock, the Fund may repurchase shares of its common stock in the open market, including during measuring periods for the conditional tenders, if it is deemed to be in the best interests of the Fund's shareholders.

This notice is not an offer to purchase or a solicitation of an offer to buy shares of the Fund. The tender offers will be made only by an Offer to Purchase and the related Letter of Transmittal. As soon as each tender offer commences, the Fund will file a tender offer statement with the Securities and Exchange Commission (SEC). When available, shareholders of the Fund should read these documents because they contain important information. Shareholders may obtain free of charge, when available, the Offer to Purchase and Letter of Transmittal from the website of the SEC (www.sec.gov). The Fund will also make available to its shareholders, without charge, the Offer to Purchase and Letter of Transmittal. The offer is not being made to, nor will tenders be accepted from or on behalf of, holders of shares in any jurisdiction in which making or accepting the offer would violate that jurisdiction's laws.

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and
Chief Executive Officer

July 29, 2011

i Real estate investment trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

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

LMP Capital and Income Fund Inc.

Investment commentary**Economic review**

Although the U.S. economy continued to grow over the six months ended June 30, 2011, the pace of the expansion was disappointing, which resulted in a significant shift in investor sentiment. During the first half of the period, there were expectations of a strengthening economy and generally robust investor risk appetite. However, as the reporting period progressed, weakening economic data triggered a flight to quality as investor risk aversion increased. Despite giving back a portion of their previous gains in late May and June, investors who took on additional risk in their portfolios during the reporting period were generally rewarded.

U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, has been less robust than previously realized during most other periods exiting a severe recession. Revised GDP growth was 2.3% during the fourth quarter of 2010 and 3.0% for calendar 2010 as a whole. The Commerce Department then reported that first and second quarter 2011 GDP growth were 0.4% and 1.3%, respectively. This moderation in growth during the first half of the year was due to a variety of factors, including less robust export activity, a decline in government spending and a deceleration in consumer spending given higher oil and food prices.

Turning to the job market, while there was some improvement in the first half of the reporting period, unemployment again moved higher from April through June. After being 9.0% or higher since April 2009, the unemployment rate fell to 8.9% in February and 8.8% in March 2011. The job market then weakened, as unemployment rose to 9.0% in April, 9.1% in May and 9.2% in June. As of the end of the reporting period, approximately 14.1 million Americans looking for work had yet to find a job, and roughly 44% of these individuals have been out of work for more than six months. In June 2011, the Federal Reserve Board (Fed) projected that unemployment would moderate, but that it would remain elevated and between 7.8% and 8.2% at the end of 2012.

The long-ailing housing market continued to show signs of strain during the reporting period. Looking back, sales increased in the spring of 2010 largely due to the government's \$8,000 tax credit for first-time home buyers. This proved to be only a temporary boost, as sales subsequently weakened after the tax credit expired at the end of April. Existing-home sales did rebound somewhat toward the end of 2010 and in January 2011, as mortgage rates remained relatively low. However, according to the National Association of Realtors (NAR), existing-home sales then declined a sharp 8.9% in February. After a 3.5% increase in March, existing-home sales fell 1.8%, 4.0% and 0.8% in April, May and June, respectively. At the end of June, the inventory of unsold homes was a 9.5 month supply at the current sales level, versus a 9.1 month supply in May. Existing-home prices were relatively stagnant versus a year ago, with the NAR reporting that the median existing-home price for all housing types was \$184,300 in June 2011, up 0.8% from June 2010.

Even the manufacturing sector, one of the stalwarts of the economy in recent years, softened toward the end of the reporting period. Based on the Institute for Supply Management's PMI, the manufacturing sector grew twenty-three consecutive months since it began expanding in August 2009 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates

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LMP Capital and Income Fund Inc.

Investment commentary (cont d)

an expansion). In January 2011, the manufacturing sector expanded at its fastest pace since May 2004, with a reading of 60.8 versus 58.5 for the previous month. Manufacturing activity remained strong during the next three months and was 60.4 in April. However, it then declined to 53.5 in May, the lowest reading in the past twelve months. This was attributed, in part, to supply disruptions triggered by the March earthquake and tsunami in Japan. Manufacturing activity then moved modestly higher in June to 55.3, although only twelve of the eighteen industries tracked by the Institute for Supply Management expanded during the month.

Financial market overview

While stocks and lower-quality bonds generated solid results during the reporting period, there were several periods of heightened volatility and periodic sell-offs. These were triggered by a variety of factors, including concerns regarding the global economy, geopolitical unrest, the natural disasters in Japan and the ongoing European sovereign debt crisis. During those periods, investors tended to favor the relative safety of U.S. Treasury securities. However, these setbacks proved to be only temporary and risk aversion was generally replaced with solid demand for riskier assets.

The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. In November 2010, prior to the beginning of the reporting period, the Fed announced a second round of quantitative easing (often referred to as QE2) to help stimulate the economy, entailing the purchase of \$600 billion of long-term U.S. Treasury securities by the end of the second quarter of 2011. Also, as has been the case since December 2008, the Fed kept the federal funds rate at a historically low range between 0 and 1/4 percent.

Despite these efforts, at its meeting in June 2011, the Fed said, "Information received since the Federal Open Market Committee met in April indicates that the economic recovery is continuing at a moderate pace, though somewhat more slowly than the Committee had expected. . . . To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent. The Committee continues to anticipate that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate for an extended period."

In June, the Fed also announced that it would complete QE2 on schedule at the end of June. However, given ongoing strains in the economy, it made no overtures toward reversing any of its accommodative policies and the Fed said it would maintain its existing policy of reinvesting principal payments from its securities holdings rather than seeking to reduce the size of its balance sheet.

Equity market review

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U.S. stock prices, as measured by the S&P 500 Index (the Index), moved higher during the reporting period. The market got off to a strong start in January and February 2011, as the Index returned 2.37% and 3.43%, respectively. Fueling the market's ascent was optimism for the global economy and corporate profits that generally exceeded expectations. Despite geopolitical

LMP Capital and Income Fund Inc.

unrest in the Middle East, and the devastating earthquake and tsunami in Japan, the market demonstrated resiliency in March and April, with the Index gaining 0.04% and 2.96%, respectively. The market took a step backward in May as the Index fell 1.13% amid concerns for the economy and future corporate profits. Stock prices then declined 1.67% in June due to weaker-than-expected economic data and a further escalation of the European sovereign debt crisis. All told, the Index returned 6.02% over the reporting period.

Fixed income market review

While volatility was elevated at times, the U.S. spread sectors (non-Treasuries) produced positive results during the reporting period. As was the case for much of 2010, the spread sectors generally outperformed equal-duration Treasuries during the first four months of the reporting period. A combination of positive economic growth, benign core inflation, rising corporate profits and overall robust investor demand supported the spread sectors from January through April 2011. Investor sentiment then began to shift in May, as optimism about the economic expansion waned and investor risk appetite started to be replaced with increased risk aversion. While the U.S. spread sectors generally posted positive results in May, they underperformed equal-duration Treasuries. Risk aversion then increased in June given a host of disappointing economic data and a further escalation of the European sovereign debt crisis. Against this backdrop, the spread sectors generated relatively poor results during most of June as investors fled the spread sectors in favor of Treasury securities.

Both short- and long-term Treasury yields fluctuated during the six months ended June 30, 2011. When the period began, two- and ten-year Treasury yields were 0.61% and 3.30%, respectively. Yields initially moved higher given expectations for stronger growth in 2011 and the potential for rising inflation. On February 14, 2011, two-year Treasury yields peaked at 0.87%, while ten-year Treasuries peaked at 3.75% on February 8, 2011. Treasury yields then declined as investor risk aversion increased given the uprising in Libya and, later, due to the tragic events in Japan. Yields briefly moved higher toward the end of March, but then generally declined from April through June given weakening economic data and periodic flights to quality. In late June, two- and ten-year Treasury yields bottomed at 0.35% and 2.88%, respectively, and ended the period at 0.45% and 3.18%, respectively. For the six months ended June 30, 2011, the Barclays Capital U.S. Aggregate Index^{vii} returned 2.72%.

Performance review

For the six months ended June 30, 2011, LMP Capital and Income Fund Inc. returned 8.43% based on its net asset value (NAV)^{viii} and 12.68% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays Capital U.S. Aggregate Index and the S&P 500 Index, returned 2.72% and 6.02%, respectively, over the same time frame. The Lipper Income and Preferred Stock Closed-End Funds Category Average^{ix} returned 7.73% for the same period. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.30 per share, which may have included a return of capital. The performance table on the following page

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LMP Capital and Income Fund Inc.

Investment commentary (continued)

shows the Fund's six-month total return based on its NAV and market price as of June 30, 2011. **Past performance is no guarantee of future results.**

Performance Snapshot as of June 30, 2011 (unaudited)

Price Per Share	6-Month Total Return*
\$14.54 (NAV)	8.43%
\$13.72 (Market Price)	12.68%

All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.

* Total returns are based on changes in NAV or market price, respectively.

Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV.

Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

Looking for additional information?

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

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

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As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and
Chief Executive Officer

July 29, 2011

RISKS: *Stock and bond prices are subject to fluctuation. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. These risks are magnified in emerging or developing markets. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. The repositioning of the Fund's portfolio may increase a shareholder's risk of loss associated with an investment in the Fund's shares. 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 investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

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.

LMP Capital and Income Fund Inc.

- 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 Institute for Supply Management 's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- v The 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.
- vi 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.
- vii The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- viii Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund 's market price as determined by supply of and demand for the Fund 's shares.
- ix Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended June 30, 2011, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 25 funds in the Fund 's Lipper category.

LMP Capital and Income Fund Inc. 2011 Semi-Annual Report

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of June 30, 2011 and December 31, 2010 and does not include derivatives, such as written options, futures contracts, options on futures and swap contracts. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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LMP Capital and Income Fund Inc. 2011 Semi-Annual Report

Schedule of investments (unaudited)

June 30, 2011

LMP Capital and Income Fund Inc.

	Shares	Value
Security		
Common Stocks 65.1%		
Consumer Staples 1.1%		
Household Products 1.1%		
Kimberly-Clark Corp.	72,000	\$ 4,792,320
Energy 5.8%		
Energy Equipment & Services 1.6%		
Diamond Offshore Drilling Inc.	93,020	6,549,538
Oil, Gas & Consumable Fuels 4.2%		
Sandridge Mississippian Trust I	45,000	1,190,250
Total SA, ADR	288,000	16,657,920
Total Oil, Gas & Consumable Fuels		17,848,170
Total Energy		24,397,708
Financials 27.7%		
Capital Markets 1.0%		
Medley Capital Corp.	341,000	4,003,340
Real Estate Investment Trusts (REITs) 20.6%		
Annaly Capital Management Inc.	750,000	13,530,000
Campus Crest Communities Inc.		