

LMP CAPITAL & INCOME FUND INC.
Form N-CSR
January 25, 2012

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 Eighth 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: November 30

Date of reporting period: November 30, 2011

ITEM 1. REPORT TO STOCKHOLDERS.

The Annual Report to Stockholders is filed herewith.

November 30, 2011

Annual Report

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

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

II 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,

In mid-November 2011, it was announced that the fiscal year-end of the Fund changed from December 31 to November 30. As a result of this change, shareholders are being provided with a short period audited annual report for the eleven-month period from January 1, 2011 through November 30, 2011. Please read on for a detailed look at the prevailing economic and market conditions during the Fund's abbreviated reporting period and to learn how those conditions have affected Fund performance.

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 notice

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 approved three 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's three 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 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 are July 20th to August 19, 2011, October 19th to November 18, 2011 and January 19th 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.

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 represented approximately 30% of the Fund's outstanding shares.

The Fund commenced its first conditional tender offer on September 1, 2011, as the Fund's shares had traded at a market price that represents an average daily discount from NAV of more than 5% during the July 20th to August 19th measuring period. The Fund's tender offer for up to 1,048,744 shares of its issued and outstanding shares of common stock, representing approximately 5% of the Fund's outstanding shares, expired on September 30, 2011, at 5:00 p.m., New York time.

As more than 1,048,744 shares were properly tendered, making the offer oversubscribed, 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, 14.455% of shares for each stockholder who properly tendered shares were accepted for payment at \$12.22 per share. The Fund transmitted payment to purchase the duly tendered and accepted shares on October 7, 2011.

On November 21, 2011, the Fund announced that a second conditional tender offer would commence on November 30, 2011, and would expire at 5:00 p.m., New York time on December 28, 2011, unless the offer was extended. The Fund offered to purchase up to 5% of the Fund's common stock, equivalent to up to 996,307 shares of its issued and outstanding shares of common stock, at a price equal to 98% of the Fund's NAV on the day on which the tender offer expires.

A total of 5,893,339 shares were properly tendered, making the offer oversubscribed. Accordingly, on a pro rata basis, 16.91% of shares for each stockholder who properly tendered shares were accepted for payment. Payment for such shares was made on January 4, 2012. The purchase price of properly tendered shares is \$13.07 per share, equal to 98% of the per share NAV of \$13.33 as of the close of the regular trading session of the New York Stock Exchange on December 28, 2011.

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Letter from the chairman (cont d)

Further information about 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.

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 web site 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

January 4, 2012

i 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.

Investment commentary**Economic review**

Although the U.S. economy continued to grow over the eleven months ended November 30, 2011, the pace of the expansion was generally disappointing. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, has been less robust than during most other periods exiting a severe recession. 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 calendar year was due to a variety of factors, including less robust export activity and a deceleration in consumer spending given higher oil and food prices. Third quarter GDP growth then rose to 1.8%. Improving growth was attributed, in part, to higher consumer spending, which grew 1.7% in the third quarter, versus a modest 0.7% gain in the second quarter.

Two factors holding back the economy have been the weak job market and continued strains in the housing market. While there was some improvement in early 2011 and late in the reporting period, unemployment remained elevated. After dipping below 9.0% in February and March 2011 (to 8.9% and 8.8%, respectively), unemployment, as reported by the U.S. Department of Labor, moved back to 9.0% in April. Unemployment stayed above 9.0% over the next five months before falling to 9.0% in October. Unemployment then fell to 8.6% in November, its lowest rate since March 2009.

The housing market continued to experience challenges. Looking back, existing-home sales moved somewhat higher toward the end of 2010 and in January 2011, according to the National Association of Realtors (NAR). Existing-home sales then declined during five of the next ten months. Existing-home prices were weak versus a year ago, with the NAR reporting that the median existing-home price for all housing types was \$164,200 in November 2011, down 3.5% from November 2010.

While the manufacturing sector continued to expand, it experienced a soft patch during a portion of the reporting period. Based on the Institute for Supply Management's PMI (PMI) in February 2011, the manufacturing sector expanded at its fastest pace since May 2004, with a reading of 61.4 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). The PMI then generally moderated over the next several months and was 50.6 in August 2011, its lowest reading in two years. However, the manufacturing sector gained some momentum late in the period and ended November at 52.7.

The Federal Reserve Board (Fed) took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate at a historically low range between zero and 0.25%. In addition, in August 2011, the Fed declared its intention to keep the federal funds rate on hold until mid-2013. In September 2011, the Fed announced its intention to purchase \$400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as Operation Twist). Finally, at its

VI LMP Capital and Income Fund Inc.

Investment commentary (continued)

meeting in December (after the reporting period ended), the Fed potentially opened the door to another round of quantitative easing in 2012, saying it is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

December 30, 2011

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

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 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.

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.

Fund overview**Q. What is the Fund's investment strategy?**

A. The Fund's investment objective is 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, including up to 25% of its total assets in energy master limited partnerships (MLPs). The Fund will vary its allocation between equity and fixed-income securities depending on the investment manager's view of economic, market or political conditions, fiscal and monetary policy and security valuation. Depending on the investment manager's view of these factors, which may vary from time to time, the investment manager may allocate substantially all of the investments in the portfolio to equity securities or fixed-income securities.

The Fund's investment manager applies a rigorous, bottom-up research process to identify companies with strong fundamentals, skilled and committed management teams and a clear market advantage. Through patient management, the Fund seeks to capture earnings growth from companies offering new or innovative technologies, products and services.

Peter Vanderlee, CFA of ClearBridge Advisors, LLC (ClearBridge), one of the Fund's subadvisers, oversees the Fund's allocation between equity and fixed-income securities, as well as the Fund's equity investments in general, with a focus on dividend-paying securities. The ClearBridge portfolio management team also includes Mark McAllister, CFA, Tim Daubenspeck and Tatiana Thibodeau, who are focused on their respective areas of expertise: Mr. McAllister on real estate investment trusts (REITs), Mr. Daubenspeck on telecommunications, and Ms. Thibodeau on utilities. They manage 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 (Western Asset) manages the fixed-income portion of the Fund. The fixed-income portfolio management team includes portfolio managers Stephen A. Walsh, Keith J. Gardner, Mark Lindbloom, Michael C. Buchanan and Ryan Brist. Their focus is on portfolio structure, including sector allocation, duration weighting and term-structure decisions. Effective May 1, 2011, S. Kenneth Leech no longer serves as a portfolio manager for this Fund. While Mr. Leech continues to help shape Western Asset's overall investment strategy, his day-to-day role is becoming more concentrated on global portfolios. To reflect this global focus, he will continue to serve as a portfolio manager of the global funds, but not of the non-global funds.

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

A. Despite a poor macroeconomic background, including weak growth indications, high unemployment numbers and a depressed housing market, the domestic stock market managed to make fairly steady gains during the early part of the reporting period. A series of negative headline events, including the March earthquake and tsunami in Japan, quickly erased most of the gains for the period, but the market then recovered rapidly and went on to set new highs for the year in May. Elevated levels of stock market volatility continued into summer as the market weakened and tested the lows of March in June due primarily to concerns about the federal debt ceiling,

Fund overview (cont'd)

before changing course yet again and revisiting the highs of the spring once it became clear a deal would be reached and a government shutdown would be averted.

However, in early August, fears of the widening European sovereign debt crisis and the downgrading of the U.S.'s credit rating by Standard & Poor's triggered a significant stock market decline. The market officially corrected in August, losing more than 10% in the first week and falling almost 5% on one day alone Thursday, August 4th marking the largest one-day decline since 2008. This sharp move downwards was followed by a prolonged period of high volatility and increased asset class correlation.

Notwithstanding the sovereign debt crisis that had engulfed much of the Eurozone, led by the turmoil in Greece, the domestic U.S. market managed to generate one of the best October performances on record, with most major domestic stock indices producing double-digit returns for the month. Positive corporate quarterly earnings news and weak (but still positive) domestic economic growth data helped fuel gains across all sectors. Following October's remarkably strong performance, November's equity market endured two weeks of disappointing economic news that drove most domestic stock indices down significantly. Ending the reporting period on the upswing, the final week of November saw a sharp rally fueled by improving economic data and, in particular, news of a coordinated action from the Federal Reserve Board (Fed) and several other central banks designed to aid bank liquidity. On the final day of the reporting period, November 30th, the rally produced the biggest one-day gain in the Dow Jones Industrial Average of 4.2% since March of 2009, and helped most major stock indices recover almost all of the month's earlier losses.

Both short- and long-term Treasury yields fluctuated but, overall, moved lower during the reporting period. 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. Two- and ten-year Treasury yields peaked at 0.87% and 3.75%, respectively, in February 2011. Yields then declined during much of the next seven months due to disappointing economic data and several flights to quality. Two-year Treasuries hit their low for the reporting period of 0.16% on September 19, 2011. Ten-year Treasuries reached their reporting period trough of 1.72% on September 22, 2011. Yields then moved higher in October as investor risk appetite increased. Two-year Treasury yields again moved higher in November, whereas ten-year Treasury yields declined during the month. When the reporting period ended on November 30, 2011, two-year Treasury yields were 0.25% and ten-year Treasury yields were 2.08%. All told, the Barclays Capital U.S. Aggregate Index returned 6.67% during the reporting period.

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

A. On the equity side of the Fund, we seek out companies with sound or improving balance sheets that demonstrate leadership in their industry. We also focus on companies that generate ample free cash flow and which exhibit a strong dividend profile. Against a backdrop where, during the reporting

period, investment grade bonds did not offer what we consider to be an attractive yield, as exemplified by the low yield on the ten-year Treasury of approximately 2%, we felt equities could provide a better avenue to capture income and growth potential. As such, we heavily tilted the portfolio to equity securities, in particular those that provide a high and sustainable current income stream. The case for equities over bonds was further underscored by observing that many stocks offered dividends that exceeded the yields on their bonds and notes, a situation that is a rare occurrence since the 1950s.

Since the change in the Fund's portfolio management team on May 20, 2011, we have continued to reposition the Fund's portfolio to capitalize on income opportunities that we believe are best suited for our shareholders. Over the course of the period, the bulk of the Fund's portfolio was allocated to equities, with less than 1% allocated to mortgage-backed securities (MBS) or to other asset-backed securities, and under 5% in cash and other securities. We believe that the Fund's positioning offers our shareholders an attractive current yield combined with the potential for distribution growth and capital appreciation over time.

The Fund has a managed distribution policy and pays a quarterly distribution of \$0.28 per share. As of the close of the period, we remain comfortable with our ability to sustain the Fund's distribution rate.

Regarding the Fund's exposure to the Utilities sector, our holdings largely had regulated returns, low earnings volatility and a relatively attractive dividend yield. Within the Utilities sector, we have been focusing on what we feel are quality names that offer an attractive dividend yield and where we feel the dividend is sustainable and could grow over time. The Fund's meaningful Telecommunication Services (Telecom) weighting is due to the sector's attractive dividend yield profile, as well as our belief that the sector's yields are very sustainable.

Given the previously discussed changes to the Fund's investment strategy, we began to reduce its fixed-income exposure in March 2011. By the end of the reporting period, the fixed-income portion of the Fund represented approximately 1% of its total assets. The fixed-income portion of the portfolio used U.S. Treasury futures and options to manage our duration and yield curve exposure. The use of these instruments detracted from performance. Fannie Mae mortgage-related swaps were used to take advantage of slow prepayment speeds, Euriborvii options were used to manage our exposure to the short end of the euro curve and index credit default swaps were used to manage our commercial mortgage-backed security exposure. In all three cases, the use of these instruments did not meaningfully impact the Fund's performance.

Performance review

For the eleven-month period from January 1, 2011 through November 30, 2011, LMP Capital and Income Fund Inc. returned 1.84% based on its net asset value (NAV)^{viii} and 2.80% 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^{ix}, returned 6.67% and 1.08%, respectively. The Lipper Income and Preferred Stock Closed-End Funds Category Averagex returned 4.13% over the same time frame. Please note that

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Fund overview (cont d)

Lipper performance returns are based on each fund's NAV.

During the period, the Fund made distributions to shareholders totaling \$0.58 per share. The performance table shows the Fund's eleven-month total return based on its NAV and market price as of November 30, 2011. **Past performance is no guarantee of future results.**

Performance Snapshot

as of November 30, 2011 (unaudited)

Price Per Share	11-Month Total Return*
\$13.36 (NAV)	1.84%
\$12.23 (Market Price)	2.80%

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 at NAV.
 Total return assumes 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. With respect to the equity portion of the portfolio, on an absolute basis the Fund had positive returns in seven out of ten economic sectors during the reporting period, with the greatest contributions to returns coming from the Utilities, Health Care and Information Technology (IT) sectors.

Relative to the S&P 500 Index, the Fund's overall stock selection contributed to performance for the period, specifically in the IT, Financials, Health Care, Industrials and Materials sectors. As for sector allocation, the Fund's overweight to the Utilities sector and its underweights to the Industrials, Energy and Materials sectors also contributed to relative performance.

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In terms of individual Fund holdings, leading contributors to performance for the period included positions in **Seagate Technology Inc.** in the IT sector, **Bristol-Myers Squibb Co.** in the Health Care sector, **CenterPoint Energy Inc.** in the Utilities sector, **El Paso Corp.** in the Energy sector, and **Kimberly-Clark Corp.** in the Consumer Staples sector.

In the fixed-income portion of the Fund, relative to the Barclays Capital U.S. Aggregate Index, the largest contributor to performance was our out-of-benchmark exposure to the high-yield sector. Individual overweight positions in **Charter Communications Inc.**, **Inn of the Mountain Gods** and **Appleton Paper Inc.** were the best performers. An overweight to agency MBS was beneficial given their outperformance versus the Barclays Capital U.S. Aggregate Index. An overweight exposure to investment grade corporate bonds was rewarded. In particular, our overweights in **Wells Fargo Capital**, **Merrill Lynch & Co.** and **Williams Companies** boosted the Fund's results.

Q. What were the leading detractors from performance?

A. With respect to the equity portion of the portfolio, on an absolute basis the Fund had negative returns in three out of ten economic sectors during the reporting period, but only the Financials and Telecom sectors significantly detracted from performance. Relative to the benchmark, the Fund's overall sector allocation detracted from performance for the period. In particular, an overweight to the Financials sector

and underweights to the IT, Consumer Discretionary, Consumer Staples and Health Care sectors detracted from relative performance for the period. Stock selection in the Energy and Telecom sectors also hurt relative performance for the period.

In terms of individual Fund holdings, leading detractors from performance for the period included positions in **First Niagara Financial Group Inc.**, **Chimera Investment Corp.** and **New York Community Bancorp Inc.** in the Financials sector, as well as **Frontier Communications Corp.** and **France Telecom ADR**, both in the Telecom sector.

In the fixed-income portion of the portfolio, the only detractor from relative performance for the period was the Fund's overweight to non-agency MBS, as they lagged the Barclays Capital U.S. Aggregate Index.

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

A. In addition to the broader changes made to the Fund that were announced via press release over the course of the reporting period (altering the Fund's investment policy and fiscal year, repositioning its equity assets to include a broader range of higher-yielding securities, and changing the portfolio management team), there were a number of specific changes made to the equity portion of the portfolio over the course of the reporting period. Approximately three-fourths of the portfolio's equity positions were either closed or opened during the course of the period.

Among the largest additions to the Fund's portfolio were new positions in **Vodafone Group PLC ADR**, France Telecom ADR and **CenturyLink Inc.**, all in the Telecom sector, **Integrus Energy Group Inc.**, **UIL Holdings Corp.** and **PPL Corp.**, all in the Utilities sector, **Hatteras Financial Corp.** and **Health Care REIT Inc.** in the Financials sector, **SandRidge Permian Trust** in the Energy sector, and **TAL International Group Inc.** in the Industrials sector.

Some of the largest existing holdings that were sold over the course of the period were positions in **Spectra Energy Corp.** in the Energy sector, **H.J. Heinz Co.**, **Procter & Gamble Co.** and **CVS Caremark Corp.** in the Consumer Staples sector, **Johnson & Johnson** in the Health Care sector, CenterPoint Energy Inc. in the Utilities sector, El Paso Corp. in the Energy sector, **McDonald's Corp.** in the Consumer Discretionary sector, as well as **General Electric Co.** in the Industrials sector and **Travelers Cos. Inc.** in the Financials sector.

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.

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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.

Thank you for your investment in LMP Capital and Income Fund Inc. As always, we appreciate that you have

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Fund overview (cont'd)

chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Tim Daubenspeck

Portfolio Manager
ClearBridge Advisors, LLC

Mark McAllister

Portfolio Manager
ClearBridge Advisors, LLC

Tatiana Thibodeau

Portfolio Manager
ClearBridge Advisors, LLC

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Peter Vanderlee, CFA

Portfolio Manager
ClearBridge Advisors, LLC

Western Asset Management Company

(Fixed-Income Portion)

December 20, 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.*

Portfolio holdings and breakdowns are as of November 30, 2011 and are subject to change and may not be representative of the portfolio managers' current or future investments. The Fund's top ten holdings (as a percentage of total investments) as of this date were: Vodafone Group PLC, ADR (4.8%), Total SA, ADR (4.4%), Integrys Energy Group Inc. (3.8%), NextEra Energy Inc. (3.6%), Annaly Capital Management Inc. (3.6%), France Telecom SA, ADR (3.5%), CenturyLink Inc. (3.3%), AT&T Inc. (3.2%), New York Community Bancorp Inc. (2.9%) and Great Plains Energy Inc. (2.9%). Please refer to pages 9 through 14 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 total investments) as of November 30, 2011 were: Financials (36.2%), Telecommunication Services (20.7%), Utilities (17.8%), Energy (9.4%) and Health Care (4.7%). The Fund's portfolio composition is subject to change at any time.

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.

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 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.

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 Dow Jones Industrial Average is a widely followed measurement of the stock market. The average is comprised of thirty 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.

v 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.

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

vii The Euro Interbank Offered Rate (Euribor) is the benchmark rate at which euro interbank term deposits within the Eurozone are offered by one prime bank to another prime bank.

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 investments) 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 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.

x Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the eleven-month period ended November 30, 2011, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 24 funds in the Fund's Lipper category.

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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 November 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.

Schedule of investments

November 30, 2011

LMP Capital and Income Fund Inc.

	Shares	Value
Security		
Common Stocks 72.3%		
Consumer Staples 1.5%		
Household Products 1.5%		
Kimberly-Clark Corp.	72,000	\$ 5,145,840(a)
Energy 8.0%		
Energy Equipment & Services 1.6%		
Diamond Offshore Drilling Inc.	93,020	5,595,153(a)
Oil, Gas & Consumable Fuels 6.4%		
Sandridge Mississippian Trust I	45,000	1,215,450(a)
SandRidge Permian Trust	280,000	5,350,800
Total SA, ADR	288,000	14,901,120(a)
Total Oil, Gas & Consumable Fuels		21,467,370
Total Energy		27,062,523
Financials 25.3%		
Capital Markets 1.0%		
Medley Capital Corp.	341,000	3,266,780(a)
Real Estate Investment Trusts (REITs) 18.8%		
Annaly Capital Management Inc.	750,000	12,052,500(a)
Campus Crest Communities Inc.	155,000	1,562,400(a)
Chimera Investment Corp.	1,518,320	4,053,914
Cogdell Spencer Inc.	320,000	1,200,000
CommonWealth REIT	93,000	1,556,820(a)
DCT Industrial Trust Inc.	412,000	1,981,720
Dundee Real Estate Investment Trust	44,000	1,410,226(a)
Entertainment Properties Trust	41,000	1,832,700(a)
Excel Trust Inc.	158,000	1,736,420(a)
First Potomac Realty Trust	63,000	801,990(a)
Hatteras Financial Corp.	273,000	7,316,400(a)
HCP Inc.	41,000	1,584,650(a)
Health Care REIT Inc.	27,000	1,354,590(a)
Highwoods Properties Inc.	43,000	1,240,120(a)
Hospitality Properties Trust	119,000	2,621,570(a)
Inland Real Estate Corp.	271,000	2,010,820(a)
Kilroy Realty Corp.	24,000	866,160(a)
Liberty Property Trust	65,000	1,937,650(a)
Mack-Cali Realty Corp.	58,000	1,477,840(a)
OMEGA Healthcare Investors Inc.	90,000	1,613,700(a)
Primaris Retail Real Estate Investment Trust	46,000	913,280(a)

See Notes to Financial Statements.

10 LMP Capital and Income Fund Inc. 2011 Annual Report

Schedule of investments (cont d)

November 30, 2011

LMP Capital and Income Fund Inc.

	Shares	Value
Security		
Real Estate Investment Trusts (REITs) continued		
Ramco-Gershenson Properties Trust	132,000	\$ 1,120,680(a)
Regency Centers Corp.	22,000	817,520(a)
Senior Housing Properties Trust	50,000	1,095,500(a)
Starwood Property Trust Inc.	190,000	3,389,600(a)
Urstadt Biddle Properties, Class A Shares	118,000	1,990,660(a)
Westfield Group	439,000	3,801,439(a)(b)
Total Real Estate Investment Trusts (REITs)		63,340,869
Thrifts & Mortgage Finance 5.5%		
First Niagara Financial Group Inc.	990,000	8,712,000(a)
New York Community Bancorp Inc.	823,000	9,908,920(a)
Total Thrifts & Mortgage Finance		18,620,920
Total Financials		85,228,569
Health Care 4.7%		
Pharmaceuticals 4.7%		
Bristol-Myers Squibb Co.	288,000	9,423,360(a)
GlaxoSmithKline PLC, ADR	143,900	6,400,672(a)
Total Health Care		15,824,032
Industrials 3.5%		
Aerospace & Defense 0.9%		
Lockheed Martin Corp.	40,000	3,126,000(a)
Building Products 0.0%		
Ashton Woods USA LLC, Class B Membership	43	36,120(b)(c)
Commercial Services & Supplies 1.0%		
Waste Management Inc.	107,260	3,357,238
Trading Companies & Distributors 1.6%		
TAL International Group Inc.	198,000	5,211,360(a)
Total Industrials		11,730,718
Information Technology 1.2%		
Computers & Peripherals 1.2%		
Seagate Technology PLC	240,680	4,115,628
Telecommunication Services 20.7%		
Diversified Telecommunication Services 15.9%		
AT&T Inc.	372,510	10,795,340(a)
CenturyLink Inc.	300,900	11,289,768(a)
France Telecom SA, ADR	675,000	11,657,250(a)
Frontier Communications Corp.	445,940	2,550,777(a)
Verizon Communications Inc.	220,000	8,300,600(a)
Windstream Corp.	757,470	8,907,847(a)
Total Diversified Telecommunication Services		53,501,582

See Notes to Financial Statements.

LMP Capital and Income Fund Inc.

		Shares	Value
Security			
Wireless Telecommunication Services 4.8%			
Vodafone Group PLC, ADR		600,000	\$ 16,290,000 ^(a)
Total Telecommunication Services			69,791,582
Utilities 7.4%			
Electric Utilities 2.2%			
UIL Holdings Corp.		215,637	7,512,793 ^(a)
Multi-Utilities 5.2%			
Integrus Energy Group Inc.		251,000	12,923,990 ^(a)
National Grid PLC		445,000	4,372,248 ^{(a)(b)}
Total Multi-Utilities			17,296,238
Total Utilities			24,809,031
Total Common Stocks (Cost \$257,932,710)			243,707,923
	Rate		
Convertible Preferred Stocks 13.2%			
Energy 1.4%			
Oil, Gas & Consumable Fuels 1.4%			
Apache Corp.	6.000%	80,120	4,557,226 ^(a)
Financials 3.2%			
Diversified Financial Services 0.9%			
CalEnergy Capital Trust III	6.500%	60,000	2,955,000 ^(a)
Insurance 0.7%			
Metlife Inc.	5.000%	39,000	2,370,810 ^(a)
Real Estate Investment Trusts (REITs) 1.6%			
Health Care Reit Inc.	6.500%	110,000	5,379,000 ^(a)
Total Financials			10,704,810
Utilities 8.6%			
Electric Utilities 8.6%			
Great Plains Energy Inc.	12.000%	154,940	9,813,899 ^(a)
NextEra Energy Inc.	7.000%	230,010	12,098,526 ^(a)
PPL Corp.	9.500%	125,000	7,130,000 ^(a)
Total Utilities			29,042,425
Total Convertible Preferred Stocks (Cost \$43,472,301)			44,304,461
Preferred Stocks 2.8%			
Financials 2.8%			
Real Estate Investment Trusts (REITs) 2.8%			
Ashford Hospitality Trust	9.000%	33,661	810,557 ^(a)
BioMed Realty Trust Inc., Series A	7.375%	62,000	1,554,960 ^(a)
CBL & Associates Properties Inc.	7.375%	64,000	1,512,320 ^(a)
Glimcher Realty Trust	8.125%	43,353	1,042,640 ^(a)

See Notes to Financial Statements.

12 LMP Capital and Income Fund Inc. 2011 Annual Report

Schedule of investments (cont d)

November 30, 2011

LMP Capital and Income Fund Inc.

Security	Rate		Shares	Value
Real Estate Investment Trusts (REITs) continued				
Kimco Realty Corp., Series G	7.750%		20,567	\$ 528,366(a)
LaSalle Hotel Properties, Cumulative Redeemable, Series G	7.250%		12,845	312,679(a)
Pebblebrook Hotel Trust, Series A	7.875%		31,112	733,310(a)
Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A	8.000%		91,000	2,066,747(a)
Urstadt Biddle Properties Inc., Cumulative, Series C	8.500%		6,838	705,989(a)
Vornado Realty Trust, Cumulative Redeemable, Series G	6.625%		9,241	232,226(a)
Total Preferred Stocks (Cost \$9,939,760)				9,499,794
		Maturity Date	Face Amount	
Asset-Backed Securities 0.2%				
Asset-Backed Funding Certificates, 2004-FF1 M2	2.432%	1/25/34	\$ 264,611	45,976(d)
Countrywide Asset-Backed Certificates, 2004-5 M4	1.507%	6/25/34	126,652	40,962(d)
Finance America Net Interest Margin Trust, 2004-1 A	5.250%	6/27/34	73,417	1(c)(e)(f)
Fremont Home Loan Trust, 2004-1 M5	1.907%	2/25/34	114,663	55,457(d)
GSAMP Trust, 2004-OPT M3	1.407%	11/25/34	221,887	83,518(d)
MASTR Specialized Loan Trust, 2007-2 A	0.607%	5/25/37	371,508	130,846(d)(e)
RAAC Series, 2007-RP3 A	0.637%	10/25/46	410,268	207,336(d)(e)
Renaissance Home Equity Loan Trust, 2003-4 M3	2.157%	3/25/34	389,160	182,198(d)
Sail Net Interest Margin Notes, 2003-BC2A A	7.750%	4/27/33	141,210	1(c)(e)(f)
Sail Net Interest Margin Notes, 2004-2A A	5.500%	3/27/34	71,380	1(c)(e)(f)
Total Asset-Backed Securities (Cost \$1,925,042)				746,296
Collateralized Mortgage Obligations 0.7%				
Bear Stearns ARM Trust, 2005-12 24A1	5.596%	2/25/36	100,121	63,081(d)
Federal National Mortgage Association (FNMA), 2011-63 SW, IO	6.423%	7/25/41	89,204	14,562(d)
MASTR ARM Trust, 2003-3 3A4	2.213%	9/25/33	641,086	545,048(d)
Merit Securities Corp., 11PA B2	1.757%	9/28/32	109,209	106,761(d)(e)
MLCC Mortgage Investors Inc., 2004-A B2	1.177%	4/25/29	234,932	95,668(d)
MLCC Mortgage Investors Inc., 2004-B B2	1.577%	5/25/29	359,267	252,872(d)
RBS Greenwich Capital, Mortgage Pass-Through Certificates, 2005-A 5A	7.000%	4/25/35	819,732	604,664

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Thornburg Mortgage Securities Trust, 2007-4 2A1	6.157%	7/25/37	114,960	102,736(d)
Thornburg Mortgage Securities Trust, 2007-4 3A1	6.156%	7/25/37	118,439	115,881(d)
Washington Mutual Inc. Pass-Through Certificates, 2006-AR5 4A	1.208%	6/25/46	553,898	194,066(d)
Wells Fargo Alternative Loan Trust, 2007-PA2 2A1	0.687%	6/25/37	535,739	290,973(d)
Total Collateralized Mortgage Obligations (Cost			\$3,114,548)	2,386,312

See Notes to Financial Statements.

LMP Capital and Income Fund Inc.

	Rate	Maturity Date	Face Amount	Value
Security				
Corporate Bonds & Notes	6.7%			
Financials	4.9%			
Diversified Financial Services	2.7%			
JPMorgan Chase & Co., Junior Subordinated Notes	7.900%	4/30/18	\$ 5,000,000	\$ 5,306,580(a)(d)(g)
PPL Capital Funding Inc., Junior Subordinated Notes	6.700%	3/30/67	4,000,000	3,864,232(d)
Total Diversified Financial Services				9,170,812
Insurance	2.2%			
MetLife Inc., Junior Subordinated Debentures	6.400%	12/15/36	8,000,000	7,309,088(a)
Total Financials				16,479,900
Utilities	1.8%			
Electric Utilities	1.8%			
NextEra Energy Capital Holding Inc., Junior Subordinated Notes	6.350%	10/1/66	2,000,000	1,972,014(a)(d)
NextEra Energy Capital Holding Inc., Junior Subordinated Notes	6.650%	6/15/67	4,000,000	3,984,540(a)(d)
Total Utilities				5,956,554
Total Corporate Bonds & Notes (Cost \$22,599,118)				22,436,454
Municipal Bonds	0.0%			
California	0.0%			
Los Angeles, CA, Department of Airports Revenue (Cost \$9,387)	5.250%	5/15/39	10,000	10,626
		Expiration Date	Warrants	
Warrants	0.0%			
Buffets Restaurant Holdings (Cost \$0)		4/28/14	215	2*(b)(c)
Total Investments before Short-Term Investments (Cost \$338,992,866)				323,091,868
		Maturity Date	Face Amount	
Short-Term Investments	4.1%			
Repurchase Agreements	4.1%			
Interest in \$300,000,000 joint tri-party repurchase agreement dated 11/30/11 with Deutsche Bank Securities Inc.; Proceeds at maturity \$13,933,043; (Fully collateralized by various U.S. government agency obligations, 0.500% to 4.000% due 2/15/13 to 11/14/31; Market value \$14,211,675)	0.110%	12/1/11	\$13,933,000	13,933,000

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(Cost \$13,933,000)

Total Investments 100.0% (Cost \$352,925,866#)

\$337,024,868

* Non-income producing security.

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement.

See Notes to Financial Statements.

14 LMP Capital and Income Fund Inc. 2011 Annual Report

Schedule of investments (cont d)

November 30, 2011

LMP Capital and Income Fund Inc.

- (b) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).
 - (c) Illiquid security (unaudited).
 - (d) Variable rate security. Interest rate disclosed is as of the most recent information available.
 - (e) 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.
 - (f) The coupon payment on these securities is currently in default as of November 30, 2011.
 - (g) Security has no maturity date. The date shown represents the next call date.
- # Aggregate cost for federal income tax purposes is \$352,929,197.

Abbreviations used in this schedule:

ADR	American Depositary Receipts
ARM	Adjustable Rate Mortgage
IO	Interest Only
REIT	Real Estate Investment Trust

See Notes to Financial Statements.

Statement of assets and liabilities

November 30, 2011

Assets:

Investments, at value (Cost \$352,925,866)	\$ 337,024,868
Foreign currency, at value (Cost \$21,501)	21,337
Cash	230,053
Dividends and interest receivable	2,313,113
Receivable for securities sold	13,377
Prepaid expenses	14,276
Total Assets	339,617,024

Liabilities:

Loan payable (Note 5)	73,000,000
Investment management fee payable	234,685
Interest payable (Note 5)	22,739
Directors' fees payable	2,377
Accrued expenses	84,454
Total Liabilities	73,344,255
Total Net Assets	\$ 266,272,769

Net Assets:

Par value (\$0.001 par value; 19,926,130 shares issued and outstanding; 100,000,000 shares authorized)	\$ 19,926
Paid-in capital in excess of par value	419,710,006
Undistributed net investment income	6,917,066
Accumulated net realized loss on investments, futures contracts, written options, swap contracts and foreign currency transactions	(144,473,189)
Net unrealized depreciation on investments and foreign currencies	(15,901,040)
Total Net Assets	\$ 266,272,769

Shares Outstanding	19,926,130
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Net Asset Value	\$13.36
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See Notes to Financial Statements.

Statements of operations**For the Period Ended November 30, 2011
and the Year Ended December 31, 2010**

	2011	2010
Investment Income:		
Dividends	\$ 20,176,995	\$17,612,265
Interest	4,674,981	4,492,589
Less: Foreign taxes withheld	(215,776)	(149,999)
Total Investment Income	24,636,200	21,954,855
Expenses:		
Investment management fee (Note 2)	3,572,227	3,934,853
Interest expense (Note 5)	840,225	1,190,271
Transfer agent fees	144,002	107,013
Legal fees	138,436	87,283
Audit and tax	83,382	76,501
Shareholder reports	91,017	50,291
Directors' fees	69,352	83,292
Fund accounting fees	34,990	
Stock exchange listing fees	16,552	23,996
Custody fees	10,747	20,987
Insurance	7,027	9,910
Commitment fees (Note 5)		76,417
Miscellaneous expenses	29,017	11,075
Total Expenses	5,036,974	5,671,889
Net Investment Income	19,599,226	16,282,966
Realized and Unrealized Gain (Loss) on Investments, Futures Contracts, Written Options, Short Sales, Swap Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):		
Net Realized Gain (Loss) From:		
Investment transactions	59,826,160	2,504,344
Futures contracts	(447,306)	(208,715)
REIT distributions		98,737
Written options	9,050	15,099
Short sales		(1,938)
Swap contracts	(1,484)	8,638
Foreign currency transactions	12,412	(4,492)
Net Realized Gain	59,398,832	2,411,673
Change in Net Unrealized Appreciation (Depreciation) From:		
Investments	(68,325,394)	35,058,686
Futures contracts	20,066	(5,041)
Written options	(2,772)	2,511
Swap contracts	(153)	153
Foreign currencies	(16)	(9)
Change in Net Unrealized Appreciation (Depreciation)	(68,308,269)	35,056,300
Net Gain (Loss) on Investments, Futures Contracts, Written Options, Short Sales, Swap Contracts and Foreign Currency Transactions	(8,909,437)	37,467,973
Increase in Net Assets from Operations	\$ 10,689,789	\$53,750,939

For the period January 1, 2011 to November 30, 2011.

See Notes to Financial Statements.

Statements of changes in net assets

For the Period Ended November 30, 2011
and the Years Ended December 31,

	2011	2010	2009
Operations:			
Net investment income	\$ 19,599,226	\$ 16,282,966	\$ 12,763,868
Net realized gain (loss)	59,398,832	2,411,673	(122,053,655)
Change in net unrealized appreciation (depreciation)	(68,308,269)	35,056,300	196,086,880
<i>Increase in Net Assets From Operations</i>	<i>10,689,789</i>	<i>53,750,939</i>	<i>86,797,093</i>
Distributions to Shareholders From (Note 1):			
Net investment income	(14,862,196)	(16,180,617)	(15,581,335)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(14,862,196)</i>	<i>(16,180,617)</i>	<i>(15,581,335)</i>
Fund Share Transactions (Notes 6 and 8):			
Cost of tendered shares (10,037,976, 0 and 0 tendered shares, respectively)	(140,013,284)		
<i>Decrease in Net Assets From Fund Share Transactions</i>	<i>(140,013,284)</i>		
<i>Increase (Decrease) in Net Assets</i>	<i>(144,185,691)</i>	<i>37,570,322</i>	<i>71,215,758</i>
Net Assets:			
Beginning of year	410,458,460	372,888,138	301,672,380
End of year*	\$ 266,272,769	\$410,458,460	\$ 372,888,138
* Includes undistributed net investment income of:	\$6,917,066	\$2,032,848	\$1,930,069

For the period January 1, 2011 to November 30, 2011.

See Notes to Financial Statements.

18 LMP Capital and Income Fund Inc. 2011 Annual Report

Statements of cash flows

For the Period Ended November 30, 2011

Increase (Decrease) in Cash:**Cash Provided from Operating Activities:**

Net increase in net assets resulting from operations	\$ 10,689,789
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Purchases of portfolio securities	(506,567,927)
Proceeds from sales of portfolio securities	686,939,538
Net purchases, sales and maturities of short-term investments	(10,057,000)
Net amortization (accretion) of discount and premium	(417,920)
Decrease in receivable for securities sold	8,461,519
Decrease in dividends and interest receivable	134,706
Increase in prepaid expenses	(10,024)
Decrease in payable for securities purchased	(15,629,410)
Decrease in investment management fee payable	(135,949)
Decrease in Directors' fee payable	(11,035)
Decrease in interest payable	(10,924)
Decrease in accrued expenses	(87,108)
Decrease in deposits with brokers for purchased options on futures	1,327
Premiums received from written options	(7,960)
Change in receivable from broker - variation margin on open futures contracts	10,629
Net realized gain on investments, futures contracts, written options, swap contracts and foreign currency transactions	(59,398,832)
Change in net unrealized depreciation of investments, futures contracts, written options, swap contracts and foreign currencies	68,308,269
Net Cash Provided by Operating Activities*	182,211,688

Cash Used from Financing Activities:

Distribution paid on common stock	(14,862,196)
Payment for tendered shares	(140,013,284)
Decrease in loan payable	(27,000,000)
Due to custodian	(84,961)
Net Cash Used from Financing Activities	(181,960,441)
Net Increase in Cash	251,247
Cash Beginning of Period	143
Cash End of Period	\$ 251,390

* Included in operating expenses is cash paid for interest on borrowings of \$851,149.

For the period January 1, 2011 to November 30, 2011.

See Notes to Financial Statements.

Statements of cash flows (cont d)

For the Year Ended December 31, 2010

Increase (Decrease) in Cash: Cash Provided from Operating Activities:

Net increase in net assets resulting from operations	\$ 53,750,939
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Purchases of portfolio securities	(547,144,796)
Proceeds from sales of portfolio securities	482,626,199
Net purchases, sales and maturities of short-term investments	33,730,000
Net amortization (accretion) of discount and premium	(418,837)
Decrease in receivable for securities sold	1,363,335
Increase in dividends and interest receivable	(633,554)
Decrease in prepaid expenses	1,074
Decrease in payable for securities purchased	(9,553,935)
Increase in investment management fee payable	41,227
Decrease in Directors' fee payable	(8,762)
Decrease in interest payable	(154,150)
Decrease in accrued expenses	(21,718)
Increase in deposits with brokers for purchased options on futures	(1,327)
Premiums received from written options	43
Change in receivable from broker - variation margin on open futures contracts	(13,657)
Net realized gain on investments, futures contracts, written options, short sales, swap contracts and foreign currency transactions	(2,411,673)
Change in net unrealized appreciation of investments, futures contracts, written options, swap contracts and foreign currencies	(35,056,300)
Net Cash Provided by Operating Activities*	(23,905,892)
Cash Used from Financing Activities	
Distribution paid on common stock	(16,180,617)
Decrease in loan payable	40,000,000
Due to custodian	84,961
Net Cash Used from Financing Activities	23,904,344
Net Increase in Cash	(1,548)
Cash Beginning of Period	1,691
Cash End of Period	\$ 143

* Included in operating expenses is cash paid for interest on borrowings of \$1,344,421.

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended November 30, unless otherwise noted:

	20111	20102	20092	20083,4	20083,5	20073,5	20063,5
Net asset value, beginning of period	\$13.70	\$12.44	\$10.07	\$11.20	\$22.95	\$21.15	\$19.69
Income (loss) from operations:							
Net investment income	0.86	0.54	0.43	0.11	0.31	0.13	0.48
Net realized and unrealized gain (loss)	(0.73)	1.26	2.46	(0.96)	(8.85)	3.22	2.18
Total income (loss) from operations	0.13	1.80	2.89	(0.85)	(8.54)	3.35	2.66
Less distributions from:							
Net investment income	(0.58)	(0.54)	(0.52)	(0.28)	(0.20)	(0.01)	(0.55)
Net realized gains					(3.01)	(1.54)	(0.65)
Total distributions	(0.58)	(0.54)	(0.52)	(0.28)	(3.21)	(1.55)	(1.20)
Increase in net asset value due to shares repurchased in tender offers	0.11						
Net asset value, end of period	\$13.36	\$13.70	\$12.44	\$10.07	\$11.20	\$22.95	\$21.15
Market price, end of period	\$12.23	\$12.45	\$10.35	\$7.73	\$9.07	\$19.88	\$18.19
Total return, based on NAV^{6,7}	1.84%	14.83%	29.52%	(7.43)%	(42.09)%	16.32%	13.89%
Total return, based on Market Price⁸	2.80%	26.18%	42.02%	(11.44)%	(44.95)%	18.22%	13.24%
Net assets, end of period (000s)	\$266,273	\$410,458	\$372,888	\$301,672	\$335,588	\$687,760	\$633,888
Ratios to average net assets:							
Gross expenses	1.53% ⁹	1.49%	1.59%	3.10% ⁹	2.72%	3.03% ¹⁰	3.13%
Net expenses ¹¹	1.539	1.4912	1.5912	3.109,12	2.7212	3.0310,12,13	3.1312,13
Net investment income	5.949	4.29	3.90	6.749	1.73	0.60	2.33
Portfolio turnover rate	79%¹⁴	49%¹⁴	135%¹⁴	8%	169%¹⁴	180%	193%
Supplemental data:							
Loans Outstanding, End of Period (000s)	\$73,000	\$100,000	\$60,000	\$100,000	\$145,000	\$170,000	\$220,000
Asset Coverage for Loan Outstanding	465%	511%	721%	402%	331%	505%	388%
Weighted Average Loan (000s)	\$92,757	\$73,589	\$66,192	\$123,361	\$168,497	\$181,370	\$220,000
Weighted Average Interest Rate on Loans	0.91%	1.62%	1.44%	3.35%	3.89%	5.67%	5.26%

1 For the period January 1, 2011 to November 30, 2011.

2 For the year ended December 31.

3 Per share amounts have been calculated using the average shares method.

4 For the period November 1, 2008 through December 31, 2008.

5 For the year ended October 31.

6 Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, 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.

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7 The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

8 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.

9 Annualized.

10 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.

11 The impact of compensating balance arrangements, if any, was less than 0.01%.

12 Ratio includes commitment fees incurred on the line of credit.

13 Reflects fee waivers and/or expense reimbursements.

14 Excluding mortgage dollar roll transactions. If mortgage dollar roll transactions had been included, the portfolio turnover rate would have been 115% for the period ended November 30, 2011, 111% and 185% for the years ended December 31, 2010 and 2009, respectively, and 177% for the year ended October 31, 2008.

The total return reflects an increase in net asset value due to shares repurchased in tender offers. Absent these tender offers, the total return would have been 1.00%.

See Notes to Financial Statements.

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 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). 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. Subsequent events have been evaluated through the date the financial statements were issued.

(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 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 fair valuation techniques and methodologies. 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. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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. 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). 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 Fund has adopted Financial Accounting Standards Board Codification Topic 820 (ASC Topic 820). ASC Topic 820 establishes a single definition of

Notes to financial statements (cont d)

fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- 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 methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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.

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

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-term investments :				
Common stocks:				
Financials	\$ 81,427,130	\$ 3,801,439		\$ 85,228,569
Industrials	11,694,598		\$36,120	11,730,718
Utilities	20,436,783	4,372,248		24,809,031
Other common stocks	121,939,605			121,939,605
Convertible preferred stocks	44,304,461			44,304,461
Preferred stocks	7,120,368	2,379,426		9,499,794
Asset-backed securities		746,296		746,296
Collateralized mortgage obligations		2,386,312		2,386,312

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Corporate bonds & notes		22,436,454		22,436,454
Municipal bonds		10,626		10,626
Warrants			2	2
Total long-term investments	\$286,922,945	\$36,132,801	\$36,122	\$323,091,868
Short-term investments		13,933,000		13,933,000
Total investments	\$286,922,945	\$50,065,801	\$36,122	\$337,024,868

See Schedule of Investments for additional detailed categorizations.

For the period ended November 30, 2011, as a result of fair value pricing procedures for international equities utilized by the Fund, certain securities transferred in and out of level 1 and level 2 measurements during the period.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Investments In Securities	Common Stocks	Warrants	Total
Balance as of December 31, 2010	\$19,352	\$ 2	\$19,354
Accrued premiums/discounts			
Realized gain (loss)			
Change in unrealized appreciation (depreciation) ¹	16,768		16,768
Purchases			
Sales			
Transfers into Level 3			
Transfers out of Level 3			
Balance as of November 30, 2011	\$36,120	\$ 2	\$36,122
Net change in unrealized appreciation (depreciation) for investments in securities still held at November 30, 2011	\$16,768		\$16,768

The Fund's policy is to recognize transfers between levels as of the end of the reporting period.

¹ This amount is included in the change in net unrealized appreciation (depreciation) in the accompanying Statements of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

(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) 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

Notes to financial statements (cont'd)

marked-to-market daily to reflect the current market value of the option written. If the option expires, the premium received is recorded as a realized gain. 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 recognized as a realized gain or loss. When a written put option is exercised, the amount of the premium received is subtracted from 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 an uncovered 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) Futures contracts. The Fund may use futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. The daily changes in contract value are recorded as unrealized gains or losses in the Statements of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(e) 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 recognizes 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 is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on 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) Foreign currency translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations 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 values of assets and liabilities, other than investments in securities, on 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.

Notes to financial statements (cont d)

(g) Swap agreements. The Fund may invest in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with ordinary portfolio transactions.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms, and the possible lack of liquidity with respect to the swap agreements.

Payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statements of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Statements of Operations.

The Fund's maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount. As of November 30, 2011, the total notional value of all credit default swaps to sell protection is \$0.

For average notional amounts of swaps held during the period ended November 30, 2011, see Note 4.

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 or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an 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 stream of payments 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 maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is 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.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

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.

Notes to financial statements (cont d)

Total return swaps

The Fund may enter into total return swaps for investment purposes. Total return swaps are agreements to exchange the return generated by one instrument for the return generated by another instrument. For example, the agreement to pay a predetermined or fixed interest rate in exchange for a market-linked return based on a notional amount. To the extent the total return of a referenced index or instrument exceeds the offsetting interest obligation, the Fund will receive a payment from the counterparty. To the extent it is less, the Fund will make a payment to the counterparty.

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

(i) Mortgage dollar rolls. The Fund may enter into mortgage 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.

The Fund executes its mortgage dollar rolls entirely in the TBA market, whereby 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 Fund accounts for mortgage dollar rolls as purchases and sales.

The risk of entering into mortgage dollar rolls 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 the proceeds of the mortgage dollar roll may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

(j) Credit and market risk. The Fund invests in high-yield and emerging market instruments that may be 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 involve 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.

(k) Counterparty risk and credit-risk-related contingent features of derivative instruments. The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund's investment manager attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment manager. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

The Fund has entered into master agreements with certain of its derivative counterparties that provide for general obligations, representations, agreements, collateral, events of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund's net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

As of November 30, 2011, the Fund did not have any open derivative transactions.

(l) 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 or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

Notes to financial statements (cont d)

(m) Short sale transactions. Short sales are transactions in which the Fund sells a security it does not own in anticipation of a decline in the market value of that security. To complete such a transaction, a Fund must borrow the security to deliver to the buyer. The Fund is then obligated to replace the security borrowed by purchasing it in the open market at the time of replacement. The proceeds received by the Fund for the short sale are retained by the broker as collateral until the Fund replaces the borrowed security. The collateral required is determined daily by reference to the market value of the short positions. Liabilities for securities sold short are marked-to-market daily and reported at market value in the financial statements.

Short sale transactions may result in a risk of loss that may exceed the amount shown on the Statement of Assets and Liabilities. A gain, limited to the price at which the Fund sold the security short, or a loss, potentially unlimited in size, will be recognized upon termination of a short sale. Dividends on short positions are recorded as a liability on the ex-dividend date and are shown in the Statement of Operations as Dividend Expense because the Fund must pay the dividend to the lender of the security.

Short selling is a technique that may be considered speculative, involves risk beyond the amount of money used to secure each transaction and may represent a form of leverage.

(n) Distributions to shareholders. Distributions from net investment income by the Fund, if any, are declared and paid on a quarterly 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 quarterly 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 quarterly 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 net assets (and may constitute a return of capital). The 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 of the Fund's shares. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(o) REIT distributions. The character of distributions received from Real Estate Investment Trusts (REITs) held by the Fund is generally comprised of net investment income, capital gains, and return of capital. It is the policy of the Fund to estimate the character of distributions received from underlying REITs based on historical data provided by the REITs. After each calendar year end, REITs report the actual tax character of these distributions. Differences between the estimated and actual amounts reported by the

REITs are reflected in the Fund's records in the year in which they are reported by the REITs by adjusting related investment cost basis, capital gains and income, as necessary.

(p) 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 Statements of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statements of Cash Flows.

(q) Compensating balance arrangements. The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

(r) 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 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of November 30, 2011, no provision for income tax is 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 Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(s) Reclassification. GAAP requires that certain components of net assets be reclassified 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 period, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Loss
(a)	\$147,188	\$(147,188)

(a) 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, losses from mortgage backed securities treated as capital losses for tax purposes and book/tax differences in the treatment of swaps contracts.

Notes to financial statements (cont'd)

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 LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.85% of the Fund's average daily net assets plus the proceeds of any outstanding borrowings used for leverage.

LMPFA delegates to the subadvisers 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 the 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 the periods in which the Fund is utilizing borrowings, the fee which is payable to LMPFA as a percentage of the Fund's assets will be higher than if the Fund did not utilize borrowings because the fee is calculated as a percentage of the Fund's net assets, including those investments purchased with borrowings. Borrowings for the purpose of the calculation of the management fee include loans from certain financial institutions, the use of mortgage dollar roll transactions and reverse repurchase agreements, if any.

All 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 period ended November 30, 2011, 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	\$298,850,761	\$207,717,166
Sales	453,428,117	233,511,421

At November 30, 2011, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 13,579,110
Gross unrealized depreciation	(29,483,439)
Net unrealized depreciation	\$(15,904,329)

During the period ended November 30, 2011, written option transactions for the Fund were as follows:

	Number of Contracts	Premiums
Written options, outstanding as of December 31, 2010	17	\$ 7,960
Options written	63	9,983
Options closed	(68)	(17,045)
Options expired	(12)	(898)
Written options, outstanding as of November 30, 2011		

4. Derivative instruments and hedging activities

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

At November 30, 2011, the Fund did not have any derivative instruments outstanding.

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The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statements of Operations for the period ended November 30, 2011 and for the year ended December 31, 2010. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

Notes to financial statements (cont d)

AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED

	Interest Rate Contracts Risk	Foreign Exchange Contracts Risk	Credit Contracts Risk	Total
November 30, 2011				
Purchased options	\$ (2,693)			\$ (2,693)
Written options	9,050			9,050
Futures contracts	(447,306)			(447,306)
Forward foreign currency contracts		\$ 2,054		2,054
Swap contracts	(2,742)		\$1,258	(1,484)
Total	\$(443,691)	\$ 2,054	\$1,258	\$(440,379)
December 31, 2010				
Purchased options	(13,700)			(13,700)
Written options	15,099			15,099
Futures contracts	(208,715)			(208,715)
Swap contracts	8,638			8,638
Forward foreign currency contracts		\$(10,671)		(10,671)
Total	\$(198,678)	\$(10,671)		\$(209,349)

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

	Interest Rate Contracts Risk
November 30, 2011	
Written options	\$ (2,772)
Futures contracts	20,066
Swap contracts	(153)
Total	\$17,141
December 31, 2010	
Written options	2,511
Futures contracts	(5,041)
Swap contracts	153
Total	\$(2,377)

During the period ended November 30, 2011, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Purchased options	\$ 776
Written options	785
Futures contracts (to buy)	1,842,823
Futures contracts (to sell)	5,372,359
	Average Notional Balance
Credit default swap contracts (to buy protection)	\$ 40,000
Credit default swap contracts (to sell protection)	26,667
Total return swap contracts	101,458

At November 30, 2011 there were no open positions held in this derivative.

5. Line of credit

The Fund has a 364 day revolving credit agreement with a financial institution, which allows the Fund to borrow up to an aggregate amount of \$150,000,000. Unless renewed, this agreement terminates on December 14, 2011. The interest on the loan is calculated at a variable rate based on LIBOR, plus any applicable margin. Interest expense related to the loan for the period ended November 30, 2011 was \$840,225. For the period ended November 30, 2011, the Fund incurred no commitment fee. For the period ended November 30, 2011, the Fund had an average daily loan balance outstanding of \$92.8 million and the weighted average interest rate was 0.91%. At November 30, 2011, the Fund had \$73,000,000 of borrowings outstanding per this credit agreement.

Subsequent to the period of this report, on December 14, 2011, the Fund renewed its revolving credit agreement with a financial institution, so that the term extends to December 12, 2012 and allows the Fund to borrow up to an aggregate amount of \$125,000,000.

6. Capital shares

On November 20, 2006, the Fund's Board of Directors (the Board) authorized the Fund to repurchase from time to time in the open market up to 1,000,000 shares of the Fund's common stock (the Program). The Board directed the investment manager of the Fund to repurchase shares of the Fund's common stock at such times and in such amounts as management believes will enhance shareholder value, subject to review by the Fund's Board.

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This is the fourth repurchase program authorized by the Board since the Fund's inception in 2004. Pursuant to the Fund's previous three repurchase programs of up to 1,000,000 shares each, the Fund has repurchased 3,000,000 shares of common stock.

Notes to financial statements (cont d)

7. Distributions subsequent to November 30, 2011

On November 10, 2011, the Board declared a quarterly distribution of \$0.28 per share, payable on December 23, 2011 to shareholders of record on December 16, 2011.

8. Tender offers

During the period ended November 30, 2011, the Fund, in accordance with its tender offers for up to 8,989,232 and 1,048,744 of its issued and outstanding shares of common stock, accepted and made payment of these shares at \$14.15 and \$12.22 per share (98% of the net asset value per share of \$14.43 on June 30, 2011 and \$12.46 on September 30, 2011). These shares represent 30% and 5%, respectively, of the Fund's then outstanding shares.

Subsequent to the period of this report, the Fund, in accordance with its tender offer for up to 996,307 of its issued and outstanding shares of common stock, accepted and made payment of these shares at \$13.07 per share (98% of the net asset value per share of \$13.33 on December 28, 2011). These shares represent 5% of the Fund's then outstanding shares.

9. Income tax information and distributions to shareholders

The tax character of distributions paid during the period ended November 30, 2011 and fiscal years ended December 31, were as follows:

	2011	2010	2009
Distributions Paid From:			
Ordinary income	\$14,862,196	\$16,180,617	\$15,581,335

As of November 30, 2011, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income - net	\$ 6,268,669
Capital loss carryforward*	(141,135,271)

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Other book/tax temporary differences(a)	(2,686,190)
Unrealized appreciation (depreciation)(b)	(15,904,371)
Total accumulated earnings (losses) net	\$(153,457,163)

* During the taxable period ended November 30, 2011, the Fund utilized \$ 62,281,433 of its capital loss carryforward available from prior years. As of November 30, 2011, the Fund had the following net capital loss carryforwards remaining:

Year of Expiration	Amount
11/30/2016	\$ (16,204,030)
11/30/2017	(121,685,830)
11/30/2018	(3,245,411)
	\$(141,135,271)

These amounts will be available to offset future taxable capital gains. Under the recently enacted Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment

taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

(a) Other book/tax temporary differences are attributable primarily to the deferral of post-October capital losses for tax purposes, differences between book/tax accrual of interest income on securities in default, book/tax differences in the treatment of income from partnership investments, book/tax differences in the treatment of distributions from real estate investment trusts and book/tax differences in the timing of the deductibility of various expenses.

(b) The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the difference between book and tax amortization methods for premiums on fixed income securities.

10. Recent accounting pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standard 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 is currently evaluating the impact the adoption of ASU No. 2011-04 will have on the Fund's financial statements and related disclosures.

Report of independent registered public accounting firm

**The Board of Directors and Shareholders
LMP Capital and Income Fund Inc.:**

We have audited the accompanying statement of assets and liabilities of LMP Capital and Income Fund Inc., including the schedule of investments, as of November 30, 2011, and the related statements of operations and cash flows for the period from January 1, 2011 to November 30, 2011 and the year ended December 31, 2010, the statements of changes in net assets for the period from January 1, 2011 to November 30, 2011 and each of the years in the two-year period ended December 31, 2010, and the financial highlights for the period from January 1, 2011 to November 30, 2011, each of the years in the two-year period ended December 31, 2010, the period from November 1, 2008 to December 31, 2008 and each of the years in the three-year period ended October 31, 2008. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2011, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of LMP Capital and Income Fund Inc. as of November 30, 2011, and the results of its operations, the changes in its net assets, its cash flows, and the financial highlights for the periods described above, in conformity with U.S. generally accepted accounting principles.

New York, New York
January 18, 2012

Board approval of management and subadvisory agreements (unaudited)**Background**

The Investment Company Act of 1940, as amended (the 1940 Act) requires that the Board of Directors (the Board) of LMP Capital and Income Fund Inc. (the Fund), including a majority of its members that are not considered to be interested persons under the 1940 Act (the Independent Directors) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement) with the Fund's manager, Legg Mason Partners Fund Advisor, LLC (the Manager), and the sub-advisory agreements (individually, a Sub-Advisory Agreement and, collectively, the Sub-Advisory Agreements) with the Manager's affiliates, ClearBridge Advisors, LLC (ClearBridge), Western Asset Management Company (Western Asset) and Western Asset Management Company Limited in London (Western Asset London, and with ClearBridge and Western Asset, collectively, the Sub-Advisers). At a meeting (the Contract Renewal Meeting) held in-person on November 9 and 10, 2011, the Board, including the Independent Directors, considered and approved the continuation of each of the Management Agreement and Sub-Advisory Agreements for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreements, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information) about the Manager and the Sub-Advisers, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board's supervision (collectively, the Legg Mason Closed-end Funds), certain portions of which are discussed below. A presentation made by the Manager and Western Asset to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and the Sub-Advisory Agreements encompassed the Fund and other Legg Mason Closed-end Funds. ClearBridge also made a presentation to the Board at the Contract Renewal Meeting regarding its sub-advisory services to the Fund. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Advisers to the Fund. The Board's evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Board of the Fund and other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Advisers.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Advisers provide the Fund with certain investment sub-advisory services pursuant to the Sub-Advisory Agreements. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such

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Board approval of management and subadvisory agreements (unaudited) (cont d)

function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Advisers.

Board approval of management agreement and sub-advisory agreements

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreements, the Board, including the Independent Directors, considered the factors below.

Nature, extent and quality of the services under the management agreement and sub-advisory agreements

The Board received and considered Contract Renewal Information regarding the nature, extent and quality of services provided to the Fund by the Manager and the Sub-Advisers under the Management Agreement and the Sub-Advisory Agreements, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund's compliance policies and procedures established pursuant to the 1940 Act.

The Board reviewed the qualifications, backgrounds and responsibilities of the Fund's senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board's discussions with the Manager, ClearBridge and Western Asset at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager, ClearBridge and Western Asset and their affiliates and the financial resources available to the corporate parent of the Manager and the Sub-Advisers, Legg Mason, Inc. (Legg Mason), to support their activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board considered the responsibilities of the Manager and the Sub-Advisers under the Management Agreement and the Sub-Advisory Agreements, respectively, including the Manager's coordination and oversight of the services provided to the Fund by the Sub-Advisers and others and Western Asset's coordination and oversight of services provided to the Fund by Western Asset London. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement, the Manager does not provide day-to-day portfolio management services to the Fund. Rather, portfolio management services for the Fund are provided by Western Asset pursuant to the Sub-Advisory Agreement (the Western Asset Sub-Advisory Agreement) between the Manager and Western Asset and by ClearBridge pursuant to the Sub-Advisory Agreement between the Manager and ClearBridge. The Western Asset Sub-Advisory Agreement permits Western Asset to delegate certain of its responsibilities,

including its sub-advisory duties thereunder, provided that Western Asset, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Western Asset-Sub-Advisory Agreement, Western Asset London helps Western Asset to provide portfolio management services for the Fund pursuant to the Sub-Advisory Agreement between Western Asset and Western Asset London. The Board also considered the brokerage policies and practices of the Manager and ClearBridge, the standards applied in seeking best execution, the policies and practices of the Manager and ClearBridge regarding soft dollars, the use of a broker affiliated with the Manager or ClearBridge, and the existence of quality controls applicable to brokerage allocation procedures.

In reaching its determinations regarding continuation of the Management Agreement and Sub-Advisory Agreements, the Board took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased their shares based upon the reputation and the investment style, philosophy and strategy of the Manager, ClearBridge and Western Asset, as well as the resources available to the Manager and the Sub-Advisers.

The Board concluded that, overall, the nature, extent and quality of the management and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreements have been satisfactory under the circumstances.

Fund performance

The Board received and considered performance information and analyses (the Lipper Performance Information) for the Fund, as well as for a group of funds (the Performance Universe) selected by Lipper, Inc. (Lipper), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe consisted of the Fund and all leveraged income and preferred stock closed-end funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of twenty-two funds, including the Fund, for the 1- and 3-year periods ended June 30, 2011 and of twenty-one funds for the 5-year period ended June 30, 2011, including the Fund. The Board noted that it had received and discussed with the Manager, ClearBridge and Western Asset information throughout the year at periodic intervals comparing the Fund's performance against its benchmarks and its peer funds as selected by Lipper.

The Lipper Performance Information comparing the Fund's performance to that of the Performance Universe based on net asset value per share showed, among other things, that the Fund's performance for the 1-year period ended June 30, 2011 was ranked seventh among the Funds in the Performance Universe and was better than the median performance for the

Board approval of management and subadvisory agreements (unaudited) (cont d)

Performance Universe. The Fund's performance for the 3- and 5-year periods ended June 30, 2011, however, was ranked twenty-second out of twenty-two funds and seventeenth out of twenty-one funds, respectively, among the funds in the Performance Universe for those periods and in each case was significantly worse than the Performance Universe median. In evaluating the Fund's performance, the Board considered that responsibility for management of the equity portion of the Fund's investment portfolio was assigned to a new portfolio management team in August 2009 and that the new portfolio management team has implemented significant changes to the Fund's investment portfolio and program, the full effect of which may be determined only over a meaningful time frame. The Manager noted that the net asset value of the Fund has increased steadily since the new portfolio management team assumed its responsibility and that distributions had increased significantly twice during that time. The Board noted the improvement in the Fund's relative performance for the 1-year period. The Board also considered the Fund's performance in relation to its benchmarks and in absolute terms.

Based on its review of the Fund's performance, which included consideration of all of the factors noted above, the Board concluded that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreements for an additional one-year period would be in the interests of the Fund and its shareholders, especially in light of the Fund's limited performance experience under its new portfolio management team and recent improvement in relative performance as a result of the new team's efforts.

Management fees and expense ratios

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement and the sub-advisory fees (the Sub-Advisory Fees) payable to the Sub-Advisers under the Sub-Advisory Agreements in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Advisers. The Board noted that the Sub-Advisory Fees payable to ClearBridge and Western Asset under their Sub-Advisory Agreements with the Manager are paid by the Manager, not the Fund, and, accordingly, that the retention of the Sub-Advisers does not increase the fees or expenses otherwise incurred by the Fund's shareholders. Similarly, the Board noted that the Sub-Advisory Fees payable to Western Asset London under its Sub-Advisory Agreement with Western Asset are paid by Western Asset, not the Fund, and, accordingly, that the retention of Western Asset London does not increase the fees or expenses otherwise incurred by the Fund's shareholders.

Additionally, the Board received and considered information and analyses prepared by Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund's overall expenses with those of funds in an

expense group (the Expense Group) selected and provided by Lipper. The comparison was based upon the constituent funds' latest fiscal years. The Expense Group consisted of the Fund and six other funds classified by Lipper as leveraged income and preferred stock closed-end funds. The Expense Group funds had average net common share assets ranging from \$69.4 million to \$649 million. Two of the funds in the Expense Group were larger than the Fund and four were smaller.

The Lipper Expense Information, comparing the contractual Management Fee as well as the Fund's actual total expenses to the Fund's Expense Group, showed, among other things, that the Fund's contractual Management Fee was ranked fifth among the funds in the Expense Group and was worse than the median for the Expense Group. The Fund's actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds) was ranked fourth among the funds in the Expense Group and was at the Expense Group median when measured on the basis of common share assets only, but was ranked fifth among the funds in the Expense Group and was worse than the Expense Group median when measured on the basis of common share and leveraged assets. The Fund's total expenses were ranked second among the funds in the Expense Group when compared on the basis of common share assets only and fourth among the funds in the Expense Group when compared on the basis of common share and leveraged assets. In each case, total expenses were at or better than the Expense Group median.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional and separate accounts. The Board was advised that the fees paid by such institutional, separate account and other clients generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to these other clients, noting that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund's chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Manager, in response to an inquiry by the Board as to the reasons for the fee differential, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and services provided to the Legg Mason Open-end Funds. The Board

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Board approval of management and subadvisory agreements (unaudited) (cont d)

considered the fee comparisons in light of the different services provided in managing these other types of clients and funds.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fees were reasonable in light of the nature, extent and overall quality of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreements.

Manager profitability

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager's fiscal years ended March 31, 2011 and March 31, 2010. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager's revenue and cost allocation methodologies used in preparing such profitability data. In 2007, the Board received a report from an outside consultant that had reviewed the Manager's methodologies and the Board was assured by the Manager at the Contract Renewal Meeting that there had been no significant changes in those methodologies since the report was rendered. The profitability to each of the Sub-Advisers was not considered to be a material factor in the Board's considerations since the Sub-Advisers' fees are paid by the Manager in the case of ClearBridge and Western Asset and by Western Asset in the case of Western Asset London. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager in providing services to the Fund had increased by 23 percent over the period covered by the analysis but remained at a level which was not regarded by the Board as excessive in light of the nature, extent and overall quality of investment advisory and other services provided to the Fund by the Manager and the Sub-Advisers.

Economies of scale

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund's assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund's investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure was appropriate under present circumstances.

Other benefits to the manager and the sub-advisers

The Board considered other benefits received by the Manager, the Sub-Advisers and their affiliates as a result of their relationship with the Fund,

including the opportunity to obtain research services from brokers who effect Fund portfolio transactions, and did not regard such benefits as excessive.

* * * * *

In light of all of the foregoing and other relevant factors, the Board determined that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreements would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreements, and each Board member attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and the Sub-Advisory Agreements as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreements in private sessions with their independent legal counsel at which no representatives of the Manager were present.

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Additional information (unaudited)**Information about Directors and Officers**

The business and affairs of LMP Capital and Income Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o R. Jay Gerken, 620 Eighth Avenue, 49th Floor, New York, New York 10018. Information pertaining to the Directors and officers of the Fund is set forth below.

Independent Directors :**Carol L. Colman**

Year of birth	1946
Position(s) held with Fund ¹	Director and Member of the Nominating and Audit Committees, Class I
Term of office ¹ and length of time served	Since 2003
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None

Daniel P. Cronin

Year of birth	1946
Position(s) held with Fund ¹	Director and Member of the Nominating and Audit Committees, Class I
Term of office ¹ and length of time served	Since 2003
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None

Paolo M. Cucchi

Year of birth	1941
Position(s) held with Fund ¹	Director and Member of the Nominating and Audit Committees, Class I
Term of office ¹ and length of time served	Since 2007
Principal occupation(s) during past five years	Professor of French and Italian at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None

Independent Directors cont d**Leslie H. Gelb**

Year of birth	1937
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2003
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994)

William R. Hutchinson

Year of birth	1942
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2003
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)

Riordan Roett

Year of birth	1938
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2003
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The John Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None

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Additional information (unaudited) (continued)

Information about Directors and Officers

Independent Directors continued

Jeswald W. Salacuse

Year of birth	1938
Position(s) held with Fund ¹	Director and Member of the Nominating and Audit Committees, Class III
Term of office ¹ and length of time served	Since 2003
Principal occupation(s) during past five years	Henry J. Braker Professor of Commercial Law, The Fletcher School of Law and Diplomacy, Tufts University (since 1986); President and Member, Arbitration Tribunal, World Bank/ICSID (since 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1993)

Interested Director and Officer:

R. Jay Gerken²

Year of birth	1951
Position(s) held with Fund ¹	Director, Chairman, President and Chief Executive Officer, Class II
Term of office ¹ and length of time served	Since 2003
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC (Legg Mason & Co.) (since 2005); Officer and Trustee/Director of 160 funds associated with Legg Mason Partners Fund Advisor, LLC (LMPFA) or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); President and Chief Executive Officer (CEO) of LMPFA (since 2006); President and CEO of Smith Barney Fund Management LLC (SBFM) and Citi Fund Management Inc. (CFM) (formerly registered investment advisers) (since 2002); formerly, Chairman, President and CEO, Travelers Investment Adviser Inc. (prior to 2005)
Number of portfolios in fund complex overseen by Director (including the Fund)	160
Other board memberships held by Director	Former Trustee, Consulting Group Capital Markets Funds (11 funds) (prior to 2006)

Additional Officers:**Ted P. Becker****Legg Mason****620 Eighth Avenue, New York, NY 10018**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1951

Chief Compliance Officer

Since 2006

Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Vanessa A. Williams**Legg Mason****100 First Stamford Place, Stamford, CT 06902**

Year of birth

Position(s) with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1979

Identity Theft Prevention Officer

Since 2011

Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Assistant Vice President and Senior Compliance Officer of Legg Mason & Co. (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. (2006 to 2008) and Legg Mason & Co. predecessors (prior to 2006)

Robert I. Frenkel**Legg Mason****100 First Stamford Place, Stamford, CT 06902**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2003

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

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Additional information (unaudited) (cont'd)

Information about Directors and Officers

Additional Officers cont'd

Thomas C. Mandia

Legg Mason

100 First Stamford Place, Stamford, CT 06902

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2006

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of SBFM and CFM (since 2002)

Richard F. Sennett

Legg Mason

55 Water Street, New York, NY 10041

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1970

Principal Financial Officer

Since 2011

Principal Financial Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co.'s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC's Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC's Division of Investment Management (2002 to 2007)

Additional Officers cont d

Steven Frank

Legg Mason

55 Water Street, New York, NY 10041

Year of birth

1967

Position(s) held with Fund¹

Treasurer

Term of office¹ and length of time served

Since 2010

Principal occupation(s) during past five years

Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2002); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010); formerly, Assistant Controller of certain mutual funds associated with Legg Mason & Co. predecessors (prior to 2005)

Jeanne M. Kelly

Legg Mason

620 Eighth Avenue, New York, NY 10018

Year of birth

1951

Position(s) with Fund¹

Senior Vice President

Term of office¹ and length of time served

Since 2009

Principal occupation(s) during past five years

Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the 1940 Act.

¹ The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2012, year 2013 and year 2014, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year at the first meeting of the Fund's Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

² Mr. Gerken is an interested person of the Fund as defined in the 1940 Act because Mr. Gerken is an officer of LMPFA and certain of its affiliates.

52 LMP Capital and Income Fund Inc.

Annual chief executive officer and principal financial officer certifications (unaudited)

The Fund's Chief Executive Officer (CEO) has submitted to the NYSE the required annual certification and the Fund also has included the certifications of the Fund's CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

Other shareholder communications regarding accounting matters (unaudited)

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ("CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair (together with the CCO, "Complaint Officers"). Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:
Legg Mason & Co., LLC
Compliance Department
620 Eighth Avenue, 49th Floor
New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

54 LMP Capital and Income Fund Inc.

Dividend reinvestment plan (unaudited)

Unless you elect to receive distributions in cash, all distributions, on your Common Shares will be automatically reinvested by American Stock Transfer & Trust Company, as agent for the Common Shareholders (the Plan Agent), in additional Common Shares under the Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by American Stock Transfer & Trust Company as dividend paying agent.

If you participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If the market price of the Common Shares on the record date (or, if the record date is not a New York Stock Exchange trading day, the immediately preceding trading day) for determining shareholders eligible to receive the relevant distribution (the determination date) is equal to or exceeds the net asset value per share of the Common Shares, the Fund will issue new Common Shares at a price equal to the greater of (a) the net asset value per share at the close of trading on the Exchange on the determination date or (b) 95% of the market price per share of the Common Shares on the determination date.

(2) If the net asset value per share of the Common Shares exceeds the market price of the Common Shares on the determination date, the Plan Agent will receive the distribution in cash and will buy Common Shares in the open market, on the Exchange or elsewhere, for your account as soon as practicable commencing on the trading day following the determination date and terminating no later than the earlier of (a) 30 days after the distribution payment date, or (b) the record date for the next succeeding distribution to be made to the Common Shareholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds the net asset value per share of the Common Shares at the close of trading on the Exchange on the determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Shares in the open market and the Fund shall issue the remaining Common Shares at a price per share equal to the greater of (a) the net asset value per share at the close of trading on the Exchange on the determination date or (b) 95% of the then current market price per share.

The Plan Agent maintains all participants' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in non-certified form. Any proxy you receive will include all Common Shares you have received under the Plan.

You may withdraw from the Plan by notifying the Plan Agent in writing at 59 Maiden Lane, New York, New York 10038. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared dividend or distribution on the Common Shares. The Plan may be terminated by the Fund upon notice in writing mailed to Common Shareholders at least 30 days prior to the record date for the payment of any dividend or distribution by the Fund for which the termination is to be effective. Upon any termination, you will be sent a certificate or certificates for the full Common Shares held for you under the Plan and cash for any fractional Common Shares. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your shares on your behalf. The Plan Agent is authorized to deduct brokerage charges actually incurred for this transaction from the proceeds.

There is no service charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all dividends and distributions will be automatically reinvested in additional Common Shares, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Shares over time.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan and your account may be obtained from the Plan Agent at 1-888-888-0151.

56 LMP Capital and Income Fund Inc.

Important tax information (unaudited)

The following information is provided with respect to the distributions paid during the taxable period ended November 30, 2011:

Record date:	3/18/2011	6/17/2011	9/23/2011
Payable date:	3/25/2011	6/24/2011	9/30/2011
Ordinary income:			
Qualified dividend income for individuals	85.05%	75.76%	75.76%
Dividends qualifying for the dividends received deduction for corporations	72.08%	61.95%	61.95%
Interest from federal obligations	0.81%	0.81%	0.81%

The law varies in each state as to whether and what percentage of dividend income attributable to Federal obligations is exempt from state income tax. We recommend that you consult with your tax adviser to determine if any portion of the dividends you received is exempt from state income taxes.

Please retain this information for your records.

LMP

Capital and Income Fund Inc.

Directors

Carol L. Colman
Daniel P. Cronin
Paolo M. Cucchi
Leslie H. Gelb
R. Jay Gerken
Chairman
William R. Hutchinson
Riordan Roett
Jeswald W. Salacuse

Officers

R. Jay Gerken
*President and
Chief Executive Officer*
Richard F. Sennett
Principal Financial Officer
Ted P. Becker
Chief Compliance Officer
Vanessa A. Williams
Identity Theft Prevention Officer
Robert I. Frenkel
*Secretary and
Chief Legal Officer*
Thomas C. Mandia
Assistant Secretary
Steven Frank
Treasurer
Jeanne M. Kelly
Senior Vice President

LMP Capital and Income Fund Inc.

620 Eighth Avenue
49th Floor
New York, NY 10018

Investment manager

Legg Mason Partners Fund
Advisor, LLC

Subadvisers

ClearBridge Advisors, LLC
Western Asset Management Company
Western Asset Management Company Limited

Custodian

State Street Bank and Trust Company
1 Lincoln Street
Boston, MA 02111

Transfer agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Independent registered public accounting firm

KPMG LLP
345 Park Avenue
New York, NY 10154

Legal counsel

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017

New York Stock Exchange Symbol

SCD

Legg Mason Funds Privacy and Security Notice

Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the "Privacy Notice") addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

- Personal information included on applications or other forms;
- Account balances, transactions, and mutual fund holdings and positions;
- Online account access user IDs, passwords, security challenge question responses; and
- Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

- Employees, agents, and affiliates on a "need to know" basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

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- The Funds' representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

NOT PART OF THE ANNUAL REPORT

Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds' behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

Keeping You Informed of the Funds' Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

The Funds' Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your nonpublic personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds' privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at www.leggmason.com, or contact the Fund at 1-888-777-0102.

Revised April 2011

NOT PART OF THE ANNUAL REPORT

LMP Capital and Income Fund Inc.

LMP Capital and Income Fund Inc.
620 Eighth Avenue
49th Floor
New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase, at market prices, shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at www.sec.gov. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund's website at www.leggmason.com/cef and (3) on the SEC's website at www.sec.gov.

This report is transmitted to the shareholders of LMP Capital and Income Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

American Stock
Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

FD03548 1/12 SR11-1562

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determined that William R. Hutchinson, a member of the Board's Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Hutchinson as the Audit Committee's financial expert. Mr. Hutchinson is an independent Director pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last fiscal year ending December 31, 2010 and the fiscal period ending on November 30, 2011 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$67,900 in 2010 and \$71,900 in 2011.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in 2010 and \$0 in 2011.

In addition, there were no Audit-Related Fees billed in the Reporting Period for assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the ClearBridge Energy MLP Fund Inc. service affiliates), that were reasonably related to the performance of the annual audit of the service affiliates. Accordingly, there were no such fees that required pre-approval by the Audit Committee for the Reporting Periods (prior to August 6, 2003 services provided by the Auditor were not required to be pre-approved).

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$3,100 in 2010 and \$9,182 in 2011. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

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There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the LMP Capital and Income Fund Inc.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to LMP Capital and Income Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee s pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

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(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the LMP Capital and Income Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2010 and 2011; Tax Fees were 100% and 100% for 2010 and 2011; and Other Fees were 100% and 100% for 2010 and 2011.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to LMP Capital and Income Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to LMP Capital and Income Fund Inc. during the reporting period were \$0 in 2011.

(h) Yes. LMP Capital and Income Fund Inc.'s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's independence. All services provided by the Auditor to the LMP Capital and Income Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Dr. Riordan Roett

Jeswald W. Salacuse

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Proxy Voting Guidelines and Procedures

Legg Mason Partners Fund Advisor, LLC (LMPFA) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

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The subadviser's Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund's portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the fund's website at <http://www.leggmason.com/individualinvestors> and (3) on the SEC's website at <http://www.sec.gov>.

PROXY VOTING GUIDELINES & PROCEDURES SUMMARY

Concerning ClearBridge Advisors

Proxy Voting Policies and Procedures

ClearBridge is subject to the Proxy Voting Policies and Procedures that it has adopted to seek to ensure that it votes proxies relating to equity securities in the best interest of client accounts. The following is a brief overview of the policies.

ClearBridge votes proxies for each client account with respect to which it has been authorized or is required by law to vote proxies. In voting proxies, ClearBridge is guided by general fiduciary principles and seeks to act prudently and solely in the best interest of the beneficial owners of the accounts it manages. ClearBridge attempts to consider all factors that could affect the value of the investment and will vote proxies in the manner that it believes will be consistent with efforts to maximize shareholder values. ClearBridge may utilize an external service provider to provide it with information and/or a recommendation with regard to proxy votes. However, such recommendations do not relieve ClearBridge of its responsibility for the proxy vote.

In the case of a proxy issue for which there is a stated position in the policies, ClearBridge generally votes in accordance with such stated position. In the case of a proxy issue for which there is a list of factors set forth in the policies that ClearBridge considers in voting on such issue, ClearBridge considers those factors and votes on a case-by-case basis in accordance with the general principles set forth above. In the case of a proxy issue for which there is no stated position or list of factors that ClearBridge considers in voting on such issue, ClearBridge votes on a case-by-case basis in accordance with the general principles set forth above. Issues for which there is a stated position set forth in the policies or for which there is a list of factors set forth in the policies that ClearBridge considers in voting on such issues fall into a variety of categories, including election of directors, ratification of auditors, proxy and tender offer defenses, capital structure issues, executive and director compensation, mergers and corporate restructuring, and social and environmental issues. The stated position on an issue set forth in the policies can always be superseded, subject to the duty to act solely in the best interest of the beneficial owners of accounts, by the investment management professionals responsible for the account whose shares are being voted. There may be occasions when different investment teams vote differently on the same issue. An investment team (e.g., ClearBridge SAI investment team) may adopt proxy voting policies that supplement ClearBridge's Proxy Voting Policies and Procedures. In addition, in the case of Taft-Hartley clients, ClearBridge will comply with a client direction to vote proxies in accordance with Institutional Shareholder Services' (ISS) PVS Voting guidelines, which ISS represents to be fully consistent with AFL-CIO guidelines.

In furtherance of ClearBridge's goal to vote proxies in the best interest of clients, ClearBridge follows procedures designed to identify and address material conflicts that may arise between ClearBridge's interests and those of its clients before voting proxies on behalf of such clients. To seek to identify conflicts of interest, ClearBridge periodically notifies ClearBridge employees in writing that they are under an obligation (i) to be aware of the potential for conflicts of interest on the part of ClearBridge with respect to voting proxies on behalf of client accounts both as a result of their personal relationships and due to special circumstances that may arise during the conduct of ClearBridge's business, and (ii) to bring conflicts of interest of which they become aware to the attention of ClearBridge's compliance personnel. ClearBridge also maintains and considers a list of significant ClearBridge relationships that could present a conflict of interest for ClearBridge in voting proxies. ClearBridge is also sensitive to the fact that a significant, publicized relationship between an issuer and a non-ClearBridge Legg Mason affiliate might appear to the public to influence the manner in which ClearBridge decides to vote a proxy with respect to such issuer.

Absent special circumstances or a significant, publicized non-ClearBridge Legg Mason affiliate relationship that ClearBridge for prudential reasons treats as a potential conflict of interest because such relationship might appear to the public to influence the manner in which ClearBridge decides to vote a proxy, ClearBridge generally takes the position that non-ClearBridge relationships between a Legg Mason affiliate and an issuer do not present a conflict of interest for ClearBridge in voting proxies with respect to such issuer. Such position is based on the fact that ClearBridge is operated as an independent business unit from other Legg Mason business units as well as on the existence of information barriers between ClearBridge and certain other Legg Mason business units.

ClearBridge maintains a Proxy Committee to review and address conflicts of interest brought to its attention by ClearBridge compliance personnel. A proxy issue that will be voted in accordance with a stated ClearBridge position on such issue or in accordance with the recommendation of an independent third party is not brought to the attention of the Proxy Committee for a conflict of interest review because ClearBridge's position is that to the extent a conflict of interest issue exists, it is resolved by voting in accordance with a pre-determined policy or in accordance with the recommendation of an independent third party. With respect to a conflict of interest brought to its attention, the Proxy Committee first determines whether such conflict of interest is material. A

conflict of interest is considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, ClearBridge's decision-making in voting proxies. If it is determined by the Proxy Committee that a conflict of interest is not material, ClearBridge may vote proxies notwithstanding the existence of the conflict.

If it is determined by the Proxy Committee that a conflict of interest is material, the Proxy Committee is responsible for determining an appropriate method to resolve such conflict of interest before the proxy affected by the conflict of interest is voted. Such determination is based on the particular facts and circumstances, including the importance of the proxy issue and the nature of the conflict of interest.

**Western Asset Management Company and Western Asset Management
Company Limited (together, Western Asset or the Firm) Proxy Voting
Policy**

Background

Western Asset Management Company (WA) and Western Asset Management Company Limited (WAML) (together Western Asset) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 (Advisers Act). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA and WAML may so consult and agree with each other) regarding the voting of any securities owned by its clients.

Policy

Western Asset's proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).

Procedures

Responsibility and Oversight

The Western Asset Compliance Department (Compliance Department) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support (Corporate Actions). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

Client Authority

Prior to August 1, 2003, all existing client investment management agreements (IMAs) will be reviewed to determine whether Western Asset has authority to vote client proxies. At account start-up, or upon amendment of an IMA, the applicable client IMA are similarly reviewed. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan,

Western Asset will assume responsibility for proxy voting. The Client Account Transition Team maintains a matrix of proxy voting authority.

Proxy Gathering

Registered owners of record, client custodians, client banks and trustees (Proxy Recipients) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Prior to August 1, 2003, Proxy Recipients of existing clients will be reminded of the appropriate routing to Corporate Actions for proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Compliance Department for coordination and the following actions:

- a. Proxies are reviewed to determine accounts impacted.

- b. Impacted accounts are checked to confirm Western Asset voting authority.

- c. Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)

- d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

- e. Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Compliance Department.

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f. Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

- a. A copy of Western Asset's policies and procedures.
- b. Copies of proxy statements received regarding client securities.
- c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.
- d. Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.
- e. A proxy log including:
 1. Issuer name;
 2. Exchange ticker symbol of the issuer's shares to be voted;
 3. Council on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;
 4. A brief identification of the matter voted on;
 5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
 6. Whether a vote was cast on the matter;
 7. A record of how the vote was cast; and
 8. Whether the vote was cast for or against the recommendation of the issuer's management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset's offices.

Disclosure

Part II of both the WA Form ADV and the WAML Form ADV contain a description of Western Asset's proxy policies. Prior to August 1, 2003, Western Asset will deliver Part II of its revised Form ADV to all existing clients, along with a letter identifying the new disclosure. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

Conflicts of Interest

All proxies are reviewed by the Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;
2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and
3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

Voting Guidelines

Western Asset's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

I. Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

1. Matters relating to the Board of Directors

Western Asset votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

d. Votes are cast on a case-by-case basis in contested elections of directors.

2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

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- a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.
- b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.
- c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.
- d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.
-

3. Matters relating to Capitalization

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

a. Western Asset votes for proposals relating to the authorization of additional common stock.

b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

c. Western Asset votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions

Western Asset votes these issues on a case-by-case basis on board-approved transactions.

5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

a. Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws.

b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.

2. Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals.

3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients' portfolios.

2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

IV. Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in foreign issuers (i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.

2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.

3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.

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ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Stephen A. Walsh Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset from 2000 to 2008; Chief Investment Officer of Western Asset since 2008.
Keith J. Gardner Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2007	Co-portfolio manager of the fund; portfolio manager and research analyst at Western Asset since 1994.
Michael C. Buchanan Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2010	Co-portfolio manager of the fund; Managing Director and head of U.S. Credit Products from 2003-2005 at Credit Suisse Asset Management
Ryan Brist Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2010	Co-portfolio manager of the fund; Head of U.S. Investment Grade Credit of Western Asset since 2009; Chief Investment Officer and Portfolio Manager at Logan Circle Partners, L.P. from 2007-2009; Co-Chief Investment Officer and Senior Portfolio Manager at Delaware Investment Advisors from 2000-2007
Mark Lindbloom Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2010	Co-portfolio manager of the fund; Portfolio Manager with Western Asset since 2006. Formerly, a Managing Director of Citigroup Asset Management and its predecessors from 1986-2006.
Mark McAllister Clearbridge 620 Eighth Avenue New York, NY 10018	Since 2011	Co-portfolio manager of the fund; Managing Director and Senior Portfolio Manager with ClearBridge; Mr. McAllister has 24 years of investment industry experience.
Peter Vanderlee Clearbridge 620 Eighth Avenue New York, NY 10018	Since 2009	Co-portfolio manager of the fund; Managing Director and Portfolio Manager with ClearBridge Advisors. Mr. Vanderlee has eleven years of investment management experience and thirteen years of related investment experience.
Tim Daubenspeck Clearbridge 620 Eighth Avenue New York, NY 10018	Since 2011	Co-portfolio manager of the fund; Director and Portfolio Manager with ClearBridge Advisors. Mr. Daubenspeck has twelve years of investment management experience.

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Tatiana Thibodeau
Clearbridge
620 Eighth Avenue
New York, NY 10018

Since 2011

Co-portfolio manager of the fund; Director and Portfolio Manager with ClearBridge Advisors. Ms. Thibodeau has twelve years of investment management experience.

(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund's portfolio managers for the fund. Unless noted otherwise, all information is provided as of November 30, 2011.

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio Manager(s)	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Stephen A. Walsh	101 registered investment companies with \$157.3 billion in total assets under management	211 Other pooled investment vehicles with \$105.5 billion in assets under management*	735 Other accounts with \$170.8 billion in total assets under management**
Keith J. Gardner	40 registered investment companies with \$26.5 billion in total assets under management	7 Other pooled investment vehicles with \$2.5 billion in assets under management	2 Other accounts with \$0.6 billion in total assets under management
Michael C. Buchanan	46 registered investment Companies with \$30.1 billion in total assets Under management	10 Other pooled investment vehicles with \$4.9 billion in assets under management	15 Other accounts with \$2.2 billion in total assets under management
Ryan Brist	12 registered investment Companies with \$3.2 billion in total assets Under management	4 Other pooled investment vehicles with \$6.4 billion in assets under management ***	21 Other accounts with \$4.9 billion in total assets under management****
Mark Lindbloom	20 registered investment Companies with \$24.3 billion in total assets Under management	2 Other pooled investment vehicles with \$74 million in assets under management	46 Other accounts with \$13.7 billion in total assets under management+
Mark McAllister	1 registered investment Company with \$0.2 billion in total assets Under management	0 Other pooled investment vehicle with \$0 billion in assets under management	0 Other accounts with \$0.0 billion in assets under management

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Tim Daubenspeck	0 registered investment Companies with \$0.0 billion in total assets Under management	0 Other pooled investment vehicles with \$0 billion in assets under management	0 Other accounts with \$0.0 billion in assets under management
Peter Vanderlee	4 registered investment Companies with \$6.6 billion in total assets Under management	1 Other pooled investment vehicle with \$20 million in assets under management	13,265 Other accounts with \$2.0 billion in assets under management
Tatiana Thibodeau	0 registered investment Companies with \$0.0 billion in total assets Under management	0 Other pooled investment vehicles with \$0 billion in assets under management	0 Other accounts with \$0.0 billion in assets under management

-
- * Includes 6 accounts managed, totaling \$0.9 billion, for which advisory fee is performance based.
 - ** Includes 76 accounts managed, totaling \$18.8 billion, for which advisory fee is performance based.
 - *** Includes 1 account managed, totaling \$1 million, for which advisory fee is performance based.
 - **** Includes 2 accounts managed, totaling \$0.3 billion, for which advisory fee is performance based.
 - + Includes 5 accounts managed, totaling \$1.7 billion, for which advisory fee is performance based.

The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Walsh is involved in the management of all the Firm s portfolios, but they are not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

(a)(3): Portfolio Manager Compensation (Western Asset)

With respect to the compensation of the portfolio managers, Western Asset s compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser s employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional s job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is a portfolio manager s investment performance versus appropriate peer groups and benchmarks (e.g., a securities index and with respect to a fund, the benchmark set forth in the fund s Prospectus to which the fund s average annual total returns are compared or, if none, the benchmark set forth in the fund s annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure a portfolio manager s pre-tax investment performance against other benchmarks, as it determines appropriate. Because portfolio managers are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser s business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

Potential Conflicts of Interest (*Western Asset*)

Conflicts of Interest

The manager, subadviser and portfolio managers have interests which conflict with the interests of the fund. There is no guarantee that the policies and procedures adopted by the manager, the subadviser and the fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

Allocation of Limited Time and Attention. A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

Allocation of Limited Investment Opportunities; Aggregation of Orders. If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the fund's ability to take full advantage of the investment opportunity. Additionally, a subadviser may aggregate transaction orders for multiple accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, a subadviser's trade allocation policies may result in the fund's orders not being fully executed or being delayed in execution.

Pursuit of Differing Strategies. At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

Cross Trades. Portfolio managers may manage funds that engage in cross trades, where one of the manager's funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

Selection of Broker/Dealers. Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide subadvisers with brokerage and research services. These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager's funds or accounts than to others (but not

necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager's management fee and/or a portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager's or the manager's or a subadviser's desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager's conflicts of interest with respect to the fund may be more acute.

Related Business Opportunities. The investment manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

Portfolio Manager Compensation (ClearBridge Advisors)

ClearBridge's portfolio managers participate in a competitive compensation program that is designed to attract and retain outstanding investment professionals and closely align the interests of its investment professionals with those of its clients and overall firm results. The total compensation program includes a significant incentive component that rewards high performance standards, integrity, and collaboration consistent with the firm's values. Portfolio manager compensation is reviewed and modified each year as appropriate to reflect changes in the market and to ensure the continued alignment with the goals stated above. ClearBridge's portfolio managers and other investment professionals receive a combination of base compensation and discretionary compensation, comprising a cash incentive award and deferred incentive plans described below.

Base salary compensation. Base salary is fixed and primarily determined based on market factors and the experience and responsibilities of the investment professional within the firm.

Discretionary compensation. In addition to base compensation managers may receive discretionary compensation.

Discretionary compensation can include:

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- Cash Incentive Award

- ClearBridge's Deferred Incentive Plan (CDIP) is a mandatory program that typically defers 15% of discretionary year-end compensation into ClearBridge managed products. For portfolio managers, one-third of this deferral tracks the performance of their primary managed product, one-third tracks the performance of a composite portfolio of the firm's new products and one-third can be elected to track the performance of one or more of ClearBridge managed funds. Consequently, portfolio managers can have two-thirds of their CDIP award tracking the performance of their primary managed product.

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For centralized research analysts, two-thirds of their deferral is elected to track the performance of one or more of ClearBridge managed funds, while one-third tracks the performance of the new product composite.

ClearBridge then makes a company investment in the proprietary managed funds equal to the deferral amounts by fund. This investment is a company asset held on the balance sheet and paid out to the employees in shares subject to vesting requirements.

- **Legg Mason Restricted Stock Deferral** a mandatory program that typically defers 5% of discretionary year-end compensation into Legg Mason restricted stock. The award is paid out to employees in shares subject to vesting requirements.
- **Legg Mason Restricted Stock and Stock Option Grants** a discretionary program that may be utilized as part of the total compensation program. These special grants reward and recognize significant contributions to our clients, shareholders and the firm and aid in retaining key talent.

Several factors are considered by ClearBridge Senior Management when determining discretionary compensation for portfolio managers. These include but are not limited to:

- *Investment performance.* A portfolio manager's compensation is linked to the pre-tax investment performance of the fund/accounts managed by the portfolio manager. Investment performance is calculated for 1-, 3-, and 5-year periods measured against the applicable product benchmark (*e.g.*, a securities index and, with respect to a fund, the benchmark set forth in the fund's Prospectus) and relative to applicable industry peer groups. The greatest weight is generally placed on 3- and 5-year performance.
- Appropriate risk positioning that is consistent with ClearBridge's investment philosophy and the Investment Committee/CIO approach to generation of alpha;
- Overall firm profitability and performance;
- Amount and nature of assets managed by the portfolio manager;
- Contributions for asset retention, gathering and client satisfaction;
- Contribution to mentoring, coaching and/or supervising;
- Contribution and communication of investment ideas in ClearBridge's Investment Committee meetings and on a day to day basis;
- Market compensation survey research by independent third parties

Potential Conflicts of Interest

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Potential conflicts of interest may arise when the fund's portfolio manager also has day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the fund's portfolio manager.

The manager, the subadviser and the fund have adopted compliance policies and procedures that are designed to address various conflicts of interest that may arise for the manager or the subadviser and the individuals that each employs. For example, the manager and the subadviser each seek to minimize the effects of competing interests for the time and attention of the portfolio manager by assigning the portfolio manager to manage funds and accounts that share a similar investment style. The manager and the subadviser have also adopted trade allocation procedures that are designed to facilitate the fair allocation of limited investment opportunities among multiple funds and accounts. There is no guarantee, however, that the policies and procedures adopted by the manager, the subadviser and the fund will be able to detect and/or prevent every situation in which an actual or potential conflict may appear. These potential conflicts include:

Allocation of Limited Time and Attention. A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or

she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

Allocation of Limited Investment Opportunities. If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund's ability to take full advantage of the investment opportunity.

Pursuit of Differing Strategies. At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

Selection of Broker/Dealers. Portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide brokerage and research services (as those terms are defined in Section 28(e) of the 1934 Act), which may result in the payment of higher brokerage fees than might have otherwise been available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the sub-adviser determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts managed. For this reason, the subadviser has formed a brokerage committee that reviews, among other things, the allocation of brokerage to broker/dealers, best execution and soft dollar usage.

Variation in Compensation. A conflict of interest may arise where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the structure of the manager's management fee and/or the portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. The portfolio manager might be motivated to favor funds and/or accounts in which he or she has an interest or in which the manager and/or its affiliates have interests. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager.

Related Business Opportunities. The manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the manager and its affiliates.

(a)(4): Portfolio Manager Securities Ownership

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of November 30, 2011.

Portfolio Manager(s)	Dollar Range of Portfolio Securities Beneficially Owned
Stephen A. Walsh	A
Ryan Brist	A
Michael Lindbloom	A
Keith J. Gardner	A
Michael Buchanan	A
Michael McAllister	A
Tim Daubenspeck	A
Peter Vanderlee	E
Tatiana Thibodeau	A

Dollar Range ownership is as follows:

- A: none
- B: \$1 - \$10,000
- C: 10,001 - \$50,000
- D: \$50,001 - \$100,000
- E: \$100,001 - \$500,000
- F: \$500,001 - \$1 million
- G: over \$1 million

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

None.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 11. 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 second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

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, there unto duly authorized.

LMP Capital and Income Fund Inc.

By: */s/ R. Jay Gerken*
(R. Jay Gerken)
Chief Executive Officer of
LMP Capital and Income Fund Inc.

Date: January 25, 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 of
LMP Capital and Income Fund Inc.

Date: January 25, 2012

By: */s/ Richard F. Sennett*
(Richard F. Sennett)
Principal Financial Officer of
LMP Capital and Income Fund Inc.

Date: January 25, 2012
