

LMP CAPITAL & INCOME FUND INC.

Form N-Q

October 26, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-21467

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

620 Eighth Avenue, 49th Floor, 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: 1-888-777-0102

Date of fiscal year end: November 30

Date of reporting period: August 31, 2012

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ITEM 1.

SCHEDULE OF INVESTMENTS.

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**LMP CAPITAL AND INCOME FUND INC.**

FORM N-Q

AUGUST 31, 2012

## LMP CAPITAL AND INCOME FUND INC.

Schedule of investments (unaudited)

August 31, 2012

|                                                    | SHARES  | VALUE           |
|----------------------------------------------------|---------|-----------------|
| SECURITY                                           |         |                 |
| COMMON STOCKS 67.2%                                |         |                 |
| CONSUMER STAPLES 2.9%                              |         |                 |
| <b>Food Products 1.2%</b>                          |         |                 |
| H.J. Heinz Co.                                     | 60,000  | \$ 3,343,200    |
| <b>Household Products 1.7%</b>                     |         |                 |
| Kimberly-Clark Corp.                               | 53,000  | 4,430,800(a)    |
| TOTAL CONSUMER STAPLES                             |         | 7,774,000       |
| ENERGY 2.3%                                        |         |                 |
| <b>Energy Equipment &amp; Services 2.3%</b>        |         |                 |
| Diamond Offshore Drilling Inc.                     | 93,020  | 6,234,200(a)    |
| FINANCIALS 25.4%                                   |         |                 |
| <b>Capital Markets 2.9%</b>                        |         |                 |
| Medley Capital Corp.                               | 584,200 | 7,647,178(a)    |
| <b>Real Estate Investment Trusts (REITs) 22.5%</b> |         |                 |
| American Capital Agency Corp.                      | 175,000 | 6,097,000(a)    |
| Annaly Capital Management Inc.                     | 622,000 | 10,766,820(a)   |
| CommonWealth REIT                                  | 35,680  | 534,129         |
| DCT Industrial Trust Inc.                          | 150,000 | 948,000         |
| Entertainment Properties Trust                     | 41,000  | 1,869,190(a)    |
| Excel Trust Inc.                                   | 131,000 | 1,537,940(a)    |
| Hatteras Financial Corp.                           | 246,000 | 7,131,540(a)    |
| HCP Inc.                                           | 41,000  | 1,880,260(a)    |
| Health Care REIT Inc.                              | 27,000  | 1,577,880(a)    |
| Highwoods Properties Inc.                          | 26,000  | 847,860(a)      |
| Hospitality Properties Trust                       | 119,000 | 2,864,330(a)    |
| Inland Real Estate Corp.                           | 185,000 | 1,517,000(a)    |
| Kilroy Realty Corp.                                | 24,000  | 1,133,040(a)    |
| Liberty Property Trust                             | 49,000  | 1,807,120(a)    |
| Mack-Cali Realty Corp.                             | 58,000  | 1,548,600(a)    |
| OMEGA Healthcare Investors Inc.                    | 90,000  | 2,161,800(a)    |
| Primaris Retail Real Estate Investment Trust       | 46,000  | 1,112,960(a)    |
| Ramco-Gershenson Properties Trust                  | 132,000 | 1,710,720(a)    |
| Regency Centers Corp.                              | 22,000  | 1,078,000(a)    |
| Senior Housing Properties Trust                    | 50,000  | 1,106,000(a)    |
| Starwood Property Trust Inc.                       | 190,000 | 4,474,500(a)    |
| Urstadt Biddle Properties, Class A Shares          | 85,000  | 1,657,500(a)    |
| Westfield Group                                    | 439,000 | 4,497,080(a)(b) |
| <i>Total Real Estate Investment Trusts (REITs)</i> |         | 59,859,269      |
| TOTAL FINANCIALS                                   |         | 67,506,447      |
| HEALTH CARE 4.7%                                   |         |                 |
| <b>Pharmaceuticals 4.7%</b>                        |         |                 |
| Bristol-Myers Squibb Co.                           | 145,000 | 4,786,450(a)    |
| GlaxoSmithKline PLC, ADR                           | 131,000 | 5,959,190(a)    |
| Pfizer Inc.                                        | 71,000  | 1,694,060       |
| TOTAL HEALTH CARE                                  |         | 12,439,700      |
| INDUSTRIALS 6.1%                                   |         |                 |

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|                                                  |         |              |
|--------------------------------------------------|---------|--------------|
| <b>Aerospace &amp; Defense 2.0%</b>              |         |              |
| Lockheed Martin Corp.                            | 60,000  | 5,468,400(a) |
| <b>Machinery 1.2%</b>                            |         |              |
| Eaton Corp.                                      | 69,000  | 3,085,680    |
| <b>Trading Companies &amp; Distributors 2.9%</b> |         |              |
| TAL International Group Inc.                     | 226,000 | 7,686,260(a) |
| TOTAL INDUSTRIALS                                |         | 16,240,340   |
| <b>INFORMATION TECHNOLOGY 2.4%</b>               |         |              |
| <b>Computers &amp; Peripherals 2.4%</b>          |         |              |
| Seagate Technology PLC                           | 195,000 | 6,241,950    |

*See Notes to Schedule of Investments.*

## LMP CAPITAL AND INCOME FUND INC.

Schedule of investments (unaudited) (cont d)

August 31, 2012

|                                                        | SHARES  | VALUE             |
|--------------------------------------------------------|---------|-------------------|
| SECURITY                                               |         |                   |
| TELECOMMUNICATION SERVICES 16.5%                       |         |                   |
| <b>Diversified Telecommunication Services 11.9%</b>    |         |                   |
| AT&T Inc.                                              | 185,000 | \$ 6,778,400(a)   |
| CenturyLink Inc.                                       | 262,000 | 11,072,120(a)     |
| Verizon Communications Inc.                            | 146,000 | 6,269,240(a)      |
| Windstream Corp.                                       | 757,470 | 7,476,229(a)      |
| <i>Total Diversified Telecommunication Services</i>    |         | <i>31,595,989</i> |
| <b>Wireless Telecommunication Services 4.6%</b>        |         |                   |
| Vodafone Group PLC, ADR                                | 420,000 | 12,146,400(a)     |
| TOTAL TELECOMMUNICATION SERVICES                       |         | 43,742,389        |
| UTILITIES 6.9%                                         |         |                   |
| <b>Electric Utilities 3.7%</b>                         |         |                   |
| Great Plains Energy Inc.                               | 461,132 | 9,831,334         |
| <b>Multi-Utilities 3.2%</b>                            |         |                   |
| Integrus Energy Group Inc.                             | 68,000  | 3,671,320(a)      |
| National Grid PLC                                      | 445,000 | 4,825,763(a)(b)   |
| <i>Total Multi-Utilities</i>                           |         | <i>8,497,083</i>  |
| TOTAL UTILITIES                                        |         | 18,328,417        |
| TOTAL COMMON STOCKS (Cost \$160,442,093)               |         | 178,507,443       |
|                                                        | RATE    |                   |
| CONVERTIBLE PREFERRED STOCKS                           |         |                   |
| 13.6%                                                  |         |                   |
| FINANCIALS 4.4%                                        |         |                   |
| <b>Insurance 2.1%</b>                                  |         |                   |
| MetLife Inc.                                           | 5.000%  | 81,000            |
| <b>Real Estate Investment Trusts (REITs) 2.3%</b>      |         | 5,462,640(a)      |
| Health Care REIT Inc.                                  | 6.500%  | 110,000           |
| TOTAL FINANCIALS                                       |         | 6,105,000(a)      |
| INDUSTRIALS 1.4%                                       |         | 11,567,640        |
| <b>Industrial Conglomerates 1.4%</b>                   |         |                   |
| United Technologies Corp.                              | 7.500%  | 64,000            |
| UTILITIES 7.8%                                         |         | 3,572,480*        |
| <b>Electric Utilities 7.8%</b>                         |         |                   |
| NextEra Energy Inc.                                    | 7.000%  | 230,010           |
| PPL Corp.                                              | 9.500%  | 155,000           |
| TOTAL UTILITIES                                        |         | 12,351,537(a)     |
| TOTAL CONVERTIBLE PREFERRED STOCKS (Cost \$34,687,531) |         | 8,470,750(a)      |
| MASTER LIMITED PARTNERSHIPS 30.7%                      |         | 20,822,287        |
| Diversified Energy Infrastructure 11.3%                |         | 35,962,407        |
| Energy Transfer Equity LP                              | 332,000 | 14,591,400(a)     |
| Enterprise Products Partners LP                        | 212,160 | 11,329,344(a)     |
| Genesis Energy LP                                      | 73,000  | 2,359,360         |
| Williams Partners LP                                   | 30,000  | 1,547,400         |
| Total Diversified Energy Infrastructure                |         | 29,827,504        |
| Exploration & Production 4.3%                          |         |                   |

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|                              |         |               |
|------------------------------|---------|---------------|
| Linn Energy LLC              | 289,000 | 11,490,640(a) |
| Gathering/Processing 7.1%    |         |               |
| Access Midstream Partners LP | 60,000  | 1,807,800     |
| Copano Energy LLC            | 70,000  | 2,148,300     |
| DCP Midstream Partners LP    | 135,021 | 5,824,806(b)  |
| EQT Midstream Partners LP    | 150,500 | 4,132,730*    |

*See Notes to Schedule of Investments.*

**LMP CAPITAL AND INCOME FUND INC.**

Schedule of investments (unaudited) (cont d)

August 31, 2012

| SECURITY                                              | SHARES  | VALUE        |
|-------------------------------------------------------|---------|--------------|
| Gathering/Processing continued                        |         |              |
| MarkWest Energy Partners LP                           | 45,000  | \$ 2,389,500 |
| Western Gas Partners LP                               | 55,000  | 2,626,250    |
| Total Gathering/Processing                            |         | 18,929,386   |
| Liquids Transportation & Storage 6.6%                 |         |              |
| Buckeye Partners LP                                   | 95,000  | 4,694,900(a) |
| Enbridge Energy Partners LP                           | 105,000 | 3,093,300    |
| Magellan Midstream Partners LP                        | 15,000  | 1,244,550    |
| NuStar GP Holdings LLC                                | 75,000  | 2,285,250    |
| Plains All American Pipeline LP                       | 26,000  | 2,249,780    |
| Sunoco Logistics Partners LP                          | 47,000  | 2,192,550    |
| Tesoro Logistics LP                                   | 38,000  | 1,655,660    |
| Total Liquids Transportation & Storage                |         | 17,415,990   |
| Other 0.7%                                            |         |              |
| PVR Partners LP                                       | 80,080  | 1,950,749    |
| Shipping 0.7%                                         |         |              |
| Golar LNG Partners LP                                 | 61,000  | 1,940,715    |
| TOTAL MASTER LIMITED PARTNERSHIPS (Cost \$78,947,291) |         | 81,554,984   |

|                                                                   | RATE   |         |            |
|-------------------------------------------------------------------|--------|---------|------------|
| PREFERRED STOCKS 1.6%                                             |        |         |            |
| FINANCIALS 1.6%                                                   |        |         |            |
| <b>Real Estate Investment Trusts (REITs) 1.6%</b>                 |        |         |            |
| Ashford Hospitality Trust, Series E                               | 9.000% | 33,661  | 911,203(a) |
| Glimcher Realty Trust, Series G                                   | 8.125% | 5,476   | 138,926    |
| Glimcher Realty Trust, Series H                                   | 7.500% | 34,000  | 868,360*   |
| Pebblebrook Hotel Trust, Series A                                 | 7.875% | 31,112  | 815,134(a) |
| Sunstone Hotel Investors Inc.                                     | 8.000% | 3,330   | 86,780     |
| Sunstone Hotel Investors Inc.,<br>Cumulative Redeemable, Series A | 8.000% | 58,246  | 1,479,594  |
| TOTAL PREFERRED STOCKS (Cost \$4,130,409)                         |        |         | 4,299,997  |
| ROYALTY TRUSTS 1.6%                                               |        |         |            |
| Exploration & Production 1.6%                                     |        |         |            |
| Sandridge Mississippian Trust I                                   |        | 32,000  | 801,600(a) |
| SandRidge Mississippian Trust II                                  |        | 131,000 | 2,726,110  |
| SandRidge Permian Trust                                           |        | 42,000  | 839,160    |
| TOTAL ROYALTY TRUSTS (Cost \$4,315,252)                           |        |         | 4,366,870  |

|                                                     |        | MATURITY<br>DATE | FACE<br>AMOUNT |           |
|-----------------------------------------------------|--------|------------------|----------------|-----------|
| ASSET-BACKED SECURITIES                             |        |                  |                |           |
| 0.2%                                                |        |                  |                |           |
| Asset-Backed Funding Certificates,<br>2004-FF1 M2   | 2.411% | 1/25/34          | \$ 225,345     | 19,813(c) |
| Countrywide Asset-Backed<br>Certificates, 2004-5 M4 | 1.486% | 6/25/34          | 126,652        | 45,973(c) |



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|                                                        |        |          |         |               |
|--------------------------------------------------------|--------|----------|---------|---------------|
| Finance America Net Interest Margin Trust,<br>2004-1 A | 5.250% | 6/27/34  | 73,417  | 1(d)(e)(f)    |
| Fremont Home Loan Trust, 2004-1<br>M5                  | 1.886% | 2/25/34  | 110,930 | 58,536(c)     |
| GSAMP Trust, 2004-OPT M3                               | 1.386% | 11/25/34 | 218,369 | 101,135(c)    |
| MASTR Specialized Loan Trust,<br>2007-2 A              | 0.586% | 5/25/37  | 341,377 | 189,480(c)(d) |
| Renaissance Home Equity Loan<br>Trust, 2003-4 M3       | 2.136% | 3/25/34  | 313,746 | 158,924(c)    |
| SAIL Net Interest Margin Notes,<br>2003-BC2A A         | 7.750% | 4/27/33  | 141,210 | 1(d)(e)(f)    |
| SAIL Net Interest Margin Notes,<br>2004-2A A           | 5.500% | 3/27/34  | 71,380  | 1(d)(e)(f)    |
| TOTAL ASSET-BACKED SECURITIES (Cost \$1,517,409)       |        |          |         | 573,864       |
| COLLATERALIZED MORTGAGE OBLIGATIONS                    | 0.4%   |          |         |               |
| Bear Stearns ARM Trust, 2005-12<br>24A1                | 5.481% | 2/25/36  | 92,609  | 73,616(c)     |

*See Notes to Schedule of Investments.*

**LMP CAPITAL AND INCOME FUND INC.**

Schedule of investments (unaudited) (cont d)

August 31, 2012

| SECURITY                                                                                                                                                                                                                                                                                                           | RATE            | MATURITY DATE | FACE AMOUNT | VALUE           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------|-------------|-----------------|
| COLLATERALIZED MORTGAGE OBLIGATIONS                                                                                                                                                                                                                                                                                | continued       |               |             |                 |
| Federal National Mortgage Association (FNMA), 2011-63 SW, IO                                                                                                                                                                                                                                                       | 6.445%          | 7/25/41       | \$ 70,569   | \$ 9,735(c)     |
| Merit Securities Corp., 11PA B2                                                                                                                                                                                                                                                                                    | 1.736%          | 9/28/32       | 69,768      | 68,281(c)(d)    |
| MLCC Mortgage Investors Inc., 2004-A B2                                                                                                                                                                                                                                                                            | 1.616%          | 4/25/29       | 234,932     | 108,072(c)      |
| MLCC Mortgage Investors Inc., 2004-B B2                                                                                                                                                                                                                                                                            | 1.556%          | 5/25/29       | 346,830     | 245,316(c)      |
| Washington Mutual Inc. Pass-Through Certificates, 2006-AR5 4A                                                                                                                                                                                                                                                      | 1.138%          | 6/25/46       | 487,992     | 237,971(c)      |
| Wells Fargo Alternative Loan Trust, 2007-PA2 2A1                                                                                                                                                                                                                                                                   | 0.666%          | 6/25/37       | 483,804     | 263,169(c)      |
| TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS (Cost                                                                                                                                                                                                                                                                    | \$1,437,734)    |               |             | 1,006,160       |
| CORPORATE BONDS & NOTES 8.9%                                                                                                                                                                                                                                                                                       |                 |               |             |                 |
| FINANCIALS 6.5%                                                                                                                                                                                                                                                                                                    |                 |               |             |                 |
| <b>Capital Markets 1.7%</b>                                                                                                                                                                                                                                                                                        |                 |               |             |                 |
| Charles Schwab Corp., Notes                                                                                                                                                                                                                                                                                        | 7.000%          | 2/1/22        | 4,000,000   | 4,502,000(c)(g) |
| <b>Diversified Financial Services 1.6%</b>                                                                                                                                                                                                                                                                         |                 |               |             |                 |
| PPL Capital Funding Inc., Junior Subordinated Notes                                                                                                                                                                                                                                                                | 6.700%          | 3/30/67       | 4,000,000   | 4,109,004(c)    |
| <b>Insurance 3.2%</b>                                                                                                                                                                                                                                                                                              |                 |               |             |                 |
| MetLife Inc., Junior Subordinated Debentures                                                                                                                                                                                                                                                                       | 6.400%          | 12/15/36      | 8,000,000   | 8,547,184(a)    |
| TOTAL FINANCIALS                                                                                                                                                                                                                                                                                                   |                 |               |             | 17,158,188      |
| UTILITIES 2.4%                                                                                                                                                                                                                                                                                                     |                 |               |             |                 |
| <b>Electric Utilities 2.4%</b>                                                                                                                                                                                                                                                                                     |                 |               |             |                 |
| NextEra Energy Capital Holding Inc., Junior Subordinated Notes                                                                                                                                                                                                                                                     | 6.350%          | 10/1/66       | 2,000,000   | 2,096,872(a)(c) |
| NextEra Energy Capital Holding Inc., Junior Subordinated Notes                                                                                                                                                                                                                                                     | 6.650%          | 6/15/67       | 4,000,000   | 4,249,340(a)(c) |
| TOTAL UTILITIES                                                                                                                                                                                                                                                                                                    |                 |               |             | 6,346,212       |
| TOTAL CORPORATE BONDS & NOTES (Cost                                                                                                                                                                                                                                                                                | \$21,358,123)   |               |             | 23,504,400      |
| TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost                                                                                                                                                                                                                                                              | \$306,835,842)  |               |             | 329,776,125     |
| SHORT-TERM INVESTMENTS 3.7%                                                                                                                                                                                                                                                                                        |                 |               |             |                 |
| <b>Repurchase Agreements 3.7%</b>                                                                                                                                                                                                                                                                                  |                 |               |             |                 |
| Interest in \$453,997,000 joint tri-party repurchase agreement dated 8/31/12 with Deutsche Bank Securities Inc.; Proceeds at maturity - \$9,878,220; (Fully collateralized by various U.S. government agency obligations, 0.310% to 5.355% due 9/9/13 to 5/1/29; Market value - \$10,075,570) (Cost - \$9,878,000) | 0.200%          | 9/4/12        | 9,878,000   | 9,878,000       |
| TOTAL INVESTMENTS 127.9% (Cost                                                                                                                                                                                                                                                                                     | \$316,713,842#) |               |             | 339,654,125     |
| Liabilities in Excess of Other Assets (27.9)%                                                                                                                                                                                                                                                                      |                 |               |             | (74,185,118)    |

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TOTAL NET ASSETS 100.0% \$ 265,469,007

- \* Non-income producing security.
- (a) All or a portion of this security is pledged as collateral pursuant to the loan agreement.
- (b) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).
- (c) Variable rate security. Interest rate disclosed is as of the most recent information available.
- (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) Illiquid security.
- (f) The coupon payment on these securities is currently in default as of August 31, 2012.
- (g) Security has no maturity date. The date shown represents the next call date.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

|     |                                |
|-----|--------------------------------|
| ADR | - American Depositary Receipts |
| ARM | - Adjustable Rate Mortgage     |

*See Notes to Schedule of Investments.*

**LMP CAPITAL AND INCOME FUND INC.**

Schedule of investments (unaudited) (cont'd)

August 31, 2012

|      |                                |
|------|--------------------------------|
| IO   | - Interest Only                |
| REIT | - Real Estate Investment Trust |

*See Notes to Schedule of Investments.*

**Notes to schedule of investments (unaudited)**

**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 80% of its assets in a broad range of equity and fixed income securities of both U.S. and foreign issuers. The Fund is permitted to invest up to 25% of its total assets in energy master limited partnerships (MLPS).

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

**(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. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, 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 values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable

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companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

**Notes to schedule of investments (unaudited) (continued)**

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

| DESCRIPTION                         | ASSETS                        |                                                           |                                                    | TOTAL          |
|-------------------------------------|-------------------------------|-----------------------------------------------------------|----------------------------------------------------|----------------|
|                                     | QUOTED<br>PRICES<br>(LEVEL 1) | OTHER<br>SIGNIFICANT<br>OBSERVABLE<br>INPUTS<br>(LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS<br>(LEVEL 3) |                |
| Long-term investments :             |                               |                                                           |                                                    |                |
| Common stocks:                      |                               |                                                           |                                                    |                |
| Financials                          | \$ 63,009,367                 | \$ 4,497,080                                              |                                                    | \$ 67,506,447  |
| Utilities                           | 13,502,654                    | 4,825,763                                                 |                                                    | 18,328,417     |
| Other common stocks                 | 92,672,579                    |                                                           |                                                    | 92,672,579     |
| Convertible preferred stocks        | 35,962,407                    |                                                           |                                                    | 35,962,407     |
| Master limited partnerships         | 75,730,178                    | 5,824,806                                                 |                                                    | 81,554,984     |
| Preferred stocks                    | 2,820,403                     | 1,479,594                                                 |                                                    | 4,299,997      |
| Royalty trusts                      | 4,366,870                     |                                                           |                                                    | 4,366,870      |
| Asset-backed securities             |                               | 573,864                                                   |                                                    | 573,864        |
| Collateralized mortgage obligations |                               | 1,006,160                                                 |                                                    | 1,006,160      |
| Corporate bonds & notes             |                               | 23,504,400                                                |                                                    | 23,504,400     |
| Total long-term investments         | \$ 288,064,458                | \$ 41,711,667                                             |                                                    | \$ 329,776,125 |
| Short-term investments              |                               | 9,878,000                                                 |                                                    | 9,878,000      |
| Total investments                   | \$ 288,064,458                | \$ 51,589,667                                             |                                                    | \$ 339,654,125 |

See Schedule of Investments for additional detailed categorizations.

**Notes to schedule of investments (unaudited) (continued)**

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, 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 maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights 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) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

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.

**(d) Master limited partnerships.** The Fund may invest up to 25% of its total assets in the securities of Master Limited Partnerships (MLPs) whose primary business is in the oil and gas, natural resources or commodities industries. Entities commonly referred to as MLPs are generally organized under state law as limited partnerships or limited liability companies. To be treated as a partnership for U.S. federal income tax purposes, an MLP whose units are traded on a securities exchange must receive at least 90% of its income from qualifying sources such as interest, dividends, real estate rents, gain from the sale or disposition of real property, income and gain from mineral or natural resources activities, income and gain from the transportation or storage of certain fuels, and, in certain circumstances, income and gain from commodities or futures, forwards and options with respect to commodities. Mineral or natural resources activities include exploration, development, production, processing, mining, refining, marketing and transportation (including pipelines) of oil and gas, minerals, geothermal energy, fertilizer, timber or industrial source carbon dioxide. An MLP consists of a general partner and limited partners (or in the case of MLPs organized as limited liability companies, a managing member and members). The general partner or managing member typically controls the operations and management of the MLP and has an ownership stake in the partnership. The limited partners or members, through their ownership of limited partner or member interests, provide capital to the entity, are intended to have no role in the operation and management of the entity and receive cash distributions. The MLPs themselves generally do not pay U.S. federal income taxes. Thus, unlike investors in corporate securities, direct MLP investors are generally not subject to double taxation (i.e., corporate level tax and tax on corporate dividends). Currently, most MLPs operate in the energy and/or natural resources sector.

**(e) Foreign investment risks.** The Fund's investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.



**(f) Security transactions.** Security transactions are accounted for on a trade date basis.

## 2. Investments

At August 31, 2012, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |    |             |
|-------------------------------|----|-------------|
| Gross unrealized appreciation | \$ | 30,601,494  |
| Gross unrealized depreciation |    | (7,661,211) |
| Net unrealized appreciation   | \$ | 22,940,283  |

**Notes to schedule of investments (unaudited) (continued)**

**3. Derivative instruments and hedging activities**

Financial Accounting Standards Board Codification Topic 815 requires enhanced disclosure about an entity's derivative and hedging activities.

During the period ended August 31, 2012, the Fund did not invest in any derivative instruments.

**4. Recent accounting pronouncement**

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). ASU No. 2011-04 establishes common requirements for measuring fair value and for disclosing information about fair value measurements. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Management has evaluated ASU No. 2011-04 and concluded that it does not materially impact the financial statement amounts; however, as required, additional disclosure has been included about fair value measurement.

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LMP Capital and Income Fund Inc.**

By                               /s/ R. Jay Gerken  
                                     R. Jay Gerken  
                                     Chief Executive Officer

Date: October 26, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By                               /s/ R. Jay Gerken  
                                     R. Jay Gerken  
                                     Chief Executive Officer

Date: October 26, 2012

By                               /s/ Richard F. Sennett  
                                     Richard F. Sennett  
                                     Principal Financial Officer

Date: October 26, 2012

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