

SALOMON BROTHERS CAPITAL & INCOME FUND INC

Form N-CSR

January 09, 2006

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**

Salomon Brothers Capital and Income Fund Inc.

(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4th Floor

Stamford, CT 06902

(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 725-6666

Date of fiscal year end: **October 31**

Date of reporting period: **October 31, 2005**

ITEM 1. REPORT TO STOCKHOLDERS.

The Annual Report to Stockholders is filed herewith.

EXPERIENCE

Salomon Brothers Capital and Income Fund Inc.

ANNUAL REPORT

OCTOBER 31, 2005

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

Salomon Brothers Capital and Income Fund Inc.

Annual Report □ October 31, 2005

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Fund Objective

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

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All Citi Marks are owned by Citigroup, and are licensed for use until no later than one year after the date of the licensing agreement.

Letter from the Chairman

R. JAY GERKEN, CFA

Chairman, President and
Chief Executive Officer

Dear Shareholder,

The U.S. economy was surprisingly resilient during the fiscal year of this report. While surging oil prices, rising interest rates, and the impact of Hurricanes Katrina and Rita threatened to derail the economic expansion, growth remained solid throughout the period. After a 3.3% advance in the second quarter of 2005, third quarter gross domestic product (GDP)ⁱ growth grew to 4.3%, marking the tenth consecutive quarter in which GDP growth grew 3.0% or more.

As expected, the Federal Reserve Board (Fed)ⁱⁱ continued to raise interest rates in an attempt to ward-off inflation. After raising rates three times from June 2004 through September 2004, the Fed increased its target for the federal funds rateⁱⁱⁱ in 0.25% increments eight additional times over the reporting period. The Fed again raised rates in early November, after the Fund's reporting period had ended. All told, the twelve rate hikes by the Fed have brought the target for the federal funds rate from 1.00% to 4.00%. This represents the longest sustained Fed tightening cycle since 1976-1979.

During the 12-month period covered by this report, the U.S. stock market generated solid results, with the S&P 500 Index^{iv} returning 8.72%. Generally positive economic news, relatively benign core inflation, and strong corporate profits supported the market during much of the period. Looking at the fiscal year as a whole, mid-cap stocks generated superior returns, with the Russell Midcap^v, Russell 1000^{vi}, and Russell 2000^{vii} Indexes returning 18.09%, 10.47%, and 12.08%, respectively. From a market style perspective, value-oriented stocks significantly outperformed their growth counterparts, with the Russell 3000 Value^{viii} and Russell 3000 Growth^{ix} Indexes returning 11.96% and 8.99%, respectively.

During much of this fiscal year, the fixed income market confounded investors as short-term interest rates rose in concert with the Fed rate tightening, while longer-term rates, surprisingly, declined. However, due to a spike late in the period, the 10-year Treasury yield was 4.56% on October 31, 2005, versus 4.11% when the period began. Nevertheless, this was still lower than its yield of 4.62% when the Fed began its tightening cycle on June 30, 2004. Looking at the one-year period as a whole, the overall bond market, as measured by the Lehman Brothers Aggregate Bond Index, returned 1.13%.

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

Special Shareholder Notice

On December 1, 2005, Citigroup Inc. (Citigroup) completed the sale of substantially all of its asset management business, Citigroup Asset Management (CAM), to Legg Mason, Inc. (Legg Mason). As a result, the Fund's investment manager (the Manager), previously an indirect wholly-owned subsidiary of Citigroup, has become a wholly-owned subsidiary of Legg Mason. Completion of the sale caused the Fund's existing investment management contract to terminate. The Fund's shareholders previously approved a new investment management contract between the Fund and the Manager which became effective on December 1, 2005.

Information About Your Fund

As you may be aware, several issues in the mutual fund industry have recently come under the scrutiny of federal and state regulators. The Fund's Manager and some of its affiliates have received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The regulators appear to be examining, among other things, the open-end fund's response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund has been informed that the Manager and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

Important information concerning the Fund and its Manager with regard to recent regulatory developments is contained in the Notes to Financial Statements included in this report.

As previously described in proxy statements that were mailed to shareholders of the Fund in connection with the transaction, Legg Mason intends to combine the fixed-income operations of the Manager with those of Legg Mason's wholly-owned subsidiary, Western Asset Management Company, and its affiliates, (Western Asset). This combination will involve Western Asset and the Manager sharing common systems and procedures, employees (including portfolio managers), investment trading platforms, and other resources. At a future date, Legg Mason expects to recommend to the Boards of Directors of the funds that Western Asset be appointed as the adviser or sub-adviser to the funds, subject to applicable regulatory requirements. The combination is also expected to result in changes to portfolio managers or portfolio management teams for a number of funds, subject to Board oversight and appropriate notice to shareholders.

The Fund has been advised by the Manager that, in anticipation of this combination, Legg Mason and Western Asset have come to a mutually beneficial agreement with a select group of portfolio managers and other investment professionals from the Manager of the Fund, including Peter Wilby. The agreement provides them the opportunity to start a new firm based in New York focusing on high yield, emerging market debt, and specialty fixed income strategies. Importantly, the group has committed to remain employed with the Manager through March 31, 2006 to assist in the orderly integration of the fixed-income operations of the Manager, including the management of the Fund, with those of Western Asset. Western Asset has also entered into a consulting agreement with the group, effective as of April 1, 2006, to ensure an effective and orderly transition of portfolio management and Board liaison responsibilities for the Funds to Western Asset.

The Board will be working with the Manager, Western Asset, and the portfolio managers to implement an orderly combination of the Manager's fixed income operations and Western Asset in the best interests of the Fund and its shareholders.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you continue to meet your financial goals.

Sincerely,

R. Jay Gerken, CFA
Chairman and Chief Executive Officer

December 1, 2005

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

- i Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- ii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- iv The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.
- v The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index whose average market capitalization was approximately \$4.7 billion as of 6/24/05.
- vi The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.
- vii The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- viii The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.) ix The Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values.
- x The Lehman Brothers Aggregate Bond 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.

Manager Overview

MICHAEL SEDOY (left)
Co-portfolio Manager

MARK MCALLISTER (right)
Co-Portfolio Manager

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

A. There was no shortage of problems for the U.S. economy to overcome during the reporting period. These included record high oil prices, rising short-term interest rates, the devastation inflicted by Hurricanes Katrina and Rita, geopolitical issues, and falling consumer confidence. However, the economy proved to be surprisingly resilient during the fiscal year and the S&P 500 Indexⁱ posted an 8.72% total return for the period.

The Fed continued to raise interest rates over the period in an attempt to ward-off inflation. All told, the Fed's 12 rate hikes have brought the target for the federal funds rate from 1.00% to 4.00%. This represents the longest sustained Fed tightening cycle since 1976-1979.

The top-performing sector within the S&P 500 Index was energy, gaining 33.71%. Other leading sectors included utilities (23.86%) and consumer staples (10.18%) . All sectors had positive returns during the period with the exception of consumer discretionary (-1.06%) and telecommunications (-0.46%). Among large-cap equities, value stocks continued to outperform growth stocks as measured by the performance of the S&P 500 Barra Value Indexⁱⁱ, which returned 10.17% and the S&P 500 Barra Growth Indexⁱⁱⁱ, which returned 7.25%. Small-cap stocks continued to outperform large-cap stocks as represented by the small-cap Russell 2000 Index^{iv}, which increased 12.08% and the large-cap Russell 1000 Index, which increased 10.47%.

In the fixed income markets, during the one-year period, emerging markets returned 10.54%, as represented by the JPMorgan Emerging Markets Bond Index Global (EMBI Global)^v. Although there were periods of weakness in March and July 2005, the emerging markets debt asset class generated solid results. Improving country fundamentals and strong market technicals outweighed the downward pressure exerted by Fed tightening. In addition, continued strength in commodity prices, including metals, agriculture, and oil supported many emerging market countries. The high yield market returned 3.55%, as represented by the Citigroup High Yield Market Index^{vi}. After a strong start, high-yield bonds fell sharply in March and April 2005 as investors became concerned over downgrades for General Motors and Ford Motor Company bonds. However, the high yield market reversed course and rallied as the uncertainty surrounding the downgrades lifted and investors searched for incremental yield. Investment grade bonds returned 1.13%, as represented by the Lehman Brothers Aggregate Bond Index^{vii}. In general, the investment grade

bond asset class experienced lackluster performance and broad-based weakness with higher rates and wider spreads across the curve.

Due to the Fund's allocations across investment grade, high yield and emerging markets debt, please find three separate market overviews, for the period of this report included below.

Investment Grade Market Review

During the 12 months ended October 31, 2005, markets were primarily driven by Federal Reserve Board (the Fed's)^{viii} activity, employment and inflation data and rising energy costs, exacerbated near period-end by the devastating impact of Hurricane Katrina on the U.S. Gulf Coast. The Fed's eight "measured" 25-basis-point hikes during the period brought the federal funds rate^x to 3.75% from 1.75% by the reporting period's end. The Fed raised rates an additional quarter point to 4.00% on November 1st, after the close of the reporting period. These measured, consecutive rate hikes exerted upward pressure on short-term bond yields, driving 2-year yields up about 183 basis points during the 12 months. However, in what Fed Chairman Alan Greenspan termed a "conundrum," yields on the long bond stayed low during the period, even declining slightly (four basis points) over the 12 months despite relinquishing all gains to end 53 basis points higher by period-end. This sharp rise in short yields and relative stagnation in longer yields resulted in the extensive yield curve flattening seen during the period.

As the market fully expected each 25-basis-point hike in the federal funds rate during the period "thanks to the Fed's well-advertised intentions to raise rates at a measured pace" investors spent much of the period dissecting language from the Fed for clues on its assessment of the U.S. economy and the pace of rate hikes. The Fed reiterated throughout the year that it would increase rates "at a pace that is likely to be measured" and, starting in June 2004, added that, "the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability." In its most recent statement (from the September 20th meeting), the Fed noted that core inflation remained low near the end of the period and long-term inflation expectations remained "contained" (even if the language was downgraded from the "well contained" language used at prior meetings).

Slowing global growth, rising inflation and surging oil prices undoubtedly restrained economic activity during the period, with Gross Domestic Product (GDP)^{xi} declining year-over-year to 3.8% growth in first quarter 2005 (from first quarter 2004's 4.5% pace) and to 3.4% growth in second quarter 2005 (from second quarter 2004's 3.5%). However, economic growth remained remarkably resilient into the third quarter, particularly after fears of a sharp slowdown in the wake of Hurricanes Katrina and Rita, gaining 3.8% on an annualized basis versus 3.9% last year and consensus expectations of 3.6% growth. Although growth remained strong throughout the reporting period, fears of potential slowing, combined with increasing inflation, drove markets. Oil prices, which breached \$70 per barrel before reporting period's end, continue to cast a pall on growth and consumer spending expectations.

This was particularly true in the latter half of the reporting period, as investors assessed the potential impact of Hurricanes Katrina and Rita on U.S. economic growth, inflation and the pace of interest rates and growth indicators turned increasingly mixed. For example, the U.S. labor market began to pick up in early 2004 and continued to improve through most of the Fund's fiscal year, although the pace of improvement remained uneven from month to month. Unemployment fell through the majority of the reporting period,

declining from 5.5% in October 2004 to 4.9% in August 2005. However, employment skyrocketed, even if not as much as expected, in the wake of Hurricane Katrina, and the unemployment rate rose to 5.0% in October. Industrial production and retail sales also remained positive through most of the reporting period, even considering the volatility in the auto sector as General Motors and Ford were successively downgraded by three major statistical credit rating agencies to below investment grade. Again, however, as with employment, industrial production and retail sales data turned negative near the reporting period's end as the effects of Hurricane Katrina roiled through the economy, reductions in auto production hit the market and the highly successful automotive dealer incentive packages offered through the summer came to an end.

While inflationary pressures from sustained high commodity prices began to creep into the economy, particularly near the end of the reporting period, continued strong growth and limited wage pressures are keeping long-term inflation expectations [contained]. Core inflation rates, in particular, remained subdued throughout the period despite growing inflationary pressure. Specifically, Core Consumer Price Index (CPI) inflation rose only 0.1% year-over-year to 2.1% in October 2005, and core Producer Price Index (PPI) inflation edged up only 0.1% year-over-year to 1.9% in September 2005. However, both consumer and producer headline inflation rose dramatically by period end as continually high and rising energy prices and competitive pricing pressures began to be passed through to the consumer. Headline CPI inflation rose approximately 1.1% to 4.3% in October 2005 versus October 2004, and headline PPI inflation increased 1.5% to 5.9% over the same period. Pricing pressures were also seen in the core PCE deflator, the Fed's preferred measure of inflation, which rose 0.5% versus September 2004 to 2.0% year-over-year in the latest September reading.

Emerging Markets Debt Review

Emerging markets debt returned 10.54% during the 12 months ended October 31, 2005, as represented by the EMBI Global. Strong country fundamentals and market technicals offset the downward pressure exerted by eight [measured] increases in the federal funds rate throughout the 12 months and credit contagion from the auto sector during volatility of Spring 2005. Continued progress on political and economic reform in many emerging countries, continued commodity price strength and the generally positive macro environment supported broad credit quality improvements across emerging markets during the 12 months.

Sovereign debt markets achieved positive momentum at the start of the period after recovering from depressed levels earlier in 2004 and rallied through the remainder of the year. Positive returns were supported by strong underlying country fundamentals, commodity prices strength (particularly in metals, agriculture and oil) and relatively low U.S. Treasury market volatility. Emerging market debt continued to trend positive during the first two months of 2005 despite concerns over the path of U.S. interest rates, risks of higher inflation and new bond issuance weighing on the market. However, indications of potentially more aggressive tightening (50-basis-point increments) from the Fed and increasingly prominent inflation worries led the market down in March, broadly in line with the U.S. Treasury market. Emerging debt markets remained under pressure in early April as spillover from volatile credit markets, with the highly visible troubles in the auto sector, worsened technicals.

Markets turned again by mid-April and followed a generally upward trajectory through the remainder of the reporting period as U.S. Treasury market volatility declined, the U.S. equity market recovered and country fundamentals remained broadly supportive. Although sovereign market volatility trended upward near the end of the reporting period, emerging markets proved relatively resilient, boosted by strong investor demand for greater risk assets despite the early July terrorist bombings in London, continued political noise in key emerging countries and increasing volatility in U.S. Treasuries.

Spreads tightened 157 basis points during the 12-month period ended October 31, 2005, closing at 242 basis points over U.S. Treasuries. Of note, sovereign spreads tightened 67 basis points alone during the month of June 2005 due primarily to index rebalancing with the conclusion of the Argentine bond exchange. Over the period, 12-month return volatility stood at 4.92%^{xii}, substantially below long-term, historical levels of approximately 16%.

Performance Review

For the 12 months ended October 31, 2005, the Salomon Brothers Capital and Income Fund Inc. returned 6.85%, based on its New York Stock Exchange (NYSE) market price and 12.34% based on its net asset value (NAV)^{xiii} per share. In comparison, the Fund's unmanaged benchmark, the S&P 500 Index, returned 8.72% and its Lipper Income and Preferred Stock Closed-End Funds Category Average^{xiv} increased 6.76% over the same time frame. Please note that Lipper performance returns are based on each Fund's NAV.

During the 12-month period of this report, the Fund made distributions to shareholders totaling \$1.20 per share, (which may have included a return of capital). The performance table shows the Fund's 12-month total return based on its NAV and market price as of October 31, 2005. **Past performance is no guarantee of future results.**

Q. What were the most significant factors affecting Fund performance?

Fund Performance as of October 31, 2005 (unaudited)

Price Per Share	12 Month Total Return
\$19.69 (NAV)	12.34%
\$17.19 (Market Price)	6.85%

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

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions, including returns of capital, if any, in additional shares.

What were the leading contributors to performance?

A. The performance of the equity portion of the Fund was driven by both asset allocation and security selection. Energy, financials and health care were the strongest contributing sectors to Fund performance with **Nexen**, **Total S.A.**, **Altria Group**, **SpectraSite Inc.**, and **Marathon Oil** making the largest positive contributions.

We have kept our leverage levels constant over the last 12 months at \$220 million, which is approximately 25% of gross assets or 33% of net assets. While the cost of our credit facility rose during the year along with short-term interest rates, we are still comfortable with our leverage ratio.

For the fixed-income portion, during the annual period, the Fund benefited from its yield curve positioning, underweight to shorter maturities in favor of the longer portion of the curve. The flattening yield curve positively impacted Fund returns. The Fund's exposure to higher yielding assets also supported returns during the period on favorable market fundamentals and technicals in non-investment grade markets.

What were the leading detractors from performance?

A. The weakest performing sectors of the equity portion of the Fund were materials, utilities and industrials. Securities that detracted the most from performance included **OSI Pharmaceuticals Inc., Pfizer Inc., Lexmark International, Navistar International Corp.,** and **Zimmer Holdings.** Within the fixed income portion of the Fund, emerging markets debt was the only investment class to outperform the S&P 500 Index.

For the fixed-income portion, the portfolio's shorter duration posture versus the benchmark early in the reporting period detracted from performance, as the longer end (10+ years) of the yield curve held up better than we expected. However, the portfolio recouped some of its early losses in the second half of the period due to its shorter duration position as rates continued to climb across all parts of the yield curve. The Fund's allocation to investment grade corporates detracted from performance during the annual period due to market volatility predicated on idiosyncratic risk (i.e. negative auto sector headlines, M&A and LBO activity and shareholder-friendly corporate actions).

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

A. Last year, the Board of Directors authorized the Fund to repurchase up to 1 million shares of common stock at such times and in such amounts as management believes will enhance shareholder value, subject to review by the Fund's Board of Directors. For the period, the Fund repurchased 581,400 shares. The NAV discount was 12.7% as of October 31, 2005. We believe this NAV discount is not justified by the Fund's structure or performance over the period.

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 symbol XSCDX. *Barron's* and *The Wall Street Journal's* Monday editions carry closed-end fund tables that will 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.citigroupam.com.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 or 1-800-SALOMON (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current NAV, market price, and other information.

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

Sincerely,

Mark J. McAllister
Co-Portfolio Manager

December 1, 2005

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

Portfolio holdings and breakdowns are as of October 31, 2005 and are subject to change and may not be representative of the Fund's current or future investments. The Fund's top ten holdings (as a percentage of net assets) as of this date were: Federal Republic of Brazil (3.0%), Targeted Return Index Securities (TRAINS) (2.5%), Federal Home Loan Mortgage Corp. (FHLMC) (2.3%), Total SA (1.7%), Russian Federation (1.7%), United Mexican States (1.5%), El Paso Corp. (1.4%), Host Marriott Finance Trust (1.4%), United Mexican States (1.4%) and General Electric Co. (1.4%). Please refer to pages 12 through 36 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. Portfolio holdings are subject to change at any time and may not be representative of the Fund's current or future investments. The Fund's top five sector holdings (as a percentage of net assets) as of October 31, 2005 were: Financials (24.4%), Consumer Discretionary (13.0%), Energy (12.1%), Health Care (11.0%) and Information Technology (9.1%). The Fund's portfolio composition is subject to change at any time.

RISKS: Like any investment where there is risk of loss, you may not be able to sell the shares of the Fund for the same amount that you purchased them. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact in Fund performance. Leverage may magnify gains and increase losses in the Fund's portfolio.

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

- i The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.
- ii The S&P 500 Barra Value Index is a market-capitalization weighted index of stocks in the S&P 500 having lower price-to-book ratios relative to the S&P 500 as a whole. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.)
- iii The S&P 500 Barra Growth Index is a market-capitalization weighted index of stocks in the S&P 500 having higher price-to-book ratios relative to the S&P 500 as a whole. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.)
- iv The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- v JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds, and local market instruments. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.
- vi The Citigroup High Yield Market Index is a broad-based unmanaged index of high yield securities.

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- vii The Lehman Brothers Aggregate Bond Index is a broad-based bond index comprised of Government, Corporate, Mortgage and Asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- viii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- ix A basis point is one one-hundredth (1/100 or 0.01) of one percent.
- x The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- xi Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- xii Source: JP Morgan Chase
- xiii NAV is calculated by subtracting total liabilities from the closing value of all securities (plus all other assets) held by the Fund and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.
- xiv Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended October 31, 2005, including the reinvestment of distributions, including returns of capital, if any, calculated among the 36 funds in the Fund's Lipper category, and excluding sales charges.

Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments (Excluding Securities Purchased From Securities Lending Collateral)

Schedule of Investments (October 31, 2005)**SALOMON BROTHERS CAPITAL AND INCOME FUND INC.**

Face Amount	Security#	Value
CORPORATE BONDS & NOTES □ 15.7%		
Aerospace & Defense □ 0.0%		
\$ 150,000	Goodrich Corp., Notes, 7.500% due 4/15/08	\$ 157,580
125,000	Lockheed Martin Corp., Notes, 7.700% due 6/15/08	133,076
112,000	Raytheon Co., Notes, 6.750% due 8/15/07	115,294
Total Aerospace & Defense		405,950
Auto Components □ 0.0%		
213,000	Dura Operating Corp., Senior Unsecured Notes, Series B, 8.625% due 4/15/12 (a)	181,582
125,000	Johnson Controls Inc., Senior Unsecured Notes, 5.000% due 11/15/06	124,971
Total Auto Components		306,553
Automobiles □ 0.3%		
150,000	DaimlerChrysler North America Holding Corp., Notes, 6.400% due 5/15/06	151,267
	Ford Motor Co.:	
250,000	Debentures, 6.625% due 10/1/28	172,500
1,675,000	Notes, 7.450% due 7/16/31 (a)	1,239,500
	General Motors Corp., Senior Debentures:	
150,000	8.250% due 7/15/23 (a)	111,375
1,200,000	8.375% due 7/15/33 (a)	895,500
Total Automobiles		2,570,142
Beverages □ 0.1%		
100,000	Bottling Group LLC, Senior Notes, 2.450% due 10/16/06	97,759
500,000	Constellation Brands Inc., Senior Subordinated Notes, Series B, 8.125% due 1/15/12 (a)	523,125
Total Beverages		620,884
Building Products □ 0.0%		
100,000	Masco Corp., Notes, 6.750% due 3/15/06	100,762
Capital Markets □ 0.1%		
325,000	BCP Crystal U.S. Holdings Corp., Senior Subordinated Notes, 9.625% due 6/15/14	359,125
150,000	Morgan Stanley, Notes, 5.800% due 4/1/07	151,879
Total Capital Markets		511,004
Chemicals □ 1.2%		

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500,000	Borden U.S. Finance Corp./Nova Scotia Finance ULC, Second Priority Senior Secured Notes, 9.000% due 7/15/14 (b)	494,375
1,000,000	Compass Minerals Group Inc., Senior Subordinated Notes, 10.000% due 8/15/11	1,082,500
1,000,000	Equistar Chemicals LP, Senior Notes, 10.625% due 5/1/11 (a)	1,095,000
650,000	Hercules Inc., Senior Subordinated Notes, 6.750% due 10/15/29	630,500
1,000,000	Huntsman International LLC, Senior Subordinated Notes, 10.125% due 7/1/09 (a)	1,033,750
104,000	ICI Wilmington Inc., Notes, 4.375% due 12/1/08	101,728
500,000	ISP Holdings Inc., Senior Secured Notes, Series B, 10.625% due 12/15/09	527,500
1,000,000	Lyondell Chemical Co., Senior Secured Notes, 11.125% due 7/15/12	1,120,000
1,116,000	Millennium America Inc., Senior Notes, 9.250% due 6/15/08	1,202,490
600,000	Nalco Co., Senior Subordinated Notes, 8.875% due 11/15/13 (a)	615,750

See Notes to Financial Statements.

Schedule of Investments (October 31, 2005) (continued)

Face Amount	Security#	Value
Chemicals □ 1.2% (continued)		
\$ 500,000	OM Group Inc., Senior Subordinated Notes, 9.250% due 12/15/11	\$ 483,750
6,000	PPG Industries Inc., Notes, 6.500% due 11/1/07	6,181
650,000	PQ Corp., Senior Subordinated Notes, 7.500% due 2/15/13 (b)	601,250
125,000	Praxair Inc., Unsecured Notes, 2.750% due 6/15/08	118,587
500,000	Resolution Performance Products LLC/RPP Capital Corp., Secured Notes, 9.500% due 4/15/10 (a)	507,500
	Rhodia SA:	
500,000	Senior Notes, 7.625% due 6/1/10	486,250
500,000	Senior Subordinated Notes, 8.875% due 6/1/11 (a)	475,000
325,000	Westlake Chemical Corp., Senior Notes, 8.750% due 7/15/11	349,375
Total Chemicals		10,931,486
Commercial Banks □ 0.2%		
125,000	American Express Centurion Bank, Notes, 4.087% due 7/19/07 (c)	125,222
380,000	Banesto Finance Ltd., Subordinated Notes, 7.500% due 3/25/07	392,305
125,000	Bank of America Corp., Subordinated Notes, 6.375% due 2/15/08	129,042
250,000	Bank United Corp., Senior Notes, 8.875% due 5/1/07	262,109
109,091	Fifth Third Bank, Notes, 2.870% due 8/10/09	104,838
200,000	SunTrust Bank, Notes, 4.550% due 5/25/09	197,121
150,000	Wells Fargo & Co., Notes, 4.020% due 3/23/07 (c)	150,145
100,000	Zions Bancorp., Senior Notes, 2.700% due 5/1/06	99,042
Total Commercial Banks		1,459,824
Commercial Services & Supplies □ 0.4%		
475,000	Aleris International Inc., Senior Secured Notes, 10.375% due 10/15/10	521,312
	Allied Waste North America Inc.:	
75,000	Senior Notes, 7.250% due 3/15/15 (a)(b)	74,625
	Senior Secured Notes, Series B:	
217,000	9.250% due 9/1/12 (a)	234,978
1,000,000	7.375% due 4/15/14 (a)	942,500
100,000	Cendant Corp., Senior Notes, 6.875% due 8/15/06	101,314
450,000	Cenveo Corp., Senior Subordinated Notes, 7.875% due 12/1/13	418,500
125,000	Cintas Corp. No. 2, Senior Notes, 5.125% due 6/1/07 (a)	125,571
350,000	Corrections Corporation of America, Senior Subordinated Notes, 6.250% due 3/15/13	346,063
1,325,000	Iron Mountain Inc., Senior Subordinated Notes, 7.750% due 1/15/15	1,325,000
Total Commercial Services & Supplies		4,089,863
Communications Equipment □ 0.2%		
2,000,000	Lucent Technologies Inc., Debentures, 6.450% due 3/15/29	1,720,000

Computers & Peripherals □ **0.1%**

125,000	Hewlett-Packard Co., Senior Notes, 5.500% due 7/1/07	126,468
125,000	IBM Canada Credit Services Co., Senior Notes, 3.750% due 11/30/07 (b)	122,287
200,000	SunGard Data Systems Inc., Senior Notes, 9.125% due 8/15/13 (b)	204,000

Total Computers & Peripherals		452,755
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Consumer Finance □ **0.0%**

125,000	SLM Corp., Medium-Term Notes, Series A, 4.400% due 1/26/09 (c)	125,404
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See Notes to Financial Statements.

Schedule of Investments (October 31, 2005) (continued)

Face Amount	Security#	Value
Containers & Packaging □ 0.6%		
\$ 500,000	Anchor Glass Container Corp., Senior Secured Notes, 11.000% due 2/15/13 (d)*	\$ 320,000
1,000,000	Berry Plastics Corp., Senior Subordinated Notes, 10.750% due 7/15/12	1,035,000
213,415	Crown European Holdings SA, Secured Notes, 9.500% due 3/1/11	234,757
625,000	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13 (a)	564,062
1,250,000	Jefferson Smurfit Corp., Senior Notes, 8.250% due 10/1/12 (a)	1,184,375
750,000	JSG Funding PLC, Senior Notes, 9.625% due 10/1/12	723,750
900,000	Owens-Illinois Inc., Debentures, 7.500% due 5/15/10 (a)	895,500
500,000	Plastipak Holdings Inc., Senior Notes, 10.750% due 9/1/11	550,000
	Pliant Corp.:	
234,020	Senior Secured Notes, 11.625% due 6/15/09	253,912
	Senior Subordinated Notes:	
100,000	13.000% due 6/1/10	15,000
50,000	13.000% due 6/1/10	7,500
50,000	Stone Container Finance Co. of Canada II, Senior Notes, 7.375% due 7/15/14 (a)	44,625
Total Containers & Packaging		5,828,481
Diversified Financial Services □ 2.5%		
1,000,000	Alamosa Delaware Inc., Senior Discount Notes, step bond to yield 10.290% due 7/31/09	1,100,000
125,000	Amvescap PLC, Senior Notes, 5.900% due 1/15/07	125,971
125,000	Bear Stearns Cos. Inc., Notes, 5.700% due 1/15/07	126,245
75,000	Boeing Capital Corp., Senior Notes, 5.650% due 5/15/06	75,521
125,000	Capital One Bank, Notes, 5.750% due 9/15/10	127,445
125,000	CIT Group Inc., Senior Notes, 5.500% due 11/30/07	126,618
113,579	Core Investment Grade Bond Trust I, Pass-Through Certificates, 4.659% due 11/30/07	112,302
125,000	Countrywide Home Loans Inc., Medium-Term Notes, Series M, 4.125% due 9/15/09	120,183
	Ford Motor Credit Co.:	
200,000	Global Landmark Securities, 6.500% due 1/25/07	197,684
1,050,000	Notes, 7.000% due 10/1/13 (a)	962,440
125,000	General Electric Capital Corp., Medium-Term Notes, Series A, 3.984% due 6/22/07 (c)	125,162
	General Motors Acceptance Corp., Notes:	
156,000	6.125% due 9/15/06	155,576
1,600,000	6.750% due 12/1/14 (a)	1,532,515
162,000	Global Cash Access LLC/Global Cash Finance Corp., Senior Subordinated Notes, 8.750% due 3/15/12	173,137
125,000	HSBC Finance Corp., Senior Subordinated Notes, 5.875% due 2/1/09	128,061

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125,000	International Lease Finance Corp., Notes, 5.750% due 10/15/06	125,817
125,000	John Deere Capital Corp., Medium-Term Notes, Series D, 4.400% due 7/15/09	123,023
150,000	JPMorgan Chase & Co., Senior Notes, 5.350% due 3/1/07	151,128
125,000	Nationwide Building Society, Medium-Term Notes, 2.625% due 1/30/07 (b)	121,802
275,000	Nell AF SARL, Senior Notes, 8.375% due 8/15/15 (a)(b)	265,375
150,000	Rio Tinto Finance USA Ltd., Notes, 2.625% due 9/30/08	140,719

See Notes to Financial Statements.

Schedule of Investments (October 31, 2005) (continued)

Face Amount	Security#	Value
Diversified Financial Services □ 2.5% (continued)		
\$ 500,000	Sensus Metering Systems Inc., Senior Subordinated Notes, 8.625% due 12/15/13	\$ 457,500
15,579,265	Targeted Return Index Securities (TRAINS), Secured Notes, Series HY-2005-1, 7.651% due 6/15/15 (b)	15,800,148
125,000	Textron Financial Corp., Medium-Term Notes, Series E, 2.750% due 6/1/06	123,774
125,000	TIAA Global Markets Inc., Notes, 4.125% due 11/15/07 (b)	123,315
350,000	Vanguard Health Holdings Co. I LLC, Senior Discount Notes, step bond to yield 5.594% due 10/1/15 (a)	246,750
125,000	Vanguard Health Holdings Co. II LLC, Senior Subordinated Notes, 9.000% due 10/1/14	130,937
Total Diversified Financial Services		22,999,148
Diversified Telecommunication Services □ 0.6%		
125,000	GTE Corp., Debentures, 6.360% due 4/15/06	125,900
750,000	Insight Midwest LP/Insight Capital Inc., Senior Notes, 10.500% due 11/1/10 (a)	791,250
150,000	Intelsat Bermuda Ltd., Senior Notes, 8.695% due 1/15/12 (b)(c)	152,625
550,000	Intelsat Ltd., Senior Discount Notes, step bond to yield 9.253% due 2/1/15 (b)	364,375
850,000	MCI Inc., Senior Notes, 8.735% due 5/1/14	943,500
50,000	NTL Cable PLC, Senior Notes, 8.750% due 4/15/14	52,625
190,000	PanAmSat Corp., Senior Notes, 9.000% due 8/15/14	200,925
2,125,000	Qwest Services Corp., Senior Secured Notes, 14.000% due 12/15/14	2,584,531
125,000	SBC Communications Inc., Notes, 5.750% due 5/2/06 (a)	125,673
Total Diversified Telecommunication Services		5,341,404