

SALOMON BROTHERS CAPITAL & INCOME FUND INC

Form N-CSRS

July 07, 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, 4<sup>th</sup> Fl.

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: **April 30, 2006**

---

ITEM 1. REPORT TO STOCKHOLDERS.

The Semi-Annual Report to Stockholders is filed herewith.

---

# Salomon Brothers Capital and Income Fund Inc.

Semi-Annual Report □ April 30, 2006

## What's Inside

### Fund Objective

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

|                                     |    |
|-------------------------------------|----|
| Letter from the Chairman            | 1  |
| Fund at a Glance                    | 1  |
| Schedule of Investments             | 2  |
| Statement of Assets and Liabilities | 27 |
| Statement of Operations             | 28 |
| Statements of Changes in Net Assets | 29 |
| Statement of Cash Flows             | 30 |
| Financial Highlights                | 31 |
| Notes to Financial Statements       | 32 |
| Additional Shareholder Information  | 39 |
| Dividend Reinvestment Plan          | 40 |

□Smith Barney, □Salomon Brothers□ and □Citi□ are service marks of Citigroup, licensed for use by Legg Mason as the names of funds and investment managers. Legg Mason and its affiliates, as well as the Fund's investment manager, are not affiliated with Citigroup.

---

## Letter from the Chairman

**R. JAY GERKEN, CFA**  
Chairman, President and  
Chief Executive Officer

Dear Shareholder,

The U.S. economy was mixed during the six-month period of this report. After a 4.1% advance in the third quarter of 2005, fourth quarter gross domestic product ("GDP")<sup>i</sup> slipped to 1.7% . This marked the first quarter that GDP growth did not surpass 3.0% since the first three months of 2003. However, as expected, the economy rebounded sharply in the first quarter of 2006, with GDP rising an estimated 5.3% . The economic turnaround was prompted by both strong consumer and business spending. In addition, the U.S. Labor Department reported that unemployment hit a five-year low in March.

The Federal Reserve Board ("Fed")<sup>ii</sup> continued to raise interest rates during the reporting period. Despite the "changing of the guard" from Fed Chairman Greenspan to Ben Bernanke in early 2006, it was "business as usual" for the Fed, as it raised short-term interest rates four times during the reporting period. Since it began its tightening campaign in June 2004, the Fed has increased rates 15 consecutive times, bringing the federal funds rate<sup>iii</sup> from 1.00% to 4.75% . The Fed then raised rates to 5.00% on May 10th, after the end of the reporting period. Coinciding with this latest move, the Fed said that the "extent and timing" of further rate hikes would depend on future economic data.

For the six-month period ended April 30, 2006, the U.S. stock market generated solid results, with the S&P 500 Index<sup>iv</sup> returning 9.63% . While high oil and commodity prices, steadily rising interest rates, and geopolitical issues triggered periods of market volatility, investors generally remained focused on the positive economic environment and strong corporate profits. Looking at the market more closely, small-cap stocks outperformed their mid- and large-cap counterparts, with the Russell 2000<sup>v</sup>, Russell Midcap<sup>vi</sup> and Russell 1000<sup>vii</sup> Indexes returning 18.91%, 14.35%, and 9.92%, respectively. From an investment style perspective,

**Salomon Brothers Capital and Income Fund Inc. |**

---

value stocks outperformed growth stocks, with the Russell 3000 Value<sup>viii</sup> and Russell 3000 Growth<sup>ix</sup> Indexes returning 13.27% and 8.19%, respectively, over the reporting period.

Both short- and long term yields rose over the reporting period. During the six-months ended April 30, 2006, two-year Treasury yields increased from 4.42% to 4.87% . Over the same period, 10-year Treasury yields moved from 4.58% to 5.07% . During part of the reporting period the yield curve was inverted, with the yield on two-year Treasuries surpassing that of 10-year Treasuries. An inverted yield curve has historically foreshadowed an economic slowdown or recession. However, some experts, including new Chairman Bernanke, believe the inverted yield curve was largely a function of strong foreign demand for longer-term bonds. Looking at the six-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Indexx, returned 0.56% .

**Performance Review**

For the six months ended April 30, 2006, the Salomon Brothers Capital and Income Fund Inc. returned 8.92%, based on its net asset value (["NAV"])<sup>xi</sup> and 5.97% based on its New York Stock Exchange (["NYSE"]) market price per share. In comparison, the Fund's unmanaged benchmark, the S&P 500 Index, returned 9.63% for the same time frame. The Lipper Income & Preferred Stock Closed-End Funds Category Average<sup>xii</sup> increased 4.82% . Please note that Lipper performance returns are based on each fund's NAV per share.

During this six-month period, the Fund made distributions to shareholders totaling \$0.60 per share, (which may have included a return of capital). The performance table shows the Fund's six-month total return based on its NAV and market price as of April 30, 2006. **Past performance is no guarantee of future results.**

---

**Performance Snapshot as of April 30, 2006 (unaudited)**

---

| Price Per Share        | Six-Month Total Return |
|------------------------|------------------------|
| \$20.83 (NAV)          | 8.92%                  |
| \$17.61 (Market Price) | 5.97%                  |

---

**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.

II **Salomon Brothers Capital and Income Fund Inc.**

---

### **Special Shareholder Notices**

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 adviser (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 then 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.

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. Legg Mason has recommended to the Board of Directors of the Fund that Western Asset be appointed as the sub-advisor to the Fund, subject to applicable regulatory requirements.

The portfolio management team of S. Kenneth Leech, Stephen A. Walsh, Keith J. Gardner, Michael C. Buchanan and Michael C. Duda assumed portfolio management responsibilities for the fixed income portion of the Fund on March 31, 2006. These portfolio managers are employees of the Manager for purpose of carrying out their duties relating to the Fund and they also will continue to serve as employees of Western Asset.

The Board is 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. The portfolio management responsibilities for the equity portion of the Fund remain unchanged.

### **Information About Your Fund**

As you may be aware, several issues in the mutual fund industry have come under the scrutiny of federal and state regulators. The 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 funds' 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.

**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.leggmason.com/InvestorServices](http://www.leggmason.com/InvestorServices).

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.

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, President and Chief Executive Officer

*May 25, 2006*

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.

**RISKS:** Like any investment where there is risk of loss, you may not be able to see the shares of the Fund for the same amount that you purchased them. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. These risks are magnified in emerging or developing markets. High-yield bonds involve greater credit and liquidity risks than investment grade bonds. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact 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 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 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.
- vi The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.
- vii 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.
- 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 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. Please note an investor cannot invest directly in an index.
- xi NAV is calculated by subtracting total liabilities from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.
- xii Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 6-month period ended April 30, 2006, including the reinvestment of distributions, including returns of capital, if any, calculated among the 35 funds in the Fund's Lipper category, and excluding sales charges.



(This page intentionally left blank.)

---

## Fund at a Glance (unaudited)

---

### Investment Breakdown

---

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 1

---

---

**Schedule of Investments (April 30, 2006) (unaudited)**


---

**SALOMON BROTHERS CAPITAL AND INCOME FUND INC.**


---

| Shares  | Security  | Value             |
|---|---|-------------------|
| <b>COMMON STOCKS</b> □ 46.7%                    |   |                   |
| <b>CONSUMER DISCRETIONARY</b> □ 4.9%            |   |                   |
| <b>Hotels, Restaurants &amp; Leisure</b> □ 0.5% |   |                   |
| 9,600   | Ctrip.com International Ltd., ADR                           | \$ 431,953        |
| 89,000  | McDonald's Corp.  | 3,076,730         |
| 25,000  | OSI Restaurant Partners Inc.                                | 1,067,500         |
| <b>Total Hotels, Restaurants &amp; Leisure</b>  |   | 4,576,183         |
| <b>Household Durables</b> □ 0.8%                |   |                   |
| 17,400  | Fortune Brands Inc.   | 1,397,220         |
| 1,226,577                                       | Home Interiors of Gifts Inc.*                               | 331,176           |
| 117,400   | Newell Rubbermaid Inc.                                      | 3,219,108         |
| 51,300  | Toll Brothers Inc.*   | 1,649,295         |
| <b>Total Household Durables</b>                 |   | 6,596,799         |
| <b>Media</b> □ 3.1%                             |   |                   |
| 83,000  | Cablevision Systems Corp., New York Group, Class A Shares * | 1,682,410         |
| 172,400   | EchoStar Communications Corp., Class A Shares*              | 5,327,160         |
| 194,600   | Interpublic Group of Cos. Inc.*                             | 1,864,268         |
| 46,875  | Liberty Global Inc., Series A Shares*                       | 970,781           |
| 52,875  | Liberty Global Inc., Series C Shares*                       | 1,055,914         |
| 162,500   | Liberty Media Corp., Class A Shares*                        | 1,356,875         |
| 184,800   | News Corp., Class B Shares                                  | 3,368,904         |
| 50,785  | NTL Inc.*   | 1,395,572         |
| 94,300  | Regal Entertainment Group, Class A Shares                   | 1,982,186         |
| 345,800   | SES Global SA, FDR  | 5,670,405         |
| 132,400   | Time Warner Inc.  | 2,303,760         |
| <b>Total Media</b>                              |   | 26,978,235        |
| <b>Specialty Retail</b> □ 0.5%                  |   |                   |
| 47,500  | Bed Bath & Beyond Inc.*                                     | 1,821,625         |
| 26,000  | Best Buy Co. Inc.   | 1,473,160         |
| 62,800  | Urban Outfitters Inc.*                                      | 1,456,960         |
| <b>Total Specialty Retail</b>                   |   | 4,751,745         |
| <b>TOTAL CONSUMER DISCRETIONARY</b>             |   | <b>42,902,962</b> |

**CONSUMER STAPLES** □ 2.6%

**Beverages** □ **0.2%**

|        |              |           |
|--------|--------------|-----------|
| 25,000 | PepsiCo Inc. | 1,456,000 |
|--------|--------------|-----------|

---

**Food & Staples Retailing** □ **0.8%**

|         |                      |           |
|---------|----------------------|-----------|
| 162,600 | Kroger Co.           | 3,294,276 |
| 40,000  | Sysco Corp.          | 1,195,600 |
| 63,000  | Wal-Mart Stores Inc. | 2,836,890 |

---

|   |  |                  |
|---|--|------------------|
| <b>Total Food &amp; Staples Retailing</b> |  | <b>7,326,766</b> |
|---|--|------------------|

---

**Food Products** □ **0.7%**

|        |   |           |
|--------|---|-----------|
| 24,100 | Kellogg Co.                             | 1,116,071 |
| 60,000 | McCormick & Co. Inc., Non Voting Shares | 2,089,800 |
| 75,000 | Sara Lee Corp.                          | 1,340,250 |

**See Notes to Financial Statements.**

2 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Shares   | Security                      | Value             |
|--|-------------------------------|-------------------|
| <b>Food Products</b> □ <b>0.7% (continued)</b>       |                               |                   |
| 25,000   | Wm. Wrigley Jr. Co.           | \$ 1,176,750      |
| 6,250  | Wm. Wrigley Jr. Co., Class B  | 294,375           |
| <b>Total Food Products</b>                           |                               | <b>6,017,246</b>  |
| <b>Household Products</b> □ <b>0.3%</b>              |                               |                   |
| 45,400   | Kimberly-Clark Corp.          | 2,657,262         |
| <b>Tobacco</b> □ <b>0.6%</b>                         |                               |                   |
| 70,000   | Altria Group Inc.             | 5,121,200         |
| <b>TOTAL CONSUMER STAPLES</b>                        |                               | <b>22,578,474</b> |
| <b>ENERGY</b> □ <b>6.6%</b>                          |                               |                   |
| <b>Energy Equipment &amp; Services</b> □ <b>2.3%</b> |                               |                   |
| 28,300   | Cameron International Corp.*  | 1,421,792         |
| 112,700  | ENSCO International Inc.      | 6,028,323         |
| 37,200   | GlobalSantaFe Corp.           | 2,277,012         |
| 71,500   | Halliburton Co.               | 5,587,725         |
| 141,000  | Pride International Inc.*     | 4,919,490         |
| <b>Total Energy Equipment &amp; Services</b>         |                               | <b>20,234,342</b> |
| <b>Oil, Gas &amp; Consumable Fuels</b> □ <b>4.3%</b> |                               |                   |
| 82,500   | Arlington Tankers Ltd.        | 1,859,550         |
| 38,500   | ConocoPhillips                | 2,575,650         |
| 87,200   | Marathon Oil Corp.            | 6,920,192         |
| 102,114  | Nexen Inc.                    | 5,973,669         |
| 66,800   | OPTI Canada Inc.*             | 2,553,223         |
| 17,600   | Suncor Energy Inc.            | 1,509,024         |
| 87,480   | Total SA, Sponsored ADR       | 12,073,990        |
| 190,400  | Williams Cos. Inc.            | 4,175,472         |
| <b>Total Oil, Gas &amp; Consumable Fuels</b>         |                               | <b>37,640,770</b> |
| <b>TOTAL ENERGY</b>                                  |                               | <b>57,875,112</b> |
| <b>FINANCIALS</b> □ <b>14.4%</b>                     |                               |                   |
| <b>Capital Markets</b> □ <b>0.5%</b>                 |                               |                   |
| 4,700  | Goldman Sachs Group Inc.      | 753,363           |
| 6,000  | Lehman Brothers Holdings Inc. | 906,900           |
| 35,600   | Merrill Lynch & Co. Inc.      | 2,714,856         |
| <b>Total Capital Markets</b>                         |                               | <b>4,375,119</b>  |

---

**Commercial Banks** □ **0.9%**

|        |                       |           |
|--------|-----------------------|-----------|
| 76,852 | Bank of America Corp. | 3,836,452 |
| 62,300 | Wells Fargo & Co.     | 4,279,387 |

---

|                               |  |           |
|-------------------------------|--|-----------|
| <b>Total Commercial Banks</b> |  | 8,115,839 |
|-------------------------------|--|-----------|

---

**Consumer Finance** □ **1.4%**

|        |                             |           |
|--------|-----------------------------|-----------|
| 77,400 | American Express Co.        | 4,164,894 |
| 91,432 | Capital One Financial Corp. | 7,921,669 |

---

|                               |  |            |
|-------------------------------|--|------------|
| <b>Total Consumer Finance</b> |  | 12,086,563 |
|-------------------------------|--|------------|

---

**Diversified Financial Services** □ **0.3%**

|        |                      |           |
|--------|----------------------|-----------|
| 58,340 | JPMorgan Chase & Co. | 2,647,469 |
|--------|----------------------|-----------|

---

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 3

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Shares  | Security  | Value             |
|---|---|-------------------|
| <b>Insurance</b> □ 1.3%                             |   |                   |
| 41,400  | AFLAC Inc.  | \$ 1,968,156      |
| 24,300  | American International Group Inc.                       | 1,585,575         |
| 12  | Berkshire Hathaway Inc., Class A Shares*                | 1,068,000         |
| 70,000  | Chubb Corp.   | 3,607,800         |
| 53,900  | Marsh & McLennan Cos. Inc.                              | 1,653,113         |
| 30,000  | St. Paul Travelers Cos. Inc.                            | 1,320,900         |
| <b>Total Insurance</b>                              |   | <b>11,203,544</b> |
| <b>Real Estate Investment Trusts (REITs)</b> □ 9.1% |   |                   |
| 19,300  | Alexandria Real Estate Equities Inc.                    | 1,748,580         |
| 65,200  | AMB Property Corp.                                      | 3,259,348         |
| 155,000   | American Financial Realty Trust                         | 1,763,900         |
| 7,400   | Apartment Investment and Management Co., Class A Shares | 330,706           |
| 62,100  | Archstone-Smith Trust                                   | 3,035,448         |
| 60,000  | Arden Realty Inc.                                       | 2,720,400         |
| 25,000  | Ashford Hospitality Trust Inc.                          | 291,000           |
| 31,900  | AvalonBay Communities Inc.                              | 3,435,630         |
| 46,500  | BioMed Realty Trust Inc.                                | 1,287,120         |
| 17,200  | Boston Properties Inc.                                  | 1,518,244         |
| 41,400  | Brandywine Realty Trust                                 | 1,172,034         |
| 12,400  | BRE Properties Inc., Class A Shares                     | 668,112           |
| 12,000  | Developers Diversified Realty Corp.                     | 638,400           |
| 20,900  | Duke Realty Corp.                                       | 739,860           |
| 218,000   | Equity Office Properties Trust                          | 7,041,400         |
| 50,200  | Equity Residential                                      | 2,252,474         |
| 29,800  | Federal Realty Investment Trust                         | 2,033,254         |
| 60,700  | General Growth Properties Inc.                          | 2,849,865         |
| 43,400  | Global Signal Inc.                                      | 2,156,980         |
| 47,500  | Gramercy Capital Corp.                                  | 1,179,425         |
| 57,900  | Heritage Property Investment Trust                      | 2,236,098         |
| 27,000  | Highwoods Properties Inc.                               | 851,580           |
| 115,000   | Host Marriott L.P.                                      | 2,417,300         |
| 90,000  | iStar Financial Inc.                                    | 3,443,400         |
| 24,800  | Kimco Realty Corp.                                      | 920,824           |
| 70,000  | Liberty Property Trust                                  | 3,129,000         |
| 7,400   | Macerich Co.  | 541,828           |
| 100,000   | Maguire Properties Inc.                                 | 3,396,000         |
| 105,000   | New Plan Excel Realty Trust Inc.                        | 2,588,250         |
| 7,200   | Pan Pacific Retail Properties Inc.                      | 479,808           |
| 106,300   | ProLogis  | 5,338,386         |
| 39,200  | PS Business Parks Inc.                                  | 2,036,440         |
| 16,400  | Public Storage Inc.                                     | 1,260,832         |
| 26,393  | Reckson Associates Realty Corp.                         | 1,073,667         |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|        |                                   |           |
|--------|-----------------------------------|-----------|
| 63,400 | Republic Property Trust           | 722,760   |
| 34,500 | Simon Property Group Inc.         | 2,824,860 |
| 41,300 | SL Green Realty Corp.             | 4,088,700 |
| 25,000 | United Dominion Realty Trust Inc. | 679,750   |
| 26,900 | Vornado Realty Trust              | 2,572,716 |

---

**Total Real Estate Investment Trusts (REITs)**

80,724,379

---

**See Notes to Financial Statements.**

4 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---



**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| <b>Shares</b>   | <b>Security</b>                                    | <b>Value</b>       |
|---|--|--------------------|
| <b>Thriffs &amp; Mortgage Finance</b> □ <b>0.9%</b>       |  |                    |
| 64,550  | Freddie Mac  | \$ 3,941,423       |
| 60,000  | Golden West Financial Corp.                        | 4,312,200          |
| <b>Total Thriffs &amp; Mortgage Finance</b>               |  | <b>8,253,623</b>   |
| <b>TOTAL FINANCIALS</b>                                   |  | <b>127,406,536</b> |
| <b>HEALTH CARE</b> □ <b>4.6%</b>                          |  |                    |
| <b>Biotechnology</b> □ <b>1.1%</b>                        |  |                    |
| 41,100  | Amgen Inc.*  | 2,782,470          |
| 28,400  | CV Therapeutics Inc.*                              | 563,740            |
| 8,700   | Genentech Inc.*                                    | 693,477            |
| 15,500  | Genzyme Corp.*                                     | 947,980            |
| 34,400  | InterMune Inc.*                                    | 550,056            |
| 16,100  | Invitrogen Corp.*                                  | 1,062,761          |
| 34,600  | PDL BioPharma Inc.*                                | 995,788            |
| 72,709  | Vertex Pharmaceuticals Inc.*                       | 2,644,426          |
| <b>Total Biotechnology</b>                                |  | <b>10,240,698</b>  |
| <b>Health Care Equipment &amp; Supplies</b> □ <b>0.4%</b> |  |                    |
| 88,000  | Boston Scientific Corp.*                           | 2,045,120          |
| 37,400  | DJ Orthopedics Inc.*                               | 1,487,024          |
| <b>Total Health Care Equipment &amp; Supplies</b>         |  | <b>3,532,144</b>   |
| <b>Health Care Providers &amp; Services</b> □ <b>0.9%</b> |  |                    |
| 37,200  | Aetna Inc.   | 1,432,200          |
| 32,200  | Coventry Health Care Inc.*                         | 1,599,374          |
| 33,000  | DaVita Inc.*                                       | 1,856,580          |
| 41,100  | WellPoint Inc.*                                    | 2,918,100          |
| <b>Total Health Care Providers &amp; Services</b>         |  | <b>7,806,254</b>   |
| <b>Pharmaceuticals</b> □ <b>2.2%</b>                      |  |                    |
| 61,500  | Abbott Laboratories                                | 2,628,510          |
| 49,200  | GlaxoSmithKline PLC, Sponsored ADR                 | 2,798,496          |
| 51,100  | Novartis AG, Sponsored ADR                         | 2,938,761          |
| 93,400  | Pfizer Inc.  | 2,365,822          |
| 23,900  | Sanofi-Aventis                                     | 2,255,221          |
| 23,100  | Sanofi-Aventis, Sponsored ADR                      | 1,086,624          |
| 89,700  | Schering-Plough Corp.                              | 1,733,004          |
| 14,100  | Sepracor Inc.*                                     | 629,424            |
| 22,800  | Teva Pharmaceutical Industries Ltd., Sponsored ADR | 923,400            |

|                                       |              |                   |
|---------------------------------------|--------------|-------------------|
| 41,000                                | Wyeth        | 1,995,470         |
| <b>Total Pharmaceuticals</b>          |              | <b>19,354,732</b> |
| <b>TOTAL HEALTH CARE</b>              |              | <b>40,933,828</b> |
| <b>INDUSTRIALS □ 3.3%</b>             |              |                   |
| <b>Aerospace &amp; Defense □ 1.3%</b> |              |                   |
| 84,400                                | Boeing Co.   | 7,043,180         |
| 90,000                                | Raytheon Co. | 3,984,300         |
| <b>Total Aerospace &amp; Defense</b>  |              | <b>11,027,480</b> |

See Notes to Financial Statements.

Salomon Brothers Capital and Income Fund Inc. 2006 Semi-Annual Report 5

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Shares   | Security                                       | Value             |
|--|--|-------------------|
| <b>Building Products</b> □ 0.2%                    |  |                   |
| 56,000   | Masco Corp.                                    | \$ 1,786,400      |
| <b>Commercial Services &amp; Supplies</b> □ 0.3%   |  |                   |
| 35,700   | Avery Dennison Corp.                           | 2,231,250         |
| 27,000   | IHS Inc., Class A Shares*                      | 764,640           |
| <b>Total Commercial Services &amp; Supplies</b>    |  | 2,995,890         |
| <b>Industrial Conglomerates</b> □ 1.3%             |  |                   |
| 259,800  | General Electric Co.                           | 8,986,482         |
| 30,100   | Textron Inc.                                   | 2,707,495         |
| <b>Total Industrial Conglomerates</b>              |  | 11,693,977        |
| <b>Machinery</b> □ 0.1%                            |  |                   |
| 13,000   | Parker Hannifin Corp.                          | 1,053,650         |
| <b>Trading Companies &amp; Distributors</b> □ 0.1% |  |                   |
| 9,600  | MSC Industrial Direct Co. Inc., Class A Shares | 497,856           |
| <b>TOTAL INDUSTRIALS</b>                           |  | <b>29,055,253</b> |
| <b>INFORMATION TECHNOLOGY</b> □ 3.4%               |  |                   |
| <b>Communications Equipment</b> □ 1.0%             |  |                   |
| 141,375  | ADC Telecommunications Inc.*                   | 3,165,387         |
| 23,000   | Cisco Systems Inc.*                            | 481,850           |
| 90,051   | Comverse Technology Inc.*                      | 2,039,655         |
| 73,900   | Juniper Networks Inc.*                         | 1,365,672         |
| 59,300   | Nokia Oyj, Sponsored ADR                       | 1,343,738         |
| <b>Total Communications Equipment</b>              |  | 8,396,302         |
| <b>Computers &amp; Peripherals</b> □ 0.2%          |  |                   |
| 420,000  | Sun Microsystems Inc.*                         | 2,100,000         |
| <b>Internet Software &amp; Services</b> □ 0.6%     |  |                   |
| 188,900  | Digitas Inc.*                                  | 2,665,379         |
| 52,400   | Jupitermedia Corp.*                            | 923,288           |
| 26,100   | Openwave Systems Inc.*                         | 485,721           |
| 80,200   | RealNetworks Inc.*                             | 803,604           |
| 25,600   | SINA Corp.*                                    | 677,120           |
| <b>Total Internet Software &amp; Services</b>      |  | 5,555,112         |

|   |  |                   |
|---|--|-------------------|
| <b>IT Services</b> □ <b>0.2%</b>                                  |  |                   |
| 47,100  | Wright Express Corp.*                  | 1,450,209         |
| <hr/>   |  |                   |
| <b>Semiconductors &amp; Semiconductor Equipment</b> □ <b>0.4%</b> |  |                   |
| 67,700  | Advanced Micro Devices Inc.*           | 2,190,095         |
| 69,900  | ASML Holding NV, NY Registered Shares* | 1,478,385         |
| <hr/>   |  |                   |
| <b>Total Semiconductors &amp; Semiconductor Equipment</b>         |  | 3,668,480         |
| <hr/>   |  |                   |
| <b>Software</b> □ <b>1.0%</b>                                     |  |                   |
| 45,600  | Adobe Systems Inc.*                    | 1,787,520         |
| 54,500  | Cognos Inc.*                           | 2,031,215         |
| 223,400   | Microsoft Corp.                        | 5,395,110         |
| <hr/>   |  |                   |
| <b>Total Software</b>   |  | 9,213,845         |
| <hr/>   |  |                   |
| <b>TOTAL INFORMATION TECHNOLOGY</b>                               |  | <b>30,383,948</b> |
| <hr/>   |  |                   |

See Notes to Financial Statements.

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Shares   | Security                                     | Value             |
|--|--|-------------------|
| <b>MATERIALS</b> □ 1.5%  |  |                   |
| <b>Chemicals</b> □ 0.8%  |  |                   |
| 61,700   | Air Products & Chemicals Inc.                | \$ 4,227,684      |
| 62,000   | E.I. du Pont de Nemours & Co.                | 2,734,200         |
| <b>Total Chemicals</b>   |  | 6,961,884         |
| <b>Metals &amp; Mining</b> □ 0.7%                              |  |                   |
| 153,400  | Barrick Gold Corp.                           | 4,675,632         |
| 56,200   | Compass Minerals International Inc.          | 1,479,746         |
| <b>Total Metals &amp; Mining</b>                               |  | 6,155,378         |
| <b>TOTAL MATERIALS</b>   |  | <b>13,117,262</b> |
| <b>TELECOMMUNICATION SERVICES</b> □ 2.9%                       |  |                   |
| <b>Diversified Telecommunication Services</b> □ 0.6%           |  |                   |
| 260,900  | Citizens Communications Co.                  | 3,464,752         |
| 42,600   | PanAmSat Holding Corp.                       | 1,058,610         |
| 19,200   | Time Warner Telecom Inc., Class A Shares*    | 321,984           |
| <b>Total Diversified Telecommunication Services</b>            |  | 4,845,346         |
| <b>Wireless Telecommunication Services</b> □ 2.3%              |  |                   |
| 74,300   | ALLTEL Corp.                                 | 4,782,691         |
| 171,797  | American Tower Corp., Class A Shares*        | 5,865,150         |
| 211,400  | Dobson Communications Corp., Class A Shares* | 1,902,600         |
| 301,468  | Sprint Nextel Corp.                          | 7,476,406         |
| 30,640   | WiderThan Co. Ltd., ADR*                     | 452,246           |
| <b>Total Wireless Telecommunication Services</b>               |  | 20,479,093        |
| <b>TOTAL TELECOMMUNICATION SERVICES</b>                        |  | <b>25,324,439</b> |
| <b>UTILITIES</b> □ 2.5%  |  |                   |
| <b>Electric Utilities</b> □ 0.3%                               |  |                   |
| 100,000  | ITC Holdings Corp.                           | 2,583,000         |
| <b>Independent Power Producers &amp; Energy Traders</b> □ 1.3% |  |                   |
| 150,000  | Mirant Corp.*                                | 3,684,000         |
| 73,800   | NRG Energy Inc.*                             | 3,512,142         |
| 83,200   | TXU Corp.                                    | 4,129,216         |
| <b>Total Independent Power Producers &amp; Energy Traders</b>  |  | 11,325,358        |

**Multi-Utilities** □ **0.9%**

|         |               |           |
|---------|---------------|-----------|
| 181,000 | Sempra Energy | 8,329,620 |
|---------|---------------|-----------|

---

|                        |  |                   |
|------------------------|--|-------------------|
| <b>TOTAL UTILITIES</b> |  | <b>22,237,978</b> |
|------------------------|--|-------------------|

---

|                            |                        |                    |
|----------------------------|------------------------|--------------------|
| <b>TOTAL COMMON STOCKS</b> |                        |                    |
|                            | (Cost □ \$338,836,620) | <b>411,815,792</b> |

---

**PREFERRED STOCK** □ **0.0%**

**CONSUMER DISCRETIONARY** □ **0.0%**

**Auto Components** □ **0.0%**

|        |   |                |
|--------|---|----------------|
| 14,000 | Delphi Trust I, Cumulative Trust Preferred Securities, 8.250% |                |
|        | (Cost □ \$368,200)  | <b>144,060</b> |

---

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 7

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Shares  | Security                                 | Value            |
|---|--|------------------|
| <b>CONVERTIBLE PREFERRED STOCKS 0.8%</b>          |  |                  |
| <b>ENERGY 0.3%</b>                                |  |                  |
| <b>Energy Equipment &amp; Services 0.3%</b>       |  |                  |
| 38,000  | Hanover Compressor Capital Trust, 7.250% | \$ 2,218,250     |
| <b>FINANCIALS 0.5%</b>                            |  |                  |
| <b>Real Estate Investment Trusts (REITs) 0.2%</b> |  |                  |
| 26,000  | Simon Property Group Inc., 6.000%        | 1,745,640        |
| <b>Thrifts &amp; Mortgage Finance 0.3%</b>        |  |                  |
| 60,000  | Sovereign Capital Trust IV, 4.375%       | 2,775,000        |
| <b>TOTAL FINANCIALS</b>                           |  | <b>4,520,640</b> |
| <b>TOTAL CONVERTIBLE PREFERRED STOCKS</b>         |  | <b>6,738,890</b> |
| (Cost \$6,281,400)                                |  |                  |

**Face  
Amount****CORPORATE BONDS & NOTES 15.0%****Aerospace & Defense 0.0%**

|         |  |         |
|---------|--|---------|
| 150,000 | Goodrich Corp., Notes, 7.500% due 4/15/08        | 155,366 |
| 125,000 | Lockheed Martin Corp., Notes, 7.700% due 6/15/08 | 130,250 |
| 112,000 | Raytheon Co., Notes, 6.750% due 8/15/07          | 113,503 |

|                                      |  |                |
|--------------------------------------|--|----------------|
| <b>Total Aerospace &amp; Defense</b> |  | <b>399,119</b> |
|--------------------------------------|--|----------------|

**Auto Components 0.0%**

|         |  |         |
|---------|--|---------|
| 125,000 | Johnson Controls Inc., Senior Notes, 5.000% due 11/15/06 | 124,604 |
|---------|--|---------|

**Automobiles 0.4%**

|  |  |           |
|--|--|-----------|
| 150,000                                  | DaimlerChrysler North America Holding Corp., Notes, 6.400% due 5/15/06 | 150,047   |
| Ford Motor Co.:                          |  |           |
| 250,000                                  | Debentures, 6.625% due 10/1/28   | 172,500   |
| 1,675,000                                | Notes, 7.450% due 7/16/31  | 1,231,125 |
| 650,000                                  | Senior Notes, 4.950% due 1/15/08                                       | 604,448   |
| General Motors Corp., Senior Debentures: |  |           |
| 150,000                                  | 8.250% due 7/15/23   | 109,500   |
| 1,200,000                                | 8.375% due 7/15/33   | 900,000   |

|                          |  |                  |
|--------------------------|--|------------------|
| <b>Total Automobiles</b> |  | <b>3,167,620</b> |
|--------------------------|--|------------------|

**Beverages 0.1%**

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|                                      |  |                |
|--------------------------------------|--|----------------|
| 100,000                              | Bottling Group LLC, Senior Notes, 2.450% due 10/16/06                              | 98,696         |
| 500,000                              | Constellation Brands Inc., Senior Subordinated Notes, Series B, 8.125% due 1/15/12 | 522,500        |
| 100,000                              | PepsiAmericas Inc., Senior Notes, 6.375% due 5/1/09                                | 102,656        |
| <b>Total Beverages</b>               |  | <b>723,852</b> |
| <hr/>                                |  |                |
| <b>Capital Markets</b> □ <b>0.1%</b> |  |                |
| 125,000                              | Amvescap PLC, Senior Notes, 5.900% due 1/15/07                                     | 125,406        |
| 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   | 150,676        |
| <b>Total Capital Markets</b>         |  | <b>635,207</b> |
| <hr/>                                |  |                |

**See Notes to Financial Statements.**

8 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---



**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face<br>Amount                                 | Security   | Value            |
|--|--|------------------|
| <b>Chemicals 0.8%</b>                          |  |                  |
| 1,000,000                                      | Equistar Chemicals LP, Senior Notes, 10.625% due 5/1/11  | \$ 1,095,000     |
| 650,000  | Hercules Inc., Senior Subordinated Notes, 6.750% due 10/15/29                                      | 631,313          |
| 1,000,000                                      | Huntsman International LLC, Senior Subordinated Notes, 10.125% due 7/1/09                          | 1,022,500        |
| 104,000  | ICI Wilmington Inc., Global Notes, 4.375% due 12/1/08  | 100,197          |
| 1,000,000                                      | Lyondell Chemical Co., Senior Secured Notes, 11.125% due 7/15/12                                   | 1,110,000        |
| 1,116,000                                      | Millennium America Inc., Senior Notes, 9.250% due 6/15/08  | 1,171,800        |
| 50,000   | Monsanto Co., Notes, 4.000% due 5/15/08  | 48,646           |
| 600,000  | Nalco Co., Senior Subordinated Notes, 8.875% due 11/15/13  | 622,500          |
| 75,000   | Potash Corp. of Saskatchewan, 7.125% due 6/15/07   | 76,306           |
| 6,000  | PPG Industries Inc., Notes, 6.500% due 11/1/07   | 6,082            |
| 125,000  | Praxair Inc., Notes, 2.750% due 6/15/08  | 118,655          |
| 500,000  | Resolution Performance Products LLC/RPP Capital Corp.,<br>Senior Secured Notes, 9.500% due 4/15/10 | 527,500          |
|  | Rhodia SA:   |                  |
| 500,000  | Senior Notes, 7.625% due 6/1/10  | 508,750          |
| 392,000  | Senior Subordinated Notes, 8.875% due 6/1/11   | 406,700          |
| <b>Total Chemicals</b>                         |  | <b>7,445,949</b> |
| <b>Commercial Banks 0.2%</b>                   |  |                  |
| 125,000  | American Express Centurion Bank, Notes, 5.000% due 7/19/07 (a)                                     | 125,191          |
| 380,000  | Banesto Finance Ltd., 7.500% due 3/25/07   | 385,407          |
| 125,000  | Bank of America Corp., Subordinated Notes, 6.375% due 2/15/08                                      | 127,213          |
| 250,000  | Bank United Corp., Senior Notes, 8.875% due 5/1/07   | 256,469          |
| 300,000  | Corporacion Andina de Fomento, Notes, 5.458% due 1/26/07 (a)                                       | 300,388          |
| 95,454   | Fifth Third Bank, Notes, 2.870% due 8/10/09  | 91,651           |
| 200,000  | SunTrust Bank, 4.550% due 5/25/09  | 194,830          |
| 150,000  | Wells Fargo & Co., Notes, 5.000% due 3/23/07 (a)   | 150,133          |
| 100,000  | Zions Bancorp., Senior Notes, 2.700% due 5/1/06  | 100,000          |
| <b>Total Commercial Banks</b>                  |  | <b>1,731,282</b> |
| <b>Commercial Services &amp; Supplies 0.3%</b> |  |                  |
|  | Allied Waste North America Inc.,<br>Senior Notes, Series B:  |                  |
| 217,000  | 9.250% due 9/1/12  | 234,902          |
| 75,000   | 7.250% due 3/15/15   | 76,688           |
| 1,000,000                                      | 7.375% due 4/15/14   | 990,000          |
| 100,000  | Cendant Corp., Senior Notes, 6.875% due 8/15/06  | 100,354          |
| 450,000  | Cenveo Corp., Senior Subordinated Notes, 7.875% due 12/1/13  | 437,625          |
| 125,000  | Cintas Corp., Number 2, Senior Notes, 5.125% due 6/1/07  | 124,535          |
| 350,000  | Corrections Corporation of America, Senior Subordinated Notes,<br>6.250% due 3/15/13               | 335,125          |

---

|   |  |           |
|---|--|-----------|
| <b>Total Commercial Services &amp; Supplies</b> |  | 2,299,229 |
|---|--|-----------|

---

|   |  |           |
|---|--|-----------|
| <b>Communications Equipment</b> □ <b>0.2%</b> |  |           |
| 1,500,000                                     | Lucent Technologies Inc., Debentures, 6.450% due 3/15/29 | 1,338,750 |

---

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 9

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount                                | Security   | Value            |
|--|--|------------------|
| <b>Computers &amp; Peripherals 0.1%</b>    |  |                  |
| 125,000                                    | Hewlett-Packard Co., Senior Notes, 5.500% due 7/1/07                                 | \$ 125,247       |
| 125,000                                    | IBM Canada Credit Services Co., Senior Notes, 3.750% due 11/30/07 (b)                | 121,787          |
| 400,000                                    | SunGard Data Systems Inc., Senior Notes, 9.125% due 8/15/13 (b)                      | 429,000          |
| <b>Total Computers &amp; Peripherals</b>   |  | <b>676,034</b>   |
| <b>Consumer Finance 0.0%</b>               |  |                  |
| 125,000                                    | SLM Corp., Medium-Term Notes, Series A, 5.300% due 1/26/09 (a)                       | 125,447          |
| <b>Containers &amp; Packaging 0.5%</b>     |  |                  |
| 500,000                                    | Berry Plastics Corp., Senior Subordinated Notes, 10.750% due 7/15/12                 | 547,500          |
| 625,000                                    | Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13 | 609,375          |
| 1,463,000                                  | Jefferson Smurfit Corp., Senior Notes, 8.250% due 10/1/12                            | 1,426,425        |
| 750,000                                    | JSG Funding PLC, Senior Notes, 9.625% due 10/1/12                                    | 795,000          |
| 900,000                                    | Owens-Illinois Inc., Debentures, 7.500% due 5/15/10                                  | 906,750          |
|  | Pliant Corp.:  |                  |
| 247,622                                    | Senior Secured Notes, 11.625% due 6/15/09 (c)  | 281,051          |
| 150,000                                    | Senior Subordinated Notes, 13.000% due 6/1/10 (c)                                    | 71,250           |
| 50,000                                     | Stone Container Finance Co. of Canada II, Senior Notes, 7.375% due 7/15/14           | 46,250           |
| <b>Total Containers &amp; Packaging</b>    |  | <b>4,683,601</b> |
| <b>Diversified Financial Services 3.0%</b> |  |                  |
| 1,000,000                                  | Alamosa Delaware Inc., Senior Discount Notes, 12.000% due 7/31/09                    | 1,076,250        |
| 125,000                                    | Bear Stearns Cos. Inc., Notes, 5.700% due 1/15/07                                    | 125,361          |
| 75,000                                     | Boeing Capital Corp., Senior Notes, 5.650% due 5/15/06                               | 75,022           |
| 125,000                                    | Capital One Bank, Notes, 5.750% due 9/15/10  | 125,936          |
| 125,000                                    | CIT Group Inc., Senior Notes, 5.500% due 11/30/07                                    | 125,273          |
| 113,579                                    | Core Investment Grade Bond Trust I, Pass-Through Certificates, 4.659% due 11/30/07   | 112,178          |
| 125,000                                    | Countrywide Home Loans Inc., Medium-Term Notes, Series M, 4.125% due 9/15/09         | 119,573          |
|  | Ford Motor Credit Co.:   |                  |
| 200,000                                    | Global Landmark Securities, 6.500% due 1/25/07                                       | 198,797          |
|  | Notes:   |                  |
| 50,000                                     | 6.625% due 6/16/08   | 47,000           |
| 1,050,000                                  | 7.000% due 10/1/13   | 925,151          |
| 1,500,000                                  | Senior Notes, 5.800% due 1/12/09   | 1,358,541        |
| 125,000                                    | General Electric Capital Corp., Medium-Term Notes, Series A, 4.995% due 6/22/07 (a)  | 125,144          |
|  | General Motors Acceptance Corp., Notes:  |                  |
| 156,000                                    | 6.125% due 9/15/06   | 154,786          |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|           |   |           |
|-----------|---|-----------|
| 2,600,000 | 5.625% due 5/15/09  | 2,437,100 |
| 1,600,000 | 6.750% due 12/1/14  | 1,460,574 |
| 162,000   | Global Cash Access LLC/Global Cash Finance Corp.,<br>Senior Subordinated Notes, 8.750% due 3/15/12    | 174,352   |
| 500,000   | Hexion U.S. Finance Corp./Hexion Nova Scotia Finance ULC,<br>Senior Secured Notes, 9.000% due 7/15/14 | 518,750   |
| 125,000   | HSBC Finance Corp., Senior Subordinated Notes, 5.875% due 2/1/09                                      | 126,603   |
| 125,000   | International Lease Finance Corp., Notes, 5.750% due 10/15/06   | 125,160   |

**See Notes to Financial Statements.**

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount  | Security  | Value             |
|--|---|-------------------|
| <b>Diversified Financial Services 3.0% (continued)</b> |   |                   |
| 125,000  | John Deere Capital Corp., Medium-Term Notes, Series D, 4.400% due 7/15/09                             | \$ 121,304        |
| 150,000  | JPMorgan Chase & Co., Senior Notes, 5.350% due 3/1/07   | 150,076           |
| 125,000  | Nationwide Building Society, Medium-Term Notes, 2.625% due 1/30/07 (b)                                | 122,603           |
| 325,000  | Nell AF SARL, Senior Notes, 8.375% due 8/15/15 (b)  | 323,781           |
| 150,000  | Rio Tinto Finance USA Ltd., Notes, 2.625% due 9/30/08   | 140,706           |
| 500,000  | Sensus Metering Systems Inc., Senior Subordinated Notes, 8.625% due 12/15/13                          | 488,750           |
| 14,939,020   | Targeted Return Index Securities (TRAINS), Secured Notes,<br>Series HY-2005-1, 7.651% due 6/15/15 (b) | 15,112,462        |
| 125,000  | Textron Financial Corp., Medium-Term Notes, Series E, 2.750% due 6/1/06                               | 124,774           |
| 125,000  | TIAA Global Markets Inc., Notes, 4.125% due 11/15/07 (b)  | 122,681           |
| 350,000  | Vanguard Health Holdings Co. I LLC, Senior Discount Notes,<br>step bond to yield 5.594% due 10/1/15   | 259,875           |
| 125,000  | Vanguard Health Holdings Co. II LLC, Senior Subordinated Notes,<br>9.000% due 10/1/14                 | 129,687           |
| <b>Total Diversified Financial Services</b>            |   | <b>26,508,250</b> |
| <b>Diversified Telecommunication Services 0.5%</b>     |   |                   |
| 750,000  | Insight Midwest LP/Insight Capital Inc., Senior Notes, 10.500% due 11/1/10                            | 792,187           |
| 550,000  | Intelsat Ltd., Senior Discount Notes, step bond to yield 9.253% due 2/1/15 (b)                        | 401,500           |
| 50,000   | NTL Cable PLC, Senior Notes, 8.750% due 4/15/14   | 51,563            |
| 190,000  | PanAmSat Corp., Senior Notes, 9.000% due 8/15/14  | 200,688           |
| 285,000  | Qwest Communications International Inc., Senior Notes:<br>7.500% due 2/15/14                          | 288,562           |
| 740,000  | Series B, 7.500% due 2/15/14  | 749,250           |
| 130,000  | Qwest Corp., Debentures:<br>7.500% due 6/15/23  | 129,675           |
| 1,065,000  | 6.875% due 9/15/33  | 989,119           |
| 125,000  | SBC Communications Inc., Notes, 5.750% due 5/2/06   | 125,000           |
| 9,000,000 <sup>MXN</sup>                               | Telefonos de Mexico SA de CV, Senior Notes, 8.750% due 1/31/16  | 780,184           |
| <b>Total Diversified Telecommunication Services</b>    |   | <b>4,507,728</b>  |
| <b>Electric Utilities 0.3%</b>                         |   |                   |
| 1,000,000  | Edison Mission Energy, Senior Notes, 7.730% due 6/15/09   | 1,028,750         |
| 75,000   | Entergy Gulf States Inc., First Mortgage Notes, 3.600% due 6/1/08                                     | 71,856            |
| 125,000  | Niagara Mohawk Power Corp., First Mortgage Notes, 7.750% due 5/15/06                                  | 125,104           |
| 1,000,000  | Reliant Energy Inc., Senior Secured Notes, 9.500% due 7/15/13   | 1,020,000         |
| <b>Total Electric Utilities</b>                        |   | <b>2,245,710</b>  |
| <b>Electrical Equipment 0.0%</b>                       |   |                   |
|  | Cooper Industries Inc., Senior Notes:   |                   |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|                                   |   |                |
|-----------------------------------|---|----------------|
| 125,000                           | 5.250% due 7/1/07                                   | 124,387        |
| 100,000                           | 5.500% due 11/1/09                                  | 100,075        |
| 125,000                           | Rockwell Automation Inc., Notes, 6.150% due 1/15/08 | 126,608        |
| <b>Total Electrical Equipment</b> |   | <b>351,070</b> |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 11

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount                                      | Security   | Value            |
|--|--|------------------|
| <b>Energy Equipment &amp; Services 0.1%</b>      |  |                  |
| 75,000   | Cameron International Corp., Senior Notes, 2.650% due 4/15/07                              | \$ 72,681        |
| 529,000  | Dresser-Rand Group Inc., Senior Subordinated Notes, 8.125% due 11/1/14                     | 543,547          |
| 250,000  | Duke Energy Field Services LLC, Senior Notes, 5.750% due 11/15/06                          | 250,377          |
| <b>Total Energy Equipment &amp; Services</b>     |  | <b>866,605</b>   |
| <b>Food &amp; Staples Retailing 0.1%</b>         |  |                  |
| 500,000  | Rite Aid Corp., Senior Debentures, 6.875% due 8/15/13                                      | 436,250          |
| 150,000  | Safeway Inc., Senior Notes, 6.500% due 11/15/08  | 152,225          |
| <b>Total Food &amp; Staples Retailing</b>        |  | <b>588,475</b>   |
| <b>Food Products 0.4%</b>                        |  |                  |
| 75,000   | Bunge Ltd. Finance Corp., Senior Note, 4.375% due 12/15/08                                 | 72,876           |
| 125,000  | Campbell Soup Co., Notes, 6.900% due 10/15/06  | 125,674          |
| 325,000  | Dean Foods Co., Senior Notes, 6.900% due 10/15/17  | 325,000          |
| 500,000  | Del Monte Corp., Senior Subordinated Notes, 8.625% due 12/15/12                            | 527,500          |
| 325,000  | Doane Pet Care Co., Senior Subordinated Notes, 10.625% due 11/15/15                        | 398,125          |
| 350,000  | Dole Food Co. Inc.:<br>Debentures, 8.750% due 7/15/13                                      | 338,625          |
| 125,000  | Senior Notes:<br>7.250% due 6/15/10  | 117,500          |
| 261,000  | 8.875% due 3/15/11   | 255,780          |
| 125,000  | Kellogg Co., Senior Notes, 2.875% due 6/1/08   | 118,817          |
| 200,000  | Kraft Foods Inc., Notes, 4.625% due 11/1/06  | 199,350          |
| 500,000  | Pinnacle Foods Holding Corp., Senior Subordinated Notes, 8.250% due 12/1/13                | 503,750          |
| 625,000  | United Agri Products Inc., Senior Notes, 8.250% due 12/15/11                               | 656,250          |
| <b>Total Food Products</b>                       |  | <b>3,639,247</b> |
| <b>Health Care Providers &amp; Services 0.5%</b> |  |                  |
| 250,000  | AmeriPath Inc., Senior Subordinated Notes, 10.500% due 4/1/13                              | 266,875          |
| 300,000  | DaVita Inc., Senior Subordinated Notes, 7.250% due 3/15/15                                 | 301,500          |
| 500,000  | Extendicare Health Services Inc., Senior Subordinated Notes, 6.875% due 5/1/14             | 515,000          |
| 600,000  | Genesis HealthCare Corp., Senior Subordinated Notes, 8.000% due 10/15/13                   | 639,000          |
| 142,000  | HCA Inc., Notes:<br>7.125% due 6/1/06  | 142,162          |
| 215,000  | 6.375% due 1/15/15   | 208,090          |
| 925,000  | IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes,<br>8.750% due 6/15/14 | 938,875          |
| 150,000  | Quest Diagnostics Inc., Senior Notes, 6.750% due 7/12/06                                   | 150,359          |
| 650,000  | Tenet Healthcare Corp., Senior Notes:<br>7.375% due 2/1/13                                 | 609,375          |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|         |   |         |
|---------|---|---------|
| 375,000 | 9.875% due 7/1/14   | 390,937 |
| 150,000 | UnitedHealth Group Inc., Senior Notes, 3.300% due 1/30/08 | 144,871 |
| 75,000  | WellPoint Health Networks Inc., Notes, 6.375% due 6/15/06 | 75,106  |

---

|   |  |           |
|---|--|-----------|
| <b>Total Health Care Providers &amp; Services</b> |  | 4,382,150 |
|---|--|-----------|

---

**Hotels, Restaurants & Leisure** □ 1.3%

|           |   |         |
|-----------|---|---------|
| 625,000   | AMF Bowling Worldwide Inc., Senior Subordinated Notes, 10.000% due 3/1/10 | 646,094 |
| 1,000,000 | Boyd Gaming Corp., Senior Subordinated Notes, 6.750% due 4/15/14          | 995,000 |
| 200,000   | Carnival Corp., Secured Notes, 3.750% due 11/15/07                        | 195,082 |

**See Notes to Financial Statements.**

12 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---



**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount  | Security   | Value             |
|--|--|-------------------|
| <b>Hotels, Restaurants &amp; Leisure 1.3% (continued)</b>    |  |                   |
| 125,000  | Carrols Corp., Senior Subordinated Notes, 9.000% due 1/15/13                                 | \$ 127,500        |
| 325,000  | Choctaw Resort Development Enterprise, Senior Notes, 7.250% due 11/15/19 (b)                 | 329,469           |
| 875,000  | Cinemark Inc., Senior Discount Notes, step bond to yield 9.765% due 3/15/14                  | 700,000           |
| 550,000  | Denny's Holdings Inc., Senior Notes, 10.000% due 10/1/12                                     | 576,125           |
| 325,000  | Gaylord Entertainment Co., Senior Notes, 6.750% due 11/15/14                                 | 312,813           |
| 450,000  | Herbst Gaming Inc., Senior Subordinated Notes, 7.000% due 11/15/14                           | 452,250           |
| 1,000,000  | Isle of Capri Casinos Inc., Senior Subordinated Notes, 7.000% due 3/1/14                     | 987,500           |
| 500,000  | Kerzner International Ltd., Senior Subordinated Notes, 6.750% due 10/1/15                    | 521,250           |
| 550,000  | Las Vegas Sands Corp., Senior Notes, 6.375% due 2/15/15                                      | 530,750           |
| 250,000  | Leslie's Poolmart, Senior Notes, 7.750% due 2/1/13   | 251,250           |
| 125,000  | McDonald's Corp., Medium-Term Notes, Series E, 5.950% due 1/15/08                            | 126,026           |
|  | MGM MIRAGE Inc.:   |                   |
|  | Senior Notes:  |                   |
| 700,000  | 6.750% due 9/1/12  | 696,500           |
| 575,000  | 5.875% due 2/27/14   | 536,906           |
| 203,000  | Senior Subordinated Notes, 9.375% due 2/15/10  | 219,240           |
|  | Mohegan Tribal Gaming Authority, Senior Subordinated Notes:                                  |                   |
| 300,000  | 7.125% due 8/15/14   | 298,500           |
| 350,000  | 6.875% due 2/15/15   | 341,250           |
| 325,000  | Penn National Gaming Inc., Senior Subordinated Notes, 6.750% due 3/1/15                      | 320,938           |
| 500,000  | Pinnacle Entertainment Inc., Senior Subordinated Notes, 8.250% due 3/15/12                   | 525,000           |
| 325,000  | Riddell Bell Holdings Inc., Senior Subordinated Notes, 8.375% due 10/1/12                    | 325,812           |
| 625,000  | Seneca Gaming Corp., Senior Notes, 7.250% due 5/1/12   | 625,000           |
| 625,000  | Station Casinos Inc., Senior Subordinated Notes, 6.875% due 3/1/16                           | 617,187           |
| 500,000  | Turning Stone Casino Resort Enterprise, Senior Notes, 9.125% due 12/15/10 (b)                | 522,500           |
| <b>Total Hotels, Restaurants &amp; Leisure</b>               |  | <b>11,779,942</b> |
| <b>Household Durables 0.2%</b>                               |  |                   |
| 100,000  | Centex Corp., Notes, 4.750% due 1/15/08  | 98,629            |
| 125,000  | Fortune Brands Inc., Notes, 2.875% due 12/1/06   | 123,219           |
| 600,000  | Interface Inc., Senior Subordinated Notes, 9.500% due 2/1/14                                 | 627,000           |
| 600,000  | Sealy Mattress Co., Senior Subordinated Notes, 8.250% due 6/15/14                            | 633,000           |
| 575,000  | Tempur-Pedic Inc./Tempur Production USA Inc., Senior Subordinated Notes, 10.250% due 8/15/10 | 618,844           |
| <b>Total Household Durables</b>                              |  | <b>2,100,692</b>  |
| <b>Household Products 0.0%</b>                               |  |                   |
| 213,000  | Spectrum Brands Inc., Senior Subordinated Notes, 7.375% due 2/1/15                           | 179,985           |
| <b>Independent Power Producers &amp; Energy Traders 0.6%</b> |  |                   |
|  | AES Corp., Senior Notes:   |                   |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|           |   |           |
|-----------|---|-----------|
| 100,000   | 9.500% due 6/1/09   | 108,250   |
| 1,400,000 | 7.750% due 3/1/14   | 1,466,500 |
| 175,000   | Calpine Generating Co. LLC, Senior Secured Notes, 14.120% due 4/1/11 (a)(c) | 188,125   |
| 100,000   | Duke Energy Corp., Senior Notes, 4.200% due 10/1/08                         | 97,152    |
| 1,725,000 | Dynegy Holdings Inc., Senior Debentures, 7.125% due 5/15/18                 | 1,569,750 |
| 425,000   | Mirant North America LLC, Senior Notes, 7.375% due 12/31/13 (b)             | 428,719   |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 13

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face<br>Amount   | Security  | Value            |
|--|---|------------------|
| <b>Independent Power Producers &amp; Energy Traders 0.6% (continued)</b> |   |                  |
|  | NRG Energy Inc., Senior Notes:  |                  |
| 250,000  | 7.250% due 2/1/14   | \$ 251,875       |
| 1,025,000  | 7.375% due 2/1/16   | 1,036,531        |
| <b>Total Independent Power Producers &amp; Energy Traders</b>            |   | <b>5,146,902</b> |
| <b>Industrial Conglomerates 0.1%</b>                                     |   |                  |
| 682,000  | Koppers Inc., Senior Secured Notes, 9.875% due 10/15/13   | 750,200          |
| 350,000  | Park-Ohio Industries Inc., Senior Subordinated Notes, 8.375% due 11/15/14                         | 332,500          |
| <b>Total Industrial Conglomerates</b>                                    |   | <b>1,082,700</b> |
| <b>Insurance 0.1%</b>  |   |                  |
| 125,000  | Genworth Financial Inc., Notes, 4.750% due 6/15/09  | 122,560          |
| 125,000  | Hartford Financial Services Group Inc., Senior Notes, 2.375% due 6/1/06                           | 124,727          |
| 75,000   | Marsh & McLennan Cos. Inc., Notes, 5.190% due 7/13/07 (a)   | 74,949           |
| 500,000  | Nationwide Life Global Funding I, Notes, 5.055% due 9/28/07 (a)(b)                                | 500,711          |
| 150,000  | Protective Life Secured Trust, Senior Secured Notes, Medium-Term Notes,<br>5.130% due 4/13/07 (a) | 150,198          |
| 156,000  | Prudential Financial Inc., Medium-Term Notes, 3.750% due 5/1/08                                   | 151,127          |
| 75,000   | Unitrin Inc., Senior Notes, 5.750% due 7/1/07   | 75,049           |
| <b>Total Insurance</b>   |   | <b>1,199,321</b> |
| <b>IT Services 0.2%</b>  |   |                  |
| 1,325,000  | Iron Mountain Inc., Senior Subordinated Notes, 7.750% due 1/15/15                                 | 1,351,500        |
| <b>Machinery 0.3%</b>  |   |                  |
| 325,000  | Case New Holland Inc., Senior Notes, 7.125% due 3/1/14 (b)  | 320,937          |
| 412,000  | Caterpillar Inc., Senior Debentures, 7.250% due 9/15/09   | 435,286          |
| 200,000  | Ingersoll-Rand Co., Notes, 6.250% due 5/15/06   | 200,068          |
| 475,000  | Invensys PLC, Senior Notes, 9.875% due 3/15/11 (b)  | 503,500          |
| 225,000  | Mueller Group Inc., Senior Subordinated Notes, 10.000% due 5/1/12                                 | 247,500          |
| 775,000  | Mueller Holdings Inc., Discount Notes, step bond to yield 11.895% due 4/15/14                     | 643,250          |
| 213,000  | Terex Corp., Senior Subordinated Notes, 7.375% due 1/15/14  | 216,728          |
| <b>Total Machinery</b>   |   | <b>2,567,269</b> |
| <b>Media 1.5%</b>  |   |                  |
| 400,000  | AMC Entertainment Inc., Senior Subordinated Notes, 11.000% due 2/1/16 (b)                         | 436,000          |
| 625,000  | CanWest Media Inc., Senior Subordinated Notes, 8.000% due 9/15/12                                 | 636,719          |
| 2,020,000  | CCH I LLC, Senior Secured Notes, 11.000% due 10/1/15  | 1,807,900        |
| 700,000  | Charter Communications Operating LLC, Second Lien Senior Notes,                                   |                  |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|           |  |         |
|-----------|--|---------|
|           | 8.375% due 4/30/14 (b)   | 707,000 |
| 250,000   | Clear Channel Communications Inc., Senior Notes, 3.125% due 2/1/07 | 245,527 |
| 250,000   | COX Communications Inc., 7.750% due 8/15/06                        | 251,382 |
|           | CSC Holdings Inc.:   |         |
| 700,000   | Debentures, Series B, 8.125% due 8/15/09                           | 729,750 |
| 375,000   | Senior Notes, Series B, 8.125% due 7/15/09                         | 390,938 |
|           | Dex Media Inc., Discount Notes:                                    |         |
| 750,000   | Step bond to yield 8.608% due 11/15/13                             | 641,250 |
| 1,000,000 | Step bond to yield 8.873% due 11/15/13                             | 855,000 |

**See Notes to Financial Statements.**

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount                       | Security   | Value             |
|-----------------------------------|--|-------------------|
| <b>Media 1.5% (continued)</b>     |  |                   |
| 764,000                           | DIRECTV Holdings LLC/DIRECTV Financing Co. Inc., Senior Notes:<br>8.375% due 3/15/13         | \$ 820,345        |
| 475,000                           | 6.375% due 6/15/15   | 466,687           |
| EchoStar DBS Corp., Senior Notes: |  |                   |
| 1,000,000                         | 6.625% due 10/1/14   | 966,250           |
| 325,000                           | 7.125% due 2/1/16 (b)  | 318,906           |
| 150,000                           | Intelsat Subsidiary Holding Co. Ltd., Senior Notes, 9.614% due 1/15/12 (a)                   | 153,000           |
| 500,000                           | LodgeNet Entertainment Corp., Senior Subordinated Notes, 9.500% due 6/15/13                  | 541,250           |
| 750,000                           | Mediacom Broadband LLC/Mediacom Broadband Corp., Senior Notes,<br>11.000% due 7/15/13        | 798,750           |
| 200,000                           | Nexstar Finance Holdings LLC, Senior Discount Notes, step bond to yield<br>9.548% due 4/1/13 | 167,000           |
| R.H. Donnelley Corp.:             |  |                   |
| Senior Discount Notes:            |  |                   |
| 175,000                           | Series A-1, 6.875% due 1/15/13 (b)   | 163,625           |
| 300,000                           | Series A-2, 6.875% due 1/15/13 (b)   | 280,500           |
| 450,000                           | Senior Notes, Series A-3, 8.875% due 1/15/16 (b)   | 465,187           |
| 50,000                            | Rainbow National Services LLC, Senior Subordinated Debentures,<br>10.375% due 9/1/14 (b)     | 56,375            |
| 125,000                           | Reed Elsevier Capital Inc., Notes, 6.125% due 8/1/06   | 125,230           |
| 600,000                           | Rogers Cable Inc., Senior Secured Notes, 7.875% due 5/1/12                                   | 638,250           |
| 575,000                           | Sinclair Broadcast Group Inc., Senior Subordinated Notes, 8.000% due 3/15/12                 | 587,937           |
| 100,000                           | Walt Disney Co., Medium-Term Notes, 5.500% due 12/29/06                                      | 100,192           |
| <b>Total Media</b>                |  | <b>13,350,950</b> |
| <b>Metals &amp; Mining 0.2%</b>   |  |                   |
| 475,000                           | Aleris International Inc., Senior Secured Notes, 10.375% due 10/15/10                        | 523,688           |
| 600,000                           | Corporacion Nacional del Cobre-Codelco, Notes, 5.500% due 10/15/13 (b)                       | 586,835           |
| 275,000                           | IPSCO Inc., Senior Notes, 8.750% due 6/1/13  | 299,750           |
| 525,000                           | Vale Overseas Ltd., Notes, 6.250% due 1/11/16  | 518,438           |
| 150,000                           | WMC Finance USA, 6.750% due 12/1/06  | 151,137           |
| <b>Total Metals &amp; Mining</b>  |  | <b>2,079,848</b>  |
| <b>Multi-Utilities 0.0%</b>       |  |                   |
| 125,000                           | Keyspan Gas East Corp., Medium-Term Notes, 6.900% due 1/15/08                                | 127,769           |
| 155,000                           | United Utilities PLC, Notes, 6.450% due 4/1/08   | 157,613           |
| <b>Total Multi-Utilities</b>      |  | <b>285,382</b>    |
| <b>Multiline Retail 0.1%</b>      |  |                   |
| 300,000                           | Harry & David Operations, Senior Notes, 9.000% due 3/1/13                                    | 281,250           |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|                               |  |                |
|-------------------------------|--|----------------|
| 225,000                       | Neiman Marcus Group Inc., Senior Subordinated Notes,<br>10.375% due 10/15/15 (b) | 241,875        |
| 125,000                       | Target Corp., Senior Notes, 5.500% due 4/1/07                                    | 125,249        |
| <b>Total Multiline Retail</b> |  | <b>648,374</b> |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 15

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount   | Security  | Value            |
|---|---|------------------|
| <b>Oil, Gas &amp; Consumable Fuels</b> □ 0.9%       |   |                  |
| 255,000   | Burlington Resources Finance Corp., Senior Notes, 5.600% due 12/1/06          | \$ 255,378       |
|   | Chesapeake Energy Corp., Senior Notes:  |                  |
| 775,000   | 6.375% due 6/15/15  | 745,937          |
| 75,000  | 6.625% due 1/15/16  | 73,125           |
| 425,000   | 6.875% due 11/15/20 (b)   | 419,687          |
|   | El Paso Corp., Medium-Term Notes:   |                  |
| 1,000,000   | 7.800% due 8/1/31   | 995,000          |
| 1,050,000   | 7.750% due 1/15/32  | 1,047,375        |
| 500,000   | EXCO Resources Inc., Senior Notes, 7.250% due 1/15/11                         | 496,250          |
| 325,000   | Holly Energy Partners, L.P., Senior Notes, 6.250% due 3/1/15                  | 307,938          |
| 125,000   | Norsk Hydro ASA, Notes, 6.360% due 1/15/09                                    | 127,723          |
| 1,550,000   | Petronas Capital Ltd., Notes, 7.875% due 5/22/22 (b)                          | 1,809,168        |
| 100,000   | Vintage Petroleum Inc., Senior Notes, 8.250% due 5/1/12                       | 106,470          |
| 1,500,000   | Williams Cos. Inc., Senior Notes, 7.750% due 6/15/31                          | 1,573,125        |
| <b>Total Oil, Gas &amp; Consumable Fuels</b>        |   | <b>7,957,176</b> |
| <b>Paper &amp; Forest Products</b> □ 0.3%           |   |                  |
| 440,000   | Abitibi-Consolidated Inc., Debentures, 8.850% due 8/1/30                      | 407,000          |
| 500,000   | Appleton Papers Inc., Senior Subordinated Notes, Series B, 9.750% due 6/15/14 | 507,500          |
|   | Buckeye Technologies Inc., Senior Subordinated Notes:                         |                  |
| 400,000   | 9.250% due 9/15/08  | 402,000          |
| 75,000  | 8.000% due 10/15/10   | 73,125           |
| 1,000,000   | Norske Skog Canada Ltd., Senior Notes, 7.375% due 3/1/14                      | 942,500          |
| <b>Total Paper &amp; Forest Products</b>            |   | <b>2,332,125</b> |
| <b>Personal Products</b> □ 0.2%                     |   |                  |
| 675,000   | DEL Laboratories Inc., Senior Subordinated Notes, 8.000% due 2/1/12           | 529,875          |
| 150,000   | Gillette Co., Notes, 3.500% due 10/15/07                                      | 146,367          |
| 600,000   | Playtex Products Inc., Senior Subordinated Notes, 9.375% due 6/1/11           | 628,500          |
| <b>Total Personal Products</b>                      |   | <b>1,304,742</b> |
| <b>Pharmaceuticals</b> □ 0.0%                       |   |                  |
| 350,000   | Warner Chilcott Corp., Senior Subordinated Notes, 8.750% due 2/1/15 (b)       | 350,000          |
| <b>Real Estate Investment Trusts (REITs)</b> □ 0.4% |   |                  |
| 1,000,000   | Felcor Lodging LP, Senior Notes, 8.500% due 6/1/11                            | 1,075,000        |
| 1,250,000   | Host Marriott LP, Senior Notes, 7.125% due 11/1/13                            | 1,275,000        |
| 75,000  | iStar Financial Inc., Senior Notes, Series B, 4.875% due 1/15/09              | 73,456           |
| 500,000   | MeriStar Hospitality Corp., Senior Notes, 9.125% due 1/15/11                  | 577,500          |
| 50,000  | Simon Property Group LP, Notes, 6.375% due 11/15/07                           | 50,685           |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|  |   |                  |
|--|---|------------------|
| 200,000  | Vornado Realty LP, Senior Notes, 5.625% due 6/15/07           | 200,060          |
| <b>Total Real Estate Investment Trusts (REITs)</b> |   | <b>3,251,701</b> |
| <hr/>  |   |                  |
| <b>Road &amp; Rail □ 0.0%</b>                      |   |                  |
| 75,000   | Burlington Northern Santa Fe Corp., Notes, 7.875% due 4/15/07 | 76,619           |

**See Notes to Financial Statements.**

16 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---



**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount   | Security  | Value            |
|---|---|------------------|
| <b>Semiconductors &amp; Semiconductor Equipment 0.1%</b>  |   |                  |
|   | Amkor Technology Inc., Senior Notes:  |                  |
| 400,000   | 9.250% due 2/15/08  | \$ 423,500       |
| 500,000   | 7.125% due 3/15/11  | 477,500          |
| <b>Total Semiconductors &amp; Semiconductor Equipment</b> |   | <b>901,000</b>   |
| <b>Specialty Retail 0.2%</b>                              |   |                  |
| 500,000   | Buffets Inc., Senior Subordinated Notes, 11.250% due 7/15/10                    | 527,500          |
| 500,000   | CSK Auto Inc., Senior Notes, 7.000% due 1/15/14                                 | 485,000          |
| 325,000   | Eye Care Centers of America, Senior Subordinated Notes, 10.750% due 2/15/15     | 328,250          |
| 225,000   | Finlay Fine Jewelry Corp., Senior Notes, 8.375% due 6/1/12                      | 198,000          |
| <b>Total Specialty Retail</b>                             |   | <b>1,538,750</b> |
| <b>Textiles, Apparel &amp; Luxury Goods 0.2%</b>          |   |                  |
|   | Levi Strauss & Co., Senior Notes:   |                  |
| 150,000   | 9.740% due 4/1/12 (a)   | 156,938          |
| 800,000   | 9.750% due 1/15/15  | 848,000          |
| 300,000   | Oxford Industries Inc., Senior Notes, 8.875% due 6/1/11                         | 311,250          |
| 250,000   | Simmons Bedding Co., Senior Subordinated Notes, 7.875% due 1/15/14              | 247,500          |
| <b>Total Textiles, Apparel &amp; Luxury Goods</b>         |   | <b>1,563,688</b> |
| <b>Thriffs &amp; Mortgage Finance 0.0%</b>                |   |                  |
| 100,000   | GreenPoint Financial Corp., Senior Notes, 3.200% due 6/6/08                     | 95,943           |
| <b>Tobacco 0.0%</b>                                       |   |                  |
| 75,000  | Altria Group Inc., Notes, 7.200% due 2/1/07                                     | 75,680           |
| 125,000   | Cargill Inc., Notes, 6.250% due 5/1/06 (b)                                      | 125,000          |
| <b>Total Tobacco</b>                                      |   | <b>200,680</b>   |
| <b>Wireless Telecommunication Services 0.5%</b>           |   |                  |
| 1,000,000   | American Tower Corp., Senior Notes, 7.500% due 5/1/12                           | 1,030,000        |
| 1,450,000   | Nextel Communications Inc., Senior Notes, Series E, 6.875% due 10/31/13         | 1,489,949        |
| 625,000   | Rogers Wireless Communications Inc., Secured Notes, 7.500% due 3/15/15          | 660,937          |
| 250,000   | Sprint Capital Corp., Notes, 6.000% due 1/15/07                                 | 251,019          |
| 650,000   | UbiquiTel Operating Co., Senior Notes, 9.875% due 3/1/11                        | 716,625          |
| 325,000   | U.S. Unwired Inc., Second Priority Secured Notes, Series B, 10.000% due 6/15/12 | 365,625          |
| <b>Total Wireless Telecommunication Services</b>          |   | <b>4,514,155</b> |
| <b>TOTAL CORPORATE BONDS &amp; NOTES</b>                  |   |                  |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

(Cost □ \$133,842,901)

**132,299,373**

**CONVERTIBLE BONDS & NOTES □ 9.7%**

**Airlines □ 0.4%**

|           |  |           |
|-----------|--|-----------|
| 2,000,000 | Continental Airlines Inc., Series B, 4.500% due 2/1/07 | 1,962,500 |
| 2,000,000 | JetBlue Airways Corp., 3.500% due 7/15/33              | 1,790,000 |

**Total Airlines**

3,752,500

**Biotechnology □ 2.8%**

|           |  |           |
|-----------|--|-----------|
| 500,000   | BioMarin Pharmaceuticals Inc.:<br>2.500% due 3/29/13 | 501,875   |
| 5,100,000 | Subordinated Notes, 3.500% due 6/15/08               | 5,138,250 |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc. 2006 Semi-Annual Report 17**

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount  | Security  | Value             |
|--|---|-------------------|
| <b>Biotechnology 2.8% (continued)</b>              |   |                   |
| 3,000,000  | Enzon Pharmaceuticals Inc., Subordinated Notes, 4.500% due 7/1/08                   | \$ 2,763,750      |
| 1,500,000  | Genzyme Corp., Senior Notes, 1.250% due 12/1/23                                     | 1,558,125         |
| 4,000,000  | Incyte Corp., 3.500% due 2/15/11  | 3,015,000         |
| 3,330,000  | InterMune Inc., Senior Notes, 0.250% due 3/1/11 (b)                                 | 2,917,912         |
| 315,000  | Invitrogen Corp., Senior Notes, 1.500% due 2/15/24                                  | 265,388           |
| 2,150,000  | Isis Pharmaceuticals Inc., 5.500% due 5/1/09  | 2,077,437         |
| 4,000,000  | NPS Pharmaceuticals Inc., Senior Notes, 3.000% due 6/15/08                          | 3,545,000         |
| 3,250,000  | Oscient Pharmaceutical Corp., 3.500% due 4/15/11                                    | 2,413,125         |
| <b>Total Biotechnology</b>                         |   | <b>24,195,862</b> |
| <b>Commercial Services &amp; Supplies 0.5%</b>     |   |                   |
| 4,500,000  | Allied Waste North America Inc., Senior Subordinated Debentures, 4.250% due 4/15/34 | 4,421,250         |
| <b>Communications Equipment 1.6%</b>               |   |                   |
| 9,000,000  | Ciena Corp., Senior Notes, 3.750% due 2/1/08  | 8,718,750         |
| 2,000,000  | Nortel Networks Corp., Senior Notes, 4.250% due 9/1/08                              | 1,905,000         |
| 2,200,000  | SafeNet Inc., 2.500% due 12/15/10 (b)   | 1,903,000         |
| 1,600,000  | UTStarcom Inc., 0.875% due 3/1/08   | 1,430,000         |
| <b>Total Communications Equipment</b>              |   | <b>13,956,750</b> |
| <b>Computers &amp; Peripherals 0.1%</b>            |   |                   |
| 1,500,000  | Silicon Graphics Inc., Senior Notes, 6.500% due 6/1/09 (c)                          | 982,500           |
| <b>Diversified Telecommunication Services 0.3%</b> |   |                   |
| 2,500,000  | Logix Communications Enterprises Inc., 1.500% due 10/1/25                           | 2,678,125         |
| <b>Electrical Equipment 0.1%</b>                   |   |                   |
| 1,250,000  | GrafTech International Ltd, Senior Debentures, 1.625% due 1/15/24                   | 915,625           |
| <b>Media 0.9%</b>                                  |   |                   |
| 2,810,000  | Charter Communications Inc., Senior Notes, Class A Shares: 5.875% due 11/16/09      | 2,093,450         |
| 690,000  | 5.875% due 11/16/09 (b)   | 514,050           |
| 5,000,000  | Mediacom Communications Corp., Senior Notes, 5.250% due 7/1/06                      | 5,006,250         |
| <b>Total Media</b>                                 |   | <b>7,613,750</b>  |
| <b>Pharmaceuticals 0.2%</b>                        |   |                   |
| 2,000,000  | Sepracor Inc., Subordinated Debentures, 5.000% due 2/15/07                          | 1,995,000         |

**Real Estate Investment Trusts (REITs) □ 0.7%**

|           |  |           |
|-----------|--|-----------|
| 4,500,000 | Host Marriott LP, 3.250% due 4/15/24 (b) | 5,731,875 |
|-----------|--|-----------|

---

**Semiconductors & Semiconductor Equipment □ 0.7%**

|           |   |           |
|-----------|---|-----------|
| 2,000,000 | Amkor Technology Inc., Subordinated Notes, 5.000% due 3/15/07 | 1,990,000 |
|-----------|---|-----------|

|           |  |           |
|-----------|--|-----------|
| 8,500,000 | Atmel Corp., Subordinated Notes, zero coupon bond to yield<br>5.762% due 5/23/21 | 4,228,750 |
|-----------|--|-----------|

---

|   |                  |
|---|------------------|
| <b>Total Semiconductors &amp; Semiconductor Equipment</b> | <b>6,218,750</b> |
|---|------------------|

---

**Software □ 0.7%**

|           |  |           |
|-----------|--|-----------|
| 4,325,000 | Manugistics Group Inc., Subordinated Notes, 5.000% due 11/1/07 | 4,319,594 |
|-----------|--|-----------|

|           |  |           |
|-----------|--|-----------|
| 2,000,000 | Mentor Graphics Corp., 6.250% due 3/1/26 (b) | 2,205,000 |
|-----------|--|-----------|

---

|                       |                  |
|-----------------------|------------------|
| <b>Total Software</b> | <b>6,524,594</b> |
|-----------------------|------------------|

---

**See Notes to Financial Statements.**

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount                                     | Security   | Value             |
|---|--|-------------------|
| <b>Specialty Retail 0.4%</b>                    |  |                   |
| 3,000,000                                       | Pier 1 Imports Inc., 6.375% due 2/15/36 (b)  | \$ 3,330,000      |
| <b>Wireless Telecommunication Services 0.3%</b> |  |                   |
| 4,500,000                                       | Liberty Media Corp., Senior Debentures, 4.000% due 11/15/29 (d)  | 2,812,500         |
| <b>TOTAL CONVERTIBLE BONDS &amp; NOTES</b>      |  | <b>85,129,081</b> |
| (Cost \$87,929,954)                             |  |                   |
| <b>ASSET-BACKED SECURITIES 5.3%</b>             |  |                   |
| <b>Home Equity 5.2%</b>                         |  |                   |
| 1,000,000                                       | ACE Securities Corp., Series 2004-OP1, Class M3, 6.209% due 4/25/34 (a)                                  | 1,002,532         |
|   | Aegis Asset-Backed Securities Trust:   |                   |
| 7,444   | Series 2004-2N, Class N1, 4.500% due 4/25/34 (b)   | 7,444             |
| 1,250,000                                       | Series 2004-5, Class M2, 6.179% due 12/25/34 (a)   | 1,264,621         |
| 199,155   | Series 2004-5N, 5.000% due 12/25/34 (b)  | 197,624           |
| 510,924   | Series 2004-6N, 4.750% due 3/25/35 (b)   | 508,209           |
|   | Ameriquest Mortgage Securities Inc.:   |                   |
| 1,000,000                                       | Series 2003-12, Class M2, 6.659% due 11/25/33 (a)  | 1,021,948         |
| 1,000,000                                       | Series 2004-R08, Class M10, 7.459% due 9/25/34 (a)(b)  | 948,158           |
| 1,000,000                                       | Series 2004-R11, Class M5, 6.159% due 11/25/34 (a)   | 1,021,114         |
| 1,000,000                                       | Amortizing Residential Collateral Trust, Series 2004-1, Class M4, 6.009% due 10/25/34 (a)                | 1,022,616         |
| 43,099  | AQ Finance Net Interest Margin Trust, Series 2004-RN5, Class A, 5.193% due 6/25/34 (b)                   | 42,916            |
|   | Argent Securities Inc., Series 2004-W8:  |                   |
| 2,000,000                                       | Class M04, 6.259% due 5/25/34 (a)  | 2,019,682         |
| 600,000   | Class M10, 8.459% due 5/25/34 (a)  | 592,566           |
| 750,000   | Asset-Backed Funding Certificates, Series 2004-FF1, Class M2, 6.409% due 1/25/34 (a)                     | 760,725           |
| 6,174   | Asset-Backed Funding Corp. Net Interest Margin Trust, Series 2004-OPT4, Class N1, 4.450% due 5/26/34 (b) | 6,167             |
|   | Bear Stearns Asset-Backed Securities Inc.:   |                   |
| 2,000,000                                       | Series 2004-HE5, Class M1, 5.529% due 7/25/34 (a)  | 2,001,140         |
| 1,146,533                                       | Series 2005-AC4, Class M2, 5.629% due 7/25/35 (a)  | 1,150,775         |
|   | Bear Stearns Asset-Backed Securities Inc. Net Interest Margin Trust:                                     |                   |
| 9,020   | Series 2004-FR1N, Class A1, 5.000% due 5/25/34 (b)   | 9,009             |
| 24,290  | Series 2004-HE6N, Class A1, 5.250% due 8/25/34 (b)   | 24,257            |
|   | Countrywide Asset-Backed Certificates:   |                   |
| 750,000   | Series 2003-03, Class M4, 6.359% due 3/25/33 (a)   | 755,688           |
| 39,645  | Series 2004-02N, Class N1, 5.000% due 2/25/35 (b)  | 39,321            |
| 410,000   | Series 2004-05, Class M4, 6.209% due 6/25/34 (a)   | 416,634           |
| 18,244  | Series 2004-05N, Class N1, 5.500% due 10/25/35 (b)   | 18,229            |
| 2,000,000                                       | Series 2004-BC4, Class M2, 5.809% due 10/25/34 (a)   | 2,012,933         |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|         |  |         |
|---------|--|---------|
| 225,327 | CS First Boston Mortgage Securities Corp., Series 2001-HE16, Class M2,<br>6.159% due 11/25/31 (a)            | 224,478 |
| 126,205 | Finance America Net Interest Margin Trust, Series 2004-01, Class A,<br>5.250% due 6/27/34 (b)                | 125,471 |
| 750,000 | First Franklin Mortgage Loan Asset Backed Certificates, Series 2004-FF2,<br>Class M4, 5.859% due 3/25/34 (a) | 755,530 |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 19

---

## Schedule of Investments (April 30, 2006) (unaudited) (continued)

| Face Amount                         | Security   | Value     |
|-------------------------------------|--|-----------|
| <b>Home Equity 5.2% (continued)</b> |  |           |
| 64,832                              | First Franklin Net Interest Margin Trust, Series 2004-FF7A, Class A, 5.000% due 9/27/34 (b)        | \$ 64,537 |
|                                     | Fremont Home Loan Trust:   |           |
| 1,000,000                           | Series 2004-01, Class M5, 6.059% due 2/25/34 (a)   | 1,005,984 |
| 2,000,000                           | Series 2004-B, Class M4, 6.129% due 5/25/34 (a)  | 2,003,265 |
| 875,000                             | Series 2004-D, Class M5, 5.959% due 11/25/34 (a)   | 882,441   |
| 1,005,000                           | GSAMP Trust, Series 2004-OPT, Class M3, 6.109% due 11/25/34 (a)                                    | 1,014,126 |
| 739,118                             | Long Beach Asset Holdings Corp., Series 2004-06, Class N2, 7.500% due 11/25/34 (b)                 | 332,603   |
| 750,000                             | Long Beach Mortgage Loan Trust, Series 2004-06, Class M2, 6.109% due 11/25/34 (a)                  | 754,286   |
| 1,000,000                           | MASTR Asset-Backed Securities Trust, Series 2004-OPT2, Class M4, 5.959% due 9/25/34 (a)            | 1,009,861 |
|                                     | Merrill Lynch Mortgage Investors Inc.:   |           |
| 52,478                              | Series 2004-WM2N, Class N1, 4.500% due 12/25/34 (b)  | 51,959    |
| 92,063                              | Series 2005-WM1N, Class N1, 5.000% due 9/25/35 (b)   | 91,437    |
|                                     | Morgan Stanley Asset-Backed Securities Capital I:  |           |
| 1,400,000                           | Series 2004-HE4, Class M2, 6.259% due 5/25/34 (a)  | 1,400,797 |
| 500,000                             | Series 2004-HE9, Class M6, 6.209% due 11/25/34 (a)   | 506,450   |
| 1,000,000                           | Series 2004-NC8, Class M4, 5.959% due 9/25/34 (a)  | 1,013,538 |
| 1,000,000                           | Series 2004-OP1, Class M5, 6.009% due 11/25/34 (a)   | 1,015,307 |
|                                     | New Century Home Equity Loan Trust:  |           |
| 1,250,000                           | Series 2001-NC1, Class M2, 6.570% due 6/20/31 (a)  | 1,251,912 |
| 1,500,000                           | Series 2003-04, Class M2, 6.779% due 10/25/33 (a)  | 1,517,783 |
|                                     | Novastar Home Equity Loan:   |           |
| 2,000,000                           | Series 2003-04, Class M2, 6.584% due 2/25/34 (a)   | 2,032,161 |
| 1,000,000                           | Series 2004-01, Class M4, 5.934% due 6/25/34 (a)   | 1,007,380 |
| 1,250,000                           | Series 2004-02, Class M5, 6.459% due 9/25/34 (a)   | 1,265,932 |
| 1,000,000                           | Series 2004-4, Class M4, 6.059% due 3/25/35 (a)  | 1,004,734 |
| 750,000                             | Series 2005-02, Class M10, 7.959% due 10/25/35 (a)   | 700,287   |
|                                     | Option One Mortgage Loan Trust:  |           |
| 331,161                             | Series 2002-02, Class M2, 6.684% due 6/25/32 (a)   | 331,675   |
| 628,877                             | Series 2002-4, Class M2, 6.650% due 7/25/32 (a)  | 629,932   |
| 1,500,000                           | Series 2004-02, Class M2, 6.009% due 5/25/34 (a)   | 1,500,857 |
| 308,503                             | Park Place Securities Net Interest Margin Trust, Series 2005-WHQ2, Class A, 5.192% due 5/25/35 (b) | 306,961   |
| 1,000,000                           | Renaissance Home Equity Loan Trust, Series 2003-4, Class M3, 6.859% due 3/25/34 (a)                | 1,011,717 |
| 1,000,000                           | Residential Asset Securities Corp., Series 2004-KS10, Class M2, 6.109% due 11/25/34 (a)            | 1,015,927 |
|                                     | Sail Net Interest Margin Notes:  |           |
| 141,210                             | Series 2003-BC2A, Class A, 7.750% due 4/27/33 (b)  | 63,183    |
| 84,329                              | Series 2004-002A, Class A, 5.500% due 3/27/34 (b)  | 80,307    |
| 39,659                              | Series 2004-008A, Class A, 5.000% due 9/27/34 (b)  | 39,600    |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|         |   |         |
|---------|---|---------|
| 89,201  | Series 2004-11A, Class A2, 4.750% due 1/27/35 (b) | 88,767  |
| 367,544 | Series 2004-AA, Class B, 7.500% due 10/27/34 (b)  | 257,281 |

**See Notes to Financial Statements.**

20 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---



**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount  | Security  | Value             |
|--|---|-------------------|
| <b>Home Equity 5.2% (continued)</b>                            |   |                   |
|  | Series 2004-BN2A:   |                   |
| 150,417  | Class A, 5.000% due 12/27/34 (b)  | \$ 150,139        |
| 337,395  | Class B, 7.000% due 12/27/34 (b)  | 295,221           |
| 289,084  | Series 2005-1A, Class B, 7.500% due 2/27/35 (b)   | 278,928           |
|  | Sharp SP I LLC, Net Interest Margin Trust:  |                   |
| 106,505  | Series 2004-HS1N, 5.920% due 2/25/34 (b)  | 105,407           |
| 137,685  | Series 2005-HE1N, 5.190% due 2/25/35 (b)  | 137,111           |
| 1,500,000  | Structured Asset Investment Loan Trust, Series 2003-BC10, Class M2, 6.809% due 10/25/33 (a) | 1,507,511         |
| <b>Total Home Equity</b>                                       |   | <b>45,677,091</b> |
| <b>Student Loan 0.1%</b>                                       |   |                   |
| 1,196,722  | Saco I Trust, Series 2005-02, Class A, 5.159% due 4/25/35 (a)(b)                            | 1,197,145         |
| <b>TOTAL ASSET-BACKED SECURITIES</b><br>(Cost \$47,140,290)    |   | <b>46,874,236</b> |
| <b>MORTGAGE-BACKED SECURITIES 4.7%</b>                         |   |                   |
| <b>FHLMC 2.9%</b>  |   |                   |
|  | Federal Home Loan Mortgage Corp. (FHLMC), Gold:   |                   |
| 1,312,694  | 7.000% due 6/1/17   | 1,349,725         |
| 431,991  | 8.500% due 9/1/25   | 465,463           |
| 22,453,513   | 6.000% due 2/1/26-2/1/36  | 22,434,291        |
| 934,364  | 6.500% due 8/1/29   | 955,202           |
| <b>Total FHLMC</b>   |   | <b>25,204,681</b> |
| <b>FNMA 1.8%</b>   |   |                   |
|  | Federal National Mortgage Association (FNMA):   |                   |
| 1,604,380  | 8.000% due 12/1/12  | 1,652,239         |
| 2,356,232  | 5.500% due 1/1/14-4/1/35  | 2,302,548         |
| 2,377,599  | 7.000% due 3/15/15-6/1/32   | 2,456,716         |
| 10,000,000   | 5.000% due 5/11/36 (e)(f)   | 9,459,380         |
| <b>Total FNMA</b>  |   | <b>15,870,883</b> |
| <b>TOTAL MORTGAGE-BACKED SECURITIES</b><br>(Cost \$41,642,025) |   | <b>41,075,564</b> |
| <b>COLLATERALIZED MORTGAGE OBLIGATIONS 0.6%</b>                |   |                   |
| 260,000  | American Home Mortgage Investment Trust, Series 2005-4, Class M3, 5.759% due 11/25/45 (a)   | 260,067           |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|         |  |         |
|---------|--|---------|
| 186,860 | Commercial Mortgage Pass-Through Certificates, Series 2003-FL9, Class E,<br>5.901% due 11/15/15 (a)(b) | 187,433 |
|         | Federal Home Loan Mortgage Corp. (FHLMC):  |         |
| 177,875 | Series 2764, Class DT, 6.000% due 3/15/34 (a)  | 161,128 |
| 669,582 | Series 2780, Class SL, PAC, 6.000% due 4/15/34 (a)   | 648,871 |
| 748,354 | Harborview Mortgage Loan Trust, Series 2005-10, Class B6,<br>5.980% due 11/19/35 (a)                   | 747,419 |
| 5,851   | Homestar Net Interest Margin Trust, Series 2004-6, Class A1,<br>5.500% due 1/25/35 (b)                 | 5,848   |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 21

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount   | Security   | Value             |
|---|--|-------------------|
| <b>COLLATERALIZED MORTGAGE OBLIGATIONS 0.6% (continued)</b> |  |                   |
| 1,118,297   | Impac CMB Trust, Series 2004-04, Class 2M2, 6.459% due 9/25/34 (a)       | \$ 1,123,031      |
| 884,686   | Merit Securities Corp., Series 11PA, Class B2, 6.500% due 9/28/32 (a)(b) | 772,468           |
|   | MLCC Mortgage Investors Inc.:  |                   |
| 690,555   | Series 2004-A, Class B2, 5.879% due 4/25/29 (a)                          | 690,281           |
| 934,185   | Series 2004-B, Class B2, 5.839% due 5/25/29 (a)                          | 947,653           |
| <b>TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS</b>            |  |                   |
| (Cost \$5,618,613)  |  | <b>5,544,199</b>  |
| <b>SOVEREIGN BONDS 14.3%</b>                                |  |                   |
| <b>Argentina 0.7%</b>                                       |  |                   |
|   | Republic of Argentina:   |                   |
| 1,100,000 <sup>EUR</sup>                                    | 9.500% due 3/4/04 (c)  | 439,140           |
| 1,680,000   | 1.000% due 3/29/05 (a)(c)  | 453,600           |
| 837,000 <sup>EUR</sup>                                      | 10.250% due 1/26/07 (c)  | 339,429           |
| 1,133,125   | 4.889% due 8/3/12 (a)  | 1,067,519         |
| 4,896,747 <sup>ARS</sup>                                    | Discount Bonds, 5.830% due 12/31/33 (a)                                  | 1,918,520         |
|   | GDP Linked Securities:   |                   |
| 16,879,931 <sup>ARS</sup>                                   | Zero coupon due 12/15/35 (a)(c)  | 499,119           |
| 1,175,000 <sup>EUR</sup>                                    | Zero coupon due 12/15/35 (a)(c)  | 152,034           |
| 800,000   | Zero coupon due 12/15/35 (a)(c)  | 80,800            |
| 2,200,000 <sup>EUR</sup>                                    | Medium-Term Notes, 7.000% due 3/18/04 (c)                                | 857,452           |
| <b>Total Argentina</b>                                      |  | <b>5,807,613</b>  |
| <b>Brazil 2.0%</b>  |  |                   |
|   | Federative Republic of Brazil, Collective Action Securities:             |                   |
| 1,700,000   | 7.875% due 3/7/15  | 1,834,725         |
| 11,580,000  | 8.000% due 1/15/18   | 12,584,565        |
| 2,815,000   | 8.750% due 2/4/25  | 3,187,987         |
| <b>Total Brazil</b>   |  | <b>17,607,277</b> |
| <b>Bulgaria 0.2%</b>  |  |                   |
| 1,460,000   | Republic of Bulgaria, 8.250% due 1/15/15 (b)                             | 1,691,775         |
| <b>Chile 0.2%</b>   |  |                   |
| 2,300,000   | Republic of Chile, 5.500% due 1/15/13                                    | 2,266,029         |
| <b>China 0.1%</b>   |  |                   |
| 705,000   | People's Republic of China, 4.750% due 10/29/13                          | 669,072           |
| <b>Colombia 0.8%</b>  |  |                   |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|                             |                       |                 |
|-----------------------------|-----------------------|-----------------|
|                             | Republic of Colombia: |                 |
| 1,365,000                   | 11.750% due 2/25/20   | 1,948,538       |
| 4,300,000                   | 8.125% due 5/21/24    | 4,798,800       |
| 145,000                     | 10.375% due 1/28/33   | 199,556         |
| <hr/> <b>Total Colombia</b> |                       | <hr/> 6,946,894 |

**See Notes to Financial Statements.**

22 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount              | Security                                       | Value             |
|--------------------------|--|-------------------|
| <b>Ecuador 0.4%</b>      |  |                   |
|                          | Republic of Ecuador:                           |                   |
| 190,000                  | 12.000% due 11/15/12 (b)                       | \$ 194,037        |
| 3,275,000                | 9.000% due 8/15/30 (a)(b)                      | 3,392,900         |
| <b>Total Ecuador</b>     |  | <b>3,586,937</b>  |
| <b>El Salvador 0.3%</b>  |  |                   |
|                          | Republic of El Salvador:                       |                   |
| 1,980,000                | 7.750% due 1/24/23 (b)                         | 2,153,250         |
| 370,000                  | 8.250% due 4/10/32 (b)                         | 401,450           |
| <b>Total El Salvador</b> |  | <b>2,554,700</b>  |
| <b>Indonesia 0.1%</b>    |  |                   |
| 575,000                  | Republic of Indonesia, 8.500% due 10/12/35 (b) | 634,656           |
| <b>Malaysia 0.2%</b>     |  |                   |
|                          | Federation of Malaysia:                        |                   |
| 350,000                  | 8.750% due 6/1/09                              | 381,301           |
| 1,625,000                | 7.500% due 7/15/11                             | 1,758,860         |
| <b>Total Malaysia</b>    |  | <b>2,140,161</b>  |
| <b>Mexico 2.8%</b>       |  |                   |
|                          | United Mexican States:                         |                   |
| 1,170,000                | 11.375% due 9/15/16                            | 1,620,450         |
| 7,770,000                | 8.125% due 12/30/19                            | 9,013,200         |
|                          | Medium-Term Notes:                             |                   |
| 7,400,000                | 5.625% due 1/15/17                             | 7,094,750         |
|                          | Series A:                                      |                   |
| 988,000                  | 6.375% due 1/16/13                             | 1,006,772         |
| 425,000                  | 5.875% due 1/15/14                             | 419,900           |
| 3,080,000                | 6.625% due 3/3/15                              | 3,193,190         |
| 1,925,000                | 8.000% due 9/24/22                             | 2,215,194         |
| 265,000                  | 7.500% due 4/8/33                              | 290,837           |
| <b>Total Mexico</b>      |  | <b>24,854,293</b> |
| <b>Panama 0.5%</b>       |  |                   |
|                          | Republic of Panama:                            |                   |
| 700,000                  | 7.250% due 3/15/15                             | 738,850           |
| 1,075,000                | 8.875% due 9/30/27                             | 1,290,000         |
| 562,000                  | 9.375% due 4/1/29                              | 704,467           |

|                     |                    |                  |
|---------------------|--------------------|------------------|
| 1,802,000           | 6.700% due 1/26/36 | 1,772,717        |
| <b>Total Panama</b> |                    | <b>4,506,034</b> |

**See Notes to Financial Statements.**

**Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report 23

---

## Schedule of Investments (April 30, 2006) (unaudited) (continued)

| Face Amount               | Security                                      | Value             |
|---------------------------|---|-------------------|
| <b>Peru 0.8%</b>          |   |                   |
|                           | Republic of Peru:                             |                   |
| 1,955,000                 | 9.875% due 2/6/15                             | \$ 2,324,006      |
| 560,000                   | 8.750% due 11/21/33                           | 632,800           |
| 2,352,250                 | FLIRB, 5.000% due 3/7/17 (a)                  | 2,252,280         |
|                           | Global Bonds:                                 |                   |
| 300,000                   | 8.375% due 5/3/16                             | 327,600           |
| 1,630,000                 | 7.350% due 7/21/25                            | 1,617,775         |
| <b>Total Peru</b>         |   | <b>7,154,461</b>  |
| <b>Philippines 0.8%</b>   |   |                   |
|                           | Republic of the Philippines:                  |                   |
| 2,625,000                 | 9.000% due 2/15/13                            | 2,969,531         |
| 375,000                   | 8.250% due 1/15/14                            | 407,335           |
| 1,975,000                 | 10.625% due 3/16/25                           | 2,558,810         |
| 625,000                   | Senior Notes, 9.500% due 2/2/30               | 741,000           |
| <b>Total Philippines</b>  |   | <b>6,676,676</b>  |
| <b>Poland 0.2%</b>        |   |                   |
| 1,495,000                 | Republic of Poland, Notes, 5.250% due 1/15/14 | 1,456,242         |
| <b>Russia 1.9%</b>        |   |                   |
|                           | Russian Federation:                           |                   |
| 1,840,000                 | 11.000% due 7/24/18 (b)                       | 2,608,200         |
| 385,000                   | 12.750% due 6/24/28 (b)                       | 673,750           |
| 12,215,000                | 5.000% due 3/31/30 (a)(b)                     | 13,268,544        |
| <b>Total Russia</b>       |   | <b>16,550,494</b> |
| <b>South Africa 0.2%</b>  |   |                   |
|                           | Republic of South Africa:                     |                   |
| 250,000                   | 9.125% due 5/19/09                            | 273,875           |
| 1,825,000                 | 6.500% due 6/2/14                             | 1,877,469         |
| <b>Total South Africa</b> |   | <b>2,151,344</b>  |
| <b>Turkey 1.1%</b>        |   |                   |
|                           | Republic of Turkey:                           |                   |
| 200,000                   | 11.750% due 6/15/10                           | 239,700           |
| 725,000                   | 11.500% due 1/23/12                           | 901,719           |
| 4,150,000                 | 11.000% due 1/14/13                           | 5,171,937         |
| 900,000                   | 7.250% due 3/15/15                            | 938,250           |

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|                                       |   |                  |
|---------------------------------------|---|------------------|
| 1,250,000                             | 7.000% due 6/5/20                           | 1,262,500        |
| 800,000                               | 11.875% due 1/15/30                         | 1,220,000        |
| <b>Total Turkey</b>                   |   | <b>9,734,106</b> |
| <b>Ukraine □ 0.2%</b>                 |   |                  |
| 1,400,000                             | Republic of Ukraine, 7.650% due 6/11/13 (b) | 1,466,500        |
| <b>Uruguay □ 0.1%</b>                 |   |                  |
| Republic of Uruguay, Benchmark Bonds: |   |                  |
| 575,000                               | 7.250% due 2/15/11                          | 593,688          |
| 750,000                               | 7.500% due 3/15/15                          | 776,250          |
| <b>Total Uruguay</b>                  |   | <b>1,369,938</b> |

See Notes to Financial Statements.



**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount            | Security   | Value            |
|------------------------|--|------------------|
| <b>Venezuela 0.7%</b>  |  |                  |
|                        | Bolivarian Republic of Venezuela:                        |                  |
| 2,750,000              | 5.375% due 8/7/10  | \$ 2,673,000     |
| 1,050,000              | 8.500% due 10/8/14                                       | 1,183,875        |
| 275,000                | 7.650% due 4/21/25                                       | 296,106          |
| 1,900,000              | Collective Action Securities, Notes, 10.750% due 9/19/13 | 2,370,250        |
| <b>Total Venezuela</b> |  | <b>6,523,231</b> |

**TOTAL SOVEREIGN BONDS**

(Cost \$121,844,771)

**126,348,433****LOAN PARTICIPATIONS (a)(g) 0.2%**

|                                  |   |                  |
|----------------------------------|---|------------------|
| 1,000,000                        | UPC Broadband Inc. Term Loan, Tranche H2, 7.566% due 3/15/12<br>(Bank of America) | 1,006,458        |
| 1,000,000                        | UPC Broadband Term Loan, 1.000% due 3/15/13 (Toronto Dominion)                    | 1,006,459        |
| <b>TOTAL LOAN PARTICIPATIONS</b> |   |                  |
| (Cost \$2,000,000)               |   | <b>2,012,917</b> |

**Contracts****PURCHASED OPTION 0.5%**

|       |  |                  |
|-------|--|------------------|
| 2,300 | S&P 500 Index, Put @ 1,275, expires 9/06<br>(Cost \$5,013,080) | <b>4,485,000</b> |
|-------|--|------------------|

**Warrants****WARRANTS 0.1%**

|       |  |         |
|-------|--|---------|
| 2,935 | Bolivarian Republic of Venezuela, Oil-linked payment obligations, Expires 4/15/20* | 102,725 |
| 2,800 | United Mexican States, Series XW05, Expires 11/9/06*                               | 89,600  |
| 2,275 | United Mexican States, Series XW10, Expires 10/10/06*                              | 108,063 |
| 2,100 | United Mexican States, Series XW20, Expires 9/1/06*                                | 174,300 |

**TOTAL WARRANTS**

(Cost \$302,360)

**474,688****Face Amount****U.S. GOVERNMENT & AGENCY OBLIGATIONS 0.1%**

**U.S. Government Obligations** □ **0.1%**

\$

|         |   |         |
|---------|---|---------|
| 250,000 | U.S. Treasury Bonds, 5.375% due 2/15/31 | 253,828 |
| 640,000 | U.S. Treasury Notes, 4.500% due 2/15/16 | 612,300 |

---

**TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS**

(Cost □ \$863,871)

**866,128**

**TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENT**

(Cost □ \$791,684,085)

**863,808,361**

---

---

See Notes to Financial Statements.

Salomon Brothers Capital and Income Fund Inc. 2006 Semi-Annual Report 25

---

**Schedule of Investments (April 30, 2006) (unaudited) (continued)**

| Face Amount                       | Security  | Value                 |
|-----------------------------------|---|-----------------------|
| <b>SHORT-TERM INVESTMENT 2.0%</b> |   |                       |
| <b>Repurchase Agreement 2.0%</b>  |   |                       |
| \$17,347,000                      | Merrill Lynch, Pierce, Fenner & Smith Inc. repurchase agreement dated 4/28/06, 4.750% due 5/1/06; Proceeds at maturity \$17,353,867 (Fully collateralized by U.S. Treasury Note, 0.875% due 4/15/10; Market value \$17,696,172) (Cost \$17,347,000) | <b>\$ 17,347,000</b>  |
| <b>TOTAL INVESTMENTS 100.0%</b>   |   | <b>\$ 881,155,361</b> |
| (Cost \$809,031,085#)             |   |                       |

- \* Non-income producing security.
- Face amount denominated in U.S. dollars, unless otherwise noted.
- All securities are segregated as collateral pursuant to a revolving credit facility and/or mortgage dollar rolls.
- (a) Variable rate security. Interest rate disclosed is that which is in effect at April 30, 2006.
- (b) 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 guide lines approved by the Board of Directors, unless otherwise noted.
- (c) Security is currently in default.
- (d) This security is exchangeable for Sprint Nextel Corp. common stock.
- (e) This security is traded on a to-be-announced (□TBA□) basis (See Note 1).
- (f) All or a portion of this security is acquired under a mortgage dollar roll agreement (See Notes 1 and 3).
- (g) Participation interest was acquired through the financial institution indicated parenthetically.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

ADR □ American Depositary Receipt  
ARS □ Argentine Peso  
EUR □ Euro FDR □ Foreign Depositary Receipt  
FLIRB □ Front-Loaded Interest Reduction Bonds  
GDP □ Gross Domestic Product  
MASTR □ Mortgage Asset Securitization Transactions Inc.  
MXN □ Mexican Peso

**See Notes to Financial Statements.**

**Statement of Assets and Liabilities (April 30, 2006) (unaudited)****ASSETS:**

|   |                |
|---|----------------|
| Investments, at value (Cost □ \$809,031,085)  | \$ 881,155,361 |
| Foreign currency, at value (Cost □ \$141,455) | 147,113        |
| Cash  | 640            |
| Dividends and interest receivable             | 6,265,601      |
| Receivable for securities sold                | 3,493,754      |
| Prepaid expenses                              | 22,348         |

---

|                     |                    |
|---------------------|--------------------|
| <b>Total Assets</b> | <b>891,084,817</b> |
|---------------------|--------------------|

---

**LIABILITIES:**

|                                   |             |
|-----------------------------------|-------------|
| Loan payable (Note 4)             | 220,000,000 |
| Payable for securities purchased  | 13,452,411  |
| Interest payable                  | 878,081     |
| Investment management fee payable | 612,584     |
| Payable for offering costs        | 442,559     |
| Accrued expenses                  | 73,442      |

---

|                          |                    |
|--------------------------|--------------------|
| <b>Total Liabilities</b> | <b>235,459,077</b> |
|--------------------------|--------------------|

---

|                         |                       |
|-------------------------|-----------------------|
| <b>Total Net Assets</b> | <b>\$ 655,625,740</b> |
|-------------------------|-----------------------|

---

**NET ASSETS:**

|   |             |
|---|-------------|
| Par value (\$0.001 par value; 31,470,206 shares issued and outstanding;<br>100,000,000 shares authorized) | \$ 31,470   |
| Paid-in capital in excess of par value  | 587,631,707 |
| Overdistributed net investment income   | (9,700,167) |
| Accumulated net realized gain on investments, swap contracts and foreign currency transactions            | 5,532,657   |
| Net unrealized appreciation on investments and foreign currencies   | 72,130,073  |

---

|                         |                       |
|-------------------------|-----------------------|
| <b>Total Net Assets</b> | <b>\$ 655,625,740</b> |
|-------------------------|-----------------------|

---

|                           |                   |
|---------------------------|-------------------|
| <b>Shares Outstanding</b> | <b>31,470,206</b> |
|---------------------------|-------------------|

---

|                        |                 |
|------------------------|-----------------|
| <b>Net Asset Value</b> | <b>\$ 20.83</b> |
|------------------------|-----------------|

---

See Notes to Financial Statements.

Salomon Brothers Capital and Income Fund Inc. 2006 Semi-Annual Report 27

---

**Statement of Operations (For the six months ended April 30, 2006) (unaudited)****INVESTMENT INCOME:**

|                                |               |
|--------------------------------|---------------|
| Interest                       | \$ 14,279,692 |
| Dividends                      | 4,683,660     |
| Income from securities lending | 60,647        |
| Less: Foreign taxes withheld   | (63,099)      |

---

|                                |                   |
|--------------------------------|-------------------|
| <b>Total Investment Income</b> | <b>18,960,900</b> |
|--------------------------------|-------------------|

---

**EXPENSES:**

|                                    |           |
|------------------------------------|-----------|
| Interest expense (Note 4)          | 5,529,646 |
| Investment management fee (Note 2) | 3,693,360 |
| Shareholder reports                | 113,712   |
| Custody fees                       | 53,194    |
| Audit and tax                      | 33,018    |
| Directors' fees                    | 27,393    |
| Legal fees                         | 24,064    |
| Transfer agent fees                | 12,346    |
| Stock exchange listing fees        | 9,492     |
| Insurance                          | 6,672     |
| Loan fees                          | 4,485     |
| Miscellaneous expenses             | 2,053     |

---

|  |                  |
|--|------------------|
| <b>Total Expenses</b>                                    | <b>9,509,435</b> |
| Less: Fee waivers and/or expense reimbursements (Note 2) | (14,331)         |

---

|                     |                  |
|---------------------|------------------|
| <b>Net Expenses</b> | <b>9,495,104</b> |
|---------------------|------------------|

---

|                              |                  |
|------------------------------|------------------|
| <b>Net Investment Income</b> | <b>9,465,796</b> |
|------------------------------|------------------|

---

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, SWAP CONTRACTS AND FOREIGN CURRENCY TRANSACTIONS (NOTES 1 AND 3):**

|                                |           |
|--------------------------------|-----------|
| Net Realized Gain (Loss) From: |           |
| Investment transactions        | 6,285,721 |
| Swap contracts                 | (129)     |
| Foreign currency transactions  | (1,073)   |

---

|                          |                  |
|--------------------------|------------------|
| <b>Net Realized Gain</b> | <b>6,284,519</b> |
|--------------------------|------------------|

---

|  |            |
|--|------------|
| Change in Net Unrealized Appreciation/Depreciation From: |            |
| Investments  | 37,422,985 |
| Foreign currencies                                       | 7,417      |

---

|   |                   |
|---|-------------------|
| <b>Change in Net Unrealized Appreciation/Depreciation</b> | <b>37,430,402</b> |
|---|-------------------|

---

|  |                   |
|--|-------------------|
| <b>Net Gain on Investments, Swap Contracts and Foreign Currency Transactions</b> | <b>43,714,921</b> |
|--|-------------------|

---

**Increase in Net Assets From Operations**

**\$ 53,180,717**

---

**See Notes to Financial Statements.**

28 **Salomon Brothers Capital and Income Fund Inc.** 2006 Semi-Annual Report

---

---

**Statements of Changes in Net Assets**


---

**For the six months ended April 30, 2006 (unaudited)  
and the year ended October 31, 2005**

|   | <b>2006</b>           | <b>2005</b>           |
|---|-----------------------|-----------------------|
| <b>OPERATIONS:</b>  |                       |                       |
| Net investment income   | \$ 9,465,796          | \$ 22,725,281         |
| Net realized gain   | 6,284,519             | 10,639,307            |
| Change in net unrealized appreciation/depreciation                                | 37,430,402            | 39,671,791            |
| Increase from payment by affiliate  | □                     | 21,460                |
| <b>Increase in Net Assets From Operations</b>                                     | <b>53,180,717</b>     | <b>73,057,839</b>     |
| <b>DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):</b>                               |                       |                       |
| Net investment income   | (19,165,963)          | (32,052,389)          |
| Net realized gains  | □                     | (7,365,538)           |
| <b>Decrease in Net Assets From Distributions to Shareholders</b>                  | <b>(19,165,963)</b>   | <b>(39,417,927)</b>   |
| <b>FUND SHARE TRANSACTIONS:</b>   |                       |                       |
| Cost of shares repurchased (912,500 and 581,400 shares repurchased, respectively) | (16,043,333)          | (10,309,481)          |
| <b>Decrease in Net Assets From Fund Share Transactions</b>                        | <b>(16,043,333)</b>   | <b>(10,309,481)</b>   |
| <b>Increase in Net Assets</b>   | <b>17,971,421</b>     | <b>23,330,431</b>     |
| <b>NET ASSETS:</b>  |                       |                       |
| Beginning of period   | 637,654,319           | 614,323,888           |
| <b>End of period*</b>   | <b>\$ 655,625,740</b> | <b>\$ 637,654,319</b> |
| * Includes overdistributed net investment income of:                              | \$ (9,700,167)        | □                     |

---

See Notes to Financial Statements.

Salomon Brothers Capital and Income Fund Inc. 2006 Semi-Annual Report 29

---

**Statement of Cash Flows (For the six months ended April 30, 2006) (unaudited)****CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:**

|   |               |
|---|---------------|
| Interest received   | \$ 14,392,773 |
| Operating expenses paid                                     | (4,138,235)   |
| Net purchases of short-term investments                     | (10,817,180)  |
| Realized loss on foreign currency transactions              | (1,073)       |
| Realized loss on swap contracts                             | (129)         |
| Net change in unrealized appreciation on foreign currencies | 7,417         |
| Purchases of long-term investments                          | (163,240,916) |
| Proceeds from disposition of long-term investments          | 204,752,394   |
| Change in payable on interest rate swap contracts           | (3,484)       |
| Interest paid   | (5,371,831)   |

---

|  |                   |
|--|-------------------|
| <b>Net Cash Flows Provided By Operating Activities</b> | <b>35,579,736</b> |
|--|-------------------|

---

**CASH FLOWS USED BY FINANCING ACTIVITIES:**

|   |              |
|---|--------------|
| Cash distributions paid on Common Stock | (19,165,963) |
| Proceeds from sale of shares            | (16,267,001) |

---

|  |                     |
|--|---------------------|
| <b>Net Cash Flows Used By Financing Activities</b> | <b>(35,432,964)</b> |
|--|---------------------|

---

**NET INCREASE IN CASH****146,772**

|  |     |
|--|-----|
| Cash and foreign currency, Beginning of period | 981 |
|--|-----|

---

|   |                   |
|---|-------------------|
| <b>Cash and foreign currency, End of period</b> | <b>\$ 147,753</b> |
|---|-------------------|

---

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

|   |                      |
|---|----------------------|
| <b>Increase in Net Assets From Operations</b> | <b>\$ 53,180,717</b> |
|---|----------------------|

---

|  |              |
|--|--------------|
| Accretion of discount on investments             | (1,704,159)  |
| Amortization of premium on investments           | 727,133      |
| Decrease in investments, at value                | (33,311,960) |
| Increase in payable for securities purchased     | 11,318,238   |
| Decrease in dividend and interest receivable     | 238,508      |
| Decrease in interest rate swap contracts payable | (3,484)      |
| Decrease in receivable for securities sold       | 5,149,705    |
| Increase in prepaid expenses                     | (9,894)      |
| Increase in interest payable                     | 157,815      |
| Decrease in accrued expenses                     | (162,883)    |

---

|                          |                     |
|--------------------------|---------------------|
| <b>Total Adjustments</b> | <b>(17,600,981)</b> |
|--------------------------|---------------------|

---

|  |                      |
|--|----------------------|
| <b>Net Cash Flows Provided By Operating Activities</b> | <b>\$ 35,579,736</b> |
|--|----------------------|

---



**See Notes to Financial Statements.**

**Financial Highlights**

For a share of capital stock outstanding throughout each year ended October 31, unless otherwise noted:

|   | 2006(1)(2)              | 2005(2)    | 2004(2)(3)              |
|---|-------------------------|------------|-------------------------|
| <b>Net Asset Value, Beginning of Period</b>                         | \$ 19.69                | \$ 18.64   | \$ 19.06 <sup>(4)</sup> |
| <b>Income (Loss) From Operations:</b>                               |                         |            |                         |
| Net investment income   | 0.30                    | 0.69       | 0.37                    |
| Net realized and unrealized gain (loss)                             | 1.44                    | 1.52       | (0.19)                  |
| <b>Total Income From Operations</b>                                 | 1.74                    | 2.21       | 0.18                    |
| <b>Gain From Repurchase of Treasury Stock</b>                       | □                       | 0.04       | □                       |
| <b>Less Distributions From:</b>                                     |                         |            |                         |
| Net investment income   | (0.60)                  | (0.98)     | (0.40)                  |
| Net realized gains  | □                       | (0.22)     | □                       |
| Return of capital   | □                       | □          | (0.20)                  |
| <b>Total Distributions</b>  | (0.60)                  | (1.20)     | (0.60)                  |
| <b>Net Asset Value, End of Period</b>                               | \$ 20.83                | \$ 19.69   | \$ 18.64                |
| <b>Market Price, End of Period</b>                                  | \$ 17.61                | \$ 17.19   | \$ 17.24                |
| <b>Total Return, Based on Net Asset Value</b> □                     | 8.92%                   | 12.34%(6)  | 1.06%                   |
| <b>Total Return, Based on Market Price Per Share</b> <sup>(5)</sup> | 5.97%                   | 6.85%(6)   | (10.74)%                |
| <b>Net Assets, End of Period (000s)</b>                             | \$ 655,626              | \$ 637,654 | \$ 614,324              |
| <b>Ratios to Average Net Assets:</b>                                |                         |            |                         |
| Gross expenses  | 2.92%(7)                | 2.45%      | 1.54%(7)                |
| Gross expenses, excluding interest expense                          | 1.22 <sup>(7)</sup>     | 1.23       | 1.15 <sup>(7)</sup>     |
| Net expenses  | 2.92 <sup>(7)</sup> (8) | 2.45       | 1.54 <sup>(7)</sup>     |
| Net expenses, excluding interest expense                            | 1.22 <sup>(7)</sup> (8) | 1.23       | 1.15 <sup>(7)</sup>     |
| Net investment income   | 2.92 <sup>(7)</sup>     | 3.55       | 2.97 <sup>(7)</sup>     |
| <b>Portfolio Turnover Rate</b>                                      | 21%                     | 64%        | 39%                     |
| <b>Supplemental Data:</b>   |                         |            |                         |
| Loans Outstanding, End of Period (000s)                             | \$ 220,000              | \$ 220,000 | \$ 220,000              |
| Asset Coverage for Loan Outstanding                                 | 398%                    | 390%       | 379%                    |
| Weighted Average Loan (000s)  | \$ 220,000              | \$ 220,000 | \$ 105,783              |
| Weighted Average Interest Rate on Loans                             | 5.07%                   | 3.54%      | 2.22%                   |

(1) For the six months ended April 30, 2006 (unaudited).

- (2) Per share amounts have been calculated using the average shares method.
  - (3) For the period February 24, 2004 (commencement of operations) through October 31, 2004.
  - (4) Initial public offering price of \$20.00 per share less offering costs and sales load totaling \$0.94 per share.
  - (5) The total return calculation assumes that dividends are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.
  - (6) The investment manager fully reimbursed the Fund for losses incurred resulting from an investment transaction error. Without this reimbursement, total return would not have changed.
  - (7) Annualized.
  - (8) The investment manager voluntarily waived a portion of its fees and/or reimbursed expenses.
- Performance figures may reflect voluntary fee waivers and/or expense reimbursements. Past performance is no guarantee of future results. In the absence of voluntary fee waivers and/or expense reimbursements, the total return would have been lower. Total returns for periods of less than one year are not annualized.

**See Notes to Financial Statements.**

## Notes to Financial Statements (unaudited)

### 1. Organization and Significant Accounting Policies

The Salomon Brothers 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 seeks total return with an emphasis on income by investing primarily in a portfolio consisting of a broad range of equity and fixed income securities of both U.S. and foreign issuers.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles ("GAAP"). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

**(a) Investment Valuation.** Equity securities for which market quotations are available are valued at the last sale price or official closing price on the primary market or exchange on which they trade. Debt securities are valued at the mean between the bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various relationships between securities. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the bid and asked prices as the close of business of that market. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these investments at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations maturing within 60 days are valued at amortized cost, which approximates market value.

**(b) Repurchase Agreements.** When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian take possession of the underlying collateral securities, the market value of which at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market to ensure the adequacy of the collateral. If the seller defaults, and the market value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Lending of Portfolio Securities.** The Fund has an agreement with its custodian whereby the custodian may lend securities owned by the Fund to brokers, dealers and other financial organizations. In exchange for lending securities under the terms of the agreement with its custodian, the Fund receives a lender's fee. Fees earned by the Fund on securities lending are recorded as securities lending income. Loans of securities by the Fund are collateralized by cash, U.S. government securities or high quality money market instruments that are maintained at all times in an amount at least equal to the current market value of

## Notes to Financial Statements (unaudited) (continued)

the loaned securities, plus a margin which varies depending on the type of securities loaned. The custodian establishes and maintains the collateral in a segregated account. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

The Fund maintains the risk of any loss on the securities on loan as well as the potential loss on investments purchased with cash collateral received from securities lending.

**(d) Loan Participations.** The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower.

**(e) Securities Traded on a To-Be-Announced Basis.** The Fund may trade securities on a to-be-announced (TBA) basis. In a TBA transaction, the Fund commits to purchasing or selling securities which have not yet been issued by the issuer and for which specific information is not known, such as the face amount and maturity date and the underlying pool of investments in U.S. government agency mortgage pass-through transactions. Securities purchased on a TBA basis are not settled until they are delivered to the Fund, normally 15 to 45 days later. 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 transactions are subject to market fluctuations and their current value is determined in the same manner as for other securities.

**(f) Mortgage Dollar Rolls.** The Fund enters into dollar rolls in which the Fund sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities to settle on a specified future date. During the roll period, the Fund forgoes principal and interest paid on the securities. The Fund is compensated by a fee paid by the counterparty, often in the form of a drop in the repurchase price of the securities. Dollar rolls are accounted for as financing arrangements; the fee is accrued into interest income ratably over the term of the dollar roll and any gain or loss on the roll is deferred and realized upon disposition of the rolled security.

The risk of entering into a mortgage dollar roll is that the market value of the securities the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a mortgage dollar roll files for bankruptcy or becomes insolvent, the Fund's use of proceeds of the dollar roll may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

## Notes to Financial Statements (unaudited) (continued)

**(g) Credit and Market Risk.** The Fund invests in high yield and emerging market instruments that are subject to certain credit and market risks. The yields of high yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investment in securities rated below investment grade typically 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. The Fund's investment in non-dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

**(h) 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 Statement of Cash Flows.

**(i) 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 practical after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund's policy is to generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

**(j) 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 changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities, at the date of valuation, resulting from changes in exchange rates.

## Notes to Financial Statements (unaudited) (continued)

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.

**(k) Distributions to Shareholders.** Distributions from net investment income for the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Distributions are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

**(l) Federal and Other Taxes.** It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute substantially all of its income and net realized gains on investments, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund's financial statements. Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

**(m) Reclassification.** GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share.

### 2. Investment Management Agreement and Other Transactions with Affiliates

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, Salomon Brothers Asset Management Inc. (the ["Manager"] or ["SBAM"]), 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 advisory and administrative contracts to terminate. The Fund's shareholders approved a new investment management contract between the Fund and the Manager, which became effective on December 1, 2005.

Legg Mason, whose principal executive offices are in Baltimore, Maryland, is a financial services holding company.

Prior to the Legg Mason transaction and under the new investment management agreement the Fund pays the Manager a management fee calculated 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.

During the six months ended April 30, 2006, the Manager reimbursed expenses amounting to \$14,331.

Effective December 1, 2005, the administration agreement was terminated.

Certain officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

## Notes to Financial Statements (unaudited) (continued)

**3. Investments**

During the six months ended April 30, 2006, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S. Government & Agency Obligations were as follows:

|           | <b>Investments</b> | <b>U.S. Government &amp; Agency Obligations</b> |
|-----------|--------------------|---|
| Purchases | \$146,055,348      | \$27,285,403                                    |
| Sales     | 193,995,117        | 1,697,276                                       |

At April 30, 2006, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 91,869,800 |
| Gross unrealized depreciation | (19,745,524)  |
| Net unrealized appreciation   | \$ 72,124,276 |

At April 30, 2006, the Fund held loan participations with a total cost of \$2,000,000 and a total market value of \$2,012,917.

At April 30, 2006, the Fund had outstanding mortgage dollar rolls with a total cost of \$9,508,984. The average monthly balance of dollar rolls outstanding during the six months ended April 30, 2006 was \$9,508,984.

**4. Loan**

At April 30, 2006, the Fund had a \$220,000,000 loan pursuant to a revolving credit and security agreement with Crown Point Capital Company LLC and Citicorp North America, Inc. (["CNA"]). In addition, CNA acts as administrative agent of the credit facility. The loan generally bears interest at a variable rate based on the weighted average interest rates of the underlying commercial paper or LIBOR plus any applicable margin. Securities held by the Fund are subject to a lien, granted to the lenders, to the extent of the borrowings outstanding and any additional expenses. For the six months ended April 30, 2006, the Fund incurred interest expense on this loan in the amount of \$5,529,646.

**5. Dividends Subsequent to April 30, 2006**

On February 22, 2006, the Board of Directors (["Board"]) of the Fund declared a dividend distribution in the amount of \$0.10 per share payable on May 26, 2006 to shareholders of record on May 23, 2006.

On May 3, 2006, the Fund's Board declared three distributions, each in the amount of \$0.10 per share payable on June 30, 2006, July 28, 2006 and August 25, 2006 to shareholders of record on June 27, 2006, July 25, 2006 and August 22, 2006, respectively.

**6. Capital Shares**

On May 14, 2004, the Fund's 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 Board directed the management of the Fund to repurchase shares of the Fund's common stock at





## Notes to Financial Statements (unaudited) (continued)

such times and in such amounts as management believes will enhance shareholder value, subject to review by the Fund's Board. The Fund authorized a second 1,000,000 share repurchase plan in February 2006. Since the inception of the repurchase plan, the Fund repurchased 1,493,900 shares with a total cost of \$26,352,814 at the weighted average discount of 34.92% per share.

### 7. Regulatory Matters

On May 31, 2005, the U.S. Securities and Exchange Commission ("SEC") issued an order in connection with the settlement of an administrative proceeding against SBFM and CGM relating to the appointment of an affiliated transfer agent for the Smith Barney family of mutual funds (the "Affected Funds").

The SEC order finds that SBFM and CGM willfully violated Section 206(1) of the Investment Advisers Act of 1940 ("Advisers Act"). Specifically, the order finds that SBFM and CGM knowingly or recklessly failed to disclose to the boards of the Affected Funds in 1999 when proposing a new transfer agent arrangement with an affiliated transfer agent that: First Data Investors Services Group ("First Data"), the Affected Funds' then-existing transfer agent, had offered to continue as transfer agent and do the same work for substantially less money than before; and that Citigroup Asset Management ("CAM"), the Citigroup business unit that, at the time, included the fund's investment manager and other investment advisory companies, had entered into a side letter with First Data under which CAM agreed to recommend the appointment of First Data as sub-transfer agent to the affiliated transfer agent in exchange for, among other things, a guarantee by First Data of specified amounts of asset management and investment banking fees to CAM and CGM. The order also finds that SBFM and CGM willfully violated Section 206(2) of the Advisers Act by virtue of the omissions discussed above and other misrepresentations and omissions in the materials provided to the Affected Funds' boards, including the failure to make clear that the affiliated transfer agent would earn a high profit for performing limited functions while First Data continued to perform almost all of the transfer agent functions, and the suggestion that the proposed arrangement was in the Affected Funds' best interests and that no viable alternatives existed. SBFM and CGM do not admit or deny any wrongdoing or liability. The settlement does not establish wrongdoing or liability for purposes of any other proceeding.

The SEC censured SBFM and CGM and ordered them to cease and desist from violations of Sections 206(1) and 206(2) of the Advisers Act. The order requires Citigroup to pay \$208.1 million, including \$109 million in disgorgement of profits, \$19.1 million in interest, and a civil money penalty of \$80 million. Approximately \$24.4 million has already been paid to the Affected Funds, primarily through fee waivers. The remaining \$183.7 million, including the penalty, has been paid to the U.S. Treasury and will be distributed pursuant to a plan submitted for the approval of the SEC. At this time, there is no certainty as to how the above-described proceeds of the settlement will be distributed, to whom such distributions will be made, the methodology by which such distributions will be allocated, and when such distributions will be made.

The order also required that transfer agency fees received from the Affected Funds since December 1, 2004 less certain expenses be placed in escrow and provided that a portion of

## Notes to Financial Statements (unaudited) (continued)

such fees might be subsequently distributed in accordance with the terms of the order. On April 3, 2006, an aggregate amount of approximately \$9 million was distributed to the Affected Funds.

The order required SBFM to recommend a new transfer agent contract to the Affected Fund boards within 180 days of the entry of the order; if a Citigroup affiliate submitted a proposal to serve as transfer agent or sub-transfer agent, SBFM and CGM would have been required, at their expense, to engage an independent monitor to oversee a competitive bidding process. On November 21, 2005, and within the specified timeframe, the Fund's Board selected a new transfer agent for the Fund. No Citigroup affiliate submitted a proposal to serve as transfer agent. Under the order, SBFM also must comply with an amended version of a vendor policy that Citigroup instituted in August 2004.

Although there can be no assurance, SBFM does not believe that this matter will have a material adverse effect on the Affected Funds.

**This Fund is not one of the Affected Funds and therefore did not implement the transfer agent arrangement described above and therefore has not received and will not receive any portion of the distributions.**

On December 1, 2005, Citigroup completed the sale of substantially all of its global asset management business, including SBFM, to Legg Mason Inc.

### 8. Other Matters

On September 16, 2005, the staff of the SEC informed SBFM and SBAM that the staff is considering recommending that the SEC institute administrative proceedings against SBFM and SBAM for alleged violations of Section 19(a) and 34(b) of the Investment Company Act (and related Rule 19a-1). The notification is a result of an industry wide inspection by the SEC and is based upon alleged deficiencies in disclosures regarding dividends and distributions paid to shareholders of certain funds. Section 19(a) and related Rule 19a-1 of the Investment Company Act generally require funds that are making dividend and distribution payments to provide shareholders with a written statement disclosing the source of the dividends and distributions, and, in particular, the portion of the payments made from each of net investment income, undistributed net profits and/or paid-in capital. In connection with the contemplated proceedings, the staff may seek a cease and desist order and/or monetary damages from SBFM or SBAM.

Although there can be no assurance, SBAM believes that this matter is not likely to have a material adverse effect on the Fund or SBAM's ability to perform investment management services relating to the Fund.

## Additional Shareholder Information (unaudited)

### Results of a Special Meeting of Shareholders

On November 22, 2005, a Special Meeting of Shareholders was held to approve a new management agreement. The following table provides the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to this matter at the Special Meeting of Shareholders.

| Item Voted On            | Votes For  | Votes Against | Abstentions |
|--------------------------|------------|---------------|-------------|
| New Management Agreement | 14,381,744 | 1,904,717     | 749,012     |

### Results of Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Salomon Brothers Capital and Income Fund Inc. was held on February 27, 2006, for the purpose of considering and voting upon the election of Directors. The following table provides information concerning the matter voted upon on the Meeting:

| Nominees         | Votes For  | Votes Withheld |
|------------------|------------|----------------|
| Carol L. Colman  | 28,375,113 | 906,534        |
| Daniel P. Cronin | 28,408,680 | 872,967        |

At April 30, 2006, in addition to Carol L. Colman and Daniel P. Cronin, the other Directors of the Fund were as follows:

Leslie H. Gelb  
 R. Jay Gerken  
 William R. Hutchinson  
 Riordan Roett  
 Jeswald W. Salacuse

## 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

## Dividend Reinvestment Plan (unaudited) (continued)

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.

(This page intentionally left blank.)

---

# Salomon Brothers Capital and Income Fund Inc.

## **DIRECTORS**

Carol L. Colman  
Daniel P. Cronin  
Leslie H. Gelb  
R. Jay Gerken, CFA  
William R. Hutchinson  
Riordan Roett  
Jeswald W. Salacuse

## **OFFICERS**

R. Jay Gerken, CFA  
Chairman, President and  
Chief Executive Officer

Andrew B. Shoup  
Senior Vice President and  
Chief Administrative Officer

Mark J. McAllister, CFA  
Executive Vice President

Michael Sedoy, CFA  
Executive Vice President

Frances M. Guggino  
Chief Financial Officer and  
Treasurer

Ted P. Becker  
Chief Compliance Officer

Wendy S. Setnicka  
Controller

Robert I. Frenkel  
Secretary and Chief Legal Officer

## **SALOMON BROTHERS CAPITAL AND INCOME FUND INC.**

125 Broad Street  
10th Floor, MF-2  
New York, New York 10004

## **INVESTMENT MANAGER AND ADMINISTRATOR**

Salomon Brothers Asset  
Management Inc.  
399 Park Avenue  
New York, New York 10022

## **CUSTODIAN**

State Street Bank  
& Trust Company  
225 Franklin Street  
Boston, Massachusetts 02110

## **TRANSFER AGENT**

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

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

KPMG LLP  
345 Park Avenue  
New York, New York 10154

## **LEGAL COUNSEL**

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

## **NEW YORK STOCK EXCHANGE SYMBOL**

SCD





ITEM 2. CODE OF ETHICS.

Not Applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not Applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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.

Concerning Citigroup Asset Management (1) (CAM) Proxy Voting Policies and Procedures

The following is a brief overview of the Proxy Voting Policies and Procedures (the "Policies") that CAM has adopted to seek to ensure that CAM votes proxies relating to equity securities in the best interest of clients.

CAM votes proxies for each client account with respect to which it has been authorized to vote proxies. In voting proxies, CAM is guided by general fiduciary principles and seeks to act prudently and solely in the best interest of clients. CAM 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. CAM may utilize an external service provider to provide it with information and/or a recommendation with regard to proxy votes. However, the CAM adviser (business unit) continues to retain responsibility for the proxy vote.

In the case of a proxy issue for which there is a stated position in the Policies, CAM 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 CAM considers in voting on such issue, CAM votes on a case-by-case basis in accordance with the general principles set forth above and considering such enumerated factors. In the case of a proxy issue for which there is no stated position or list of factors that CAM considers in voting on such

issue, CAM 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 CAM 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 restructurings, 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. Issues applicable to a particular industry may cause CAM to abandon a policy that would have otherwise applied to issuers generally. As a result of the independent investment advisory services provided by distinct CAM business units, there may be occasions when different business units or different portfolio managers within the same business unit vote differently on the same issue. A CAM business unit or investment team (e.g. CAM's Social Awareness Investment team) may adopt proxy voting policies that supplement these policies and procedures. In addition, in the case of Taft-Hartley clients, CAM 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 CAM's goal to vote proxies in the best interest of clients, CAM follows procedures designed to identify and address material conflicts that may arise between CAM's interests and those of its clients before voting proxies on behalf of such clients. To seek to identify conflicts of interest, CAM periodically notifies CAM employees in writing that they are under an obligation (i) to be aware of the potential for conflicts of interest on the part of CAM 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 CAM's business, and (ii) to bring conflicts of interest of which they become aware to the attention of CAM's compliance personnel. CAM also maintains and considers a list of significant CAM relationships that could present a conflict of interest for CAM in voting proxies. CAM is also sensitive to the fact that a significant, publicized relationship between an issuer and a non-CAM Legg Mason affiliate might appear to the public to influence the manner in which CAM decides to vote a proxy with respect to such issuer. Absent special circumstances or a significant, publicized non-CAM Legg Mason affiliate relationship that CAM for prudential reasons treats as a potential conflict of interest because such relationship might appear to the public to influence the manner in which CAM decides to vote a proxy, CAM generally takes the position that relationships between a non-CAM Legg Mason affiliate and an issuer (e.g. investment management relationship between an issuer and a non-CAM Legg Mason affiliate) do not present a conflict of interest for CAM in voting proxies with respect to such issuer. Such position is based on the fact that CAM is operated as an independent business unit from other Legg Mason business units as well as on the existence of information barriers between CAM and certain other Legg Mason business units.

CAM maintains a Proxy Voting Committee to review and address conflicts of interest brought to its attention by CAM compliance personnel. A proxy issue that will be voted in accordance with a stated CAM position on such issue or in accordance with the recommendation of an independent third party is not brought to the

---

attention of the Proxy Voting Committee for a conflict of interest review because CAM'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 Voting 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, CAM's decision-making in voting proxies. If it is determined by the Proxy Voting Committee that a conflict of interest is not material, CAM may vote proxies notwithstanding the existence of the conflict.

If it is determined by the Proxy Voting Committee that a conflict of interest is material, the Proxy Voting 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.

- (1) Citigroup Asset Management comprises CAM North America, LLC, Salomon Brothers Asset Management Inc, Smith Barney Fund Management LLC, and other affiliated investment advisory firms. On December 1, 2005, Citigroup Inc. (Citigroup) sold substantially all of its worldwide asset management business, Citigroup Asset Management, to Legg Mason, Inc. (Legg Mason). As part of this transaction, CAM North America, LLC, Salomon Brothers Asset Management Inc and Smith Barney Fund Management LLC became wholly-owned subsidiaries of Legg Mason. Under a licensing agreement between Citigroup and Legg Mason, the names of CAM North America, LLC, Salomon Brothers Asset Management Inc, Smith Barney Fund Management LLC and their affiliated advisory entities, as well as all logos, trademarks, and service marks related to Citigroup or any of its affiliates (Citi Marks) are licensed for use by Legg Mason. Citi Marks include, but are not limited to, Citigroup Asset Management, Salomon Brothers Asset Management and CAM. 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. Legg Mason and its subsidiaries, including CAM North America, LLC, Salomon Brothers Asset Management Inc, and Smith Barney Fund Management LLC are not affiliated with Citigroup.

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

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

| Period | (a) Total Number of Shares (or Units) | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of a | (d) Maximum Number (or Approximate Dollar Value) of |
|--------|---------------------------------------|--|--|---|
|--------|---------------------------------------|--|--|---|

Edgar Filing: SALOMON BROTHERS CAPITAL & INCOME FUND INC - Form N-CSRS

|   | Purchased      |          | Publicly<br>Announced Plans<br>or Programs | Shares (or Units)<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
|---|----------------|----------|--|---|
| <b>1st Share Buy Back<br/>Program (Announced<br/>5/17/05 and completed<br/>5/3/06</b> |                |          |  |   |
| November 1-30, 2005   | 150,400        | \$17.179 | 731,800                                    | 268,200   |
| December 1-9, 2005  | 152,200        | \$17.040 | 884,000                                    | 116,000   |
| January 2006  | None           | None     | 884,000                                    | 116,000   |
| February 13-28, 2006  | 80,000         | \$17.736 | 964,000                                    | 36,000  |
| March 1-3, 2006   | 36,000         | \$17.885 | 1,000,000                                  | 0   |
| <b>Total 1st Program</b>  | <b>418,600</b> |          |  |   |
| <b>2nd Share Buy Back<br/>Program (Announced<br/>2/6/06, Started 3/3/06)</b>          |                |          |  |   |
| March 3-23, 2006  | 259,300        | \$17.806 | 259,300                                    | 740,700   |
| April 3-20, 2006  | 234,600        | \$17.766 | 493,900                                    | 506,100   |
| <b>Total 2nd Program</b>  | <b>493,900</b> |          |  |   |

**Footnotes:**

□ On May 17, 2005 the Fund has been authorized to repurchase in the open market up to 1,000,000 shares of the Fund's common stock. The Fund completed the repurchase of the 1,000,000 authorized shares on March 3, 2006. At the beginning of the period November 1, 2005, the Fund had previously repurchased 581,400 shares in the open market of the 1,000,000 shares that had been authorized.

□ On February 6, 2006 the Fund announced it has been re-authorized to repurchase in the open market up to 1,000,000 shares of the Fund's common stock.

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

Not applicable.

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 registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

- (a) Not applicable.
- (b) Attached hereto.

Exhibit 99.CERT                      Certifications pursuant to section 302 of  
the Sarbanes-Oxley Act of 2002

Exhibit 99.906CERT                  Certifications pursuant to Section 906 of  
the Sarbanes-Oxley Act of 2002

---



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.

**Salomon Brothers Capital and Income Fund Inc.**

By: /s/ R. Jay Gerken  
R. Jay Gerken  
Chief Executive Officer  
**Salomon Brothers Capital and Income Fund Inc.**

Date: July 7, 2006

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  
**Salomon Brothers Capital and Income Fund Inc.**

Date: July 7, 2006

By: /s/ Frances M. Guggino  
Frances M. Guggino  
Chief Financial Officer of  
**Salomon Brothers Capital and Income Fund Inc.**

Date: July 7, 2006

---