

SALOMON BROTHERS CAPITAL & INCOME FUND INC  
Form N-CSRS  
July 07, 2005

**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.

**Salomon Brothers Asset Management Inc**

**300 First Stamford Place**

**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, 2005**

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, 2005

American Stock Transfer & Trust Company

59 Maiden Lane

New York, New York 10038

SCDSEMI 04/05

05-8644

SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

## Letter From the Chairman

**R. Jay Gerken, CFA**

*Chairman, President and Chief Executive Officer*

**Dear Shareholder,**

Despite rising interest rates, climbing oil prices, geopolitical concerns and uncertainties surrounding the U.S. Presidential election, the U.S. economy continued to expand during the period of this report. Following a robust 4.0% gain in the third quarter of 2004, gross domestic product (GDP) growth was 3.8% in the fourth quarter. The advance estimate for first quarter 2005 GDP growth was 3.1%. After the end of the Fund's reporting period, the advance first quarter 2005 GDP figure was revised up to 3.5%.

Given the overall strength of the economy, the Federal Reserve Board (Fed) continued to raise interest rates over the period in an attempt to ward off inflation. Following three rate hikes from June through September 2004, the Fed again increased its target for the federal funds rate<sup>iii</sup> in 0.25% increments four times during the reporting period. Following the end of the Fund's reporting period, at its May meeting, the Fed once again increased its target for the federal funds rate by 0.25% to 3.00%.

During the first half of the reporting period, the fixed income market confounded many investors as short-term interest rates rose in concert with the Fed rate tightening, while longer-term rates, surprisingly, remained fairly steady. However, this began to change in late February 2005, as strong economic data and inflationary concerns caused longer-term rates to rise as well. This continued through March, before longer-term rates again declined on the back of mixed economic data. Looking at the six-month period as a whole, the overall bond market, as measured by the Lehman Brothers Aggregate Bond Index,<sup>iv</sup> returned 0.98%.

The U.S. stock market posted a modest gain for the period, with the S&P 500 Index<sup>v</sup> returning 3.28%. The reporting period began on a bright note, as the equity markets rallied sharply in November and December 2004. Investors were drawn to stocks as the uncertainty of the Presidential election ended and oil prices fell from their record highs. Thus far in 2005, the equity markets have been volatile. Equities were weak in January, rose in February and again fell in March and April. The market's recent troubles have been attributed to mixed economic data, continued high oil prices, and rising interest rates.

Looking at the reporting period as a whole, the trend of value-oriented stocks outperforming their growth counterparts continued. In addition, mid- and large-cap stocks generally outperformed their small-cap brethren during the period.

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

**Performance Review**

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

For the six months ended April 30, 2005, the Salomon Brothers Capital and Income Fund returned -2.34%, based on its NYSE market price and 3.05% based on its net asset value (NAV) per share. The Fund's unmanaged benchmark, the S&P 500 Index, returned 3.28% for the same time period. The

SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

Lipper Income and Preferred Stock Funds Closed-End Funds Category Average<sup>1</sup> returned 4.28%. Please note that Lipper performance returns are based on each fund's NAV per share.

During the six-month period, the Fund made distributions to shareholders totaling \$0.6000 per share (which may include return of capital). The performance table shows the Fund's 30-day SEC yield as well as its six-month total return based on its NAV and market price as of April 30, 2005. **Past performance is no guarantee of future results. The Fund's yields will vary.**

**FUND PERFORMANCE**

**AS OF APRIL 30, 2005**

**(unaudited)**

	<b>30-Day</b>	<b>Six-Month</b>
<b>Price Per Share</b>	<b>SEC Yield</b>	<b>Total Return</b>
\$18.62 (NAV)	3.83%	3.05%
\$16.26 (Market Price)	4.39%	-2.34%

**All figures represent past performance and are not a guarantee of future results. The Fund's yields will vary.**

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions. The SEC yield is a return figure often quoted by bond and other fixed-income mutual funds. This quotation is based on the most recent 30-day (or one-month) period covered by the Fund's filings with the SEC. The yield figure reflects the income dividends and interest earned during the period after deduction of the Fund's expenses for the period. These yields are as of April 30, 2005 and are subject to change.

**Information About Your Fund**

As you may be aware, several issues in the mutual fund industry have recently come under the scrutiny of federal and state regulators. The Fund's Adviser 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 Fund's response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund has been informed that the Adviser and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

**Looking for Additional Information?**

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

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

<sup>1</sup> Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the six-month period ended April 30, 2005 including the reinvestment of dividends and capital gains distributions, if any, calculated among the 35 funds in the Fund's Lipper category, and excluding sales charges.



SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

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 continued 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 17, 2005*

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

Portfolio holdings and breakdowns are as of April 30, 2005 and are subject to change. Please refer to pages 5 through 31 for a list and percentage breakdown of the Fund's holdings.

**RISKS:** As interest rates rise, bond prices fall, reducing the value of the Fund. Investing in a non-diversified fund may entail greater risks than is normally associated with more widely diversified funds. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on fund performance. High yield bonds involve greater credit and liquidity risks than investment grade bonds. Foreign securities are subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions which could result in significant fluctuations. The risks are magnified in emerging markets.

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 the 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

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

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 Lehman Brothers Aggregate Bond Index is a broad-based bond index comprised of Government, Corporate, Mortgage and Asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- v The S&P 500 Index is a market capitalization-weighted index of 500 widely held common stocks.
- vi 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.

SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

## **Fund at a Glance** (unaudited)

*Page 4*

SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

**Schedule of Investments** (unaudited)

April 30, 2005

Shares	Security*	Value
<b>Common Stock 40.4%</b>		
<b>Consumer Discretionary 4.3%</b>		
<b>Hotels Restaurants &amp; Leisure 0.3%</b>		
30,000	Brinker International, Inc. (a)	\$ 1,014,000
13,000	Ctrip.com International Ltd., ADR (a)	570,440
30,100	McDonald's Corp.	882,231
		<hr/>
		2,466,671
		<hr/>
<b>Household Durables 0.3%</b>		
117,400	Newell Rubbermaid Inc. (b)	2,551,102
		<hr/>
<b>Leisure Equipment &amp; Products 0.0%</b>		
27,100	Mattel, Inc.	489,155
		<hr/>
<b>Media 2.7%</b>		
103,100	Cablevision Systems Corp., NY Group Class A Shares (a)	2,675,445
22,800	Comcast Corp., Class A Shares (a)	732,108
112,300	EchoStar Communications Corp., Class A Shares (a)	3,251,085
156,500	The Interpublic Group of Cos., Inc. (a)(b)	2,012,590
172,400	Liberty Media Corp., Series A Shares (a)	1,730,896
57,575	Liberty Media International, Inc., Series A Shares (a)	2,387,635
150,700	News Corp., Class B Shares (b)	2,399,144
8,400	NTL Inc. (a)(b)	537,432
345,800	SES Global-FDR#	4,752,253
140,500	Time Warner Inc. (a)	2,361,805
34,000	Viacom Inc., Class B Shares	1,177,080
		<hr/>
		24,017,473
		<hr/>
<b>Multi-line Retail 0.7%</b>		
55,000	Dollar General Corp.	1,119,250
80,800	J.C. Penney Co. Inc., (Holding Co.)	3,830,728
25,000	Wal-Mart Stores, Inc.	1,178,500
		<hr/>
		6,128,478
		<hr/>
<b>Specialty Retail 0.2%</b>		
25,000	Best Buy Co., Inc.	1,258,500
18,700	Regis Corp.	668,151
		<hr/>
		1,926,651
		<hr/>

*See Notes to Financial Statements.*

Page 5

SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

**Schedule of Investments** (unaudited) (continued)

April 30, 2005

Shares	Security*	Value
<b>Textiles &amp; Apparel 0.1%</b>		
15,000	Nike, Inc., Class B Shares	\$ 1,152,150
<b>Total Consumer Discretionary</b>		<b>38,731,680</b>
<b>Consumer Staples 1.9%</b>		
<b>Beverages 0.1%</b>		
25,000	PepsiCo, Inc.	1,391,000
<b>Food &amp; Drug Retailing 0.4%</b>		
20,000	CVS Corp.	1,031,600
162,600	The Kroger Co. (a)	2,564,202
		3,595,802
<b>Food Products 0.5%</b>		
34,100	Kellogg Co.	1,532,795
40,000	McCormick & Co. Inc, Non-Voting Shares	1,383,600
75,000	Sara Lee Corp.	1,604,250
		4,520,645
<b>Household Products 0.3%</b>		
46,300	Kimberly-Clark Corp.	2,891,435
<b>Tobacco 0.6%</b>		
78,000	Altria Group, Inc.	5,069,220
<b>Total Consumer Staples</b>		<b>17,468,102</b>
<b>Energy 5.6%</b>		
<b>Energy Equipment &amp; Services 3.0%</b>		
137,700	ENSCO International Inc.	4,489,020
117,700	GlobalSantaFe Corp.	3,954,720
71,500	Halliburton Co.	2,973,685
110,600	Nabors Industries, Ltd. (a)	5,958,022
105,000	Pride International, Inc. (a)	2,341,500
112,700	Rowan Cos., Inc. (a)	2,989,931
100,000	Transocean Inc. (a)	4,637,000
		27,343,878
<b>Oil &amp; Gas 2.6%</b>		
35,300	BP Plc, ADR	2,149,770
87,200	Marathon Oil Corp.	4,060,904

*See Notes to Financial Statements.*



SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

**Schedule of Investments** (unaudited) (continued)

April 30, 2005

Shares	Security*	Value
<b>Oil &amp; Gas 2.6% (continued)</b>		
107,357	Nexen Inc.	\$ 5,126,297
29,000	Noble Energy, Inc. (b)	1,859,480
87,480	Total SA, ADR (b)	9,702,407
		<hr/>
		22,898,858
		<hr/>
	<b>Total Energy</b>	<b>50,242,736</b>
		<hr/>
<b>Financials 11.0%</b>		
<b>Banks 1.2%</b>		
92,952	Bank of America Corp.	4,186,558
24,700	Comerica Inc.	1,414,322
14,400	U.S. Bancorp.	401,760
16,500	Wachovia Corp.	844,470
53,800	Wells Fargo & Co.	3,224,772
13,000	Zions Bancorp.	910,390
		<hr/>
		10,982,272
		<hr/>
<b>Diversified Financials 1.5%</b>		
11,300	American Express Co.	595,510
53,780	Capital One Financial Corp.	3,812,464
54,950	Freddie Mac	3,380,524
6,600	The Goldman Sachs Group, Inc.	704,814
41,840	JPMorgan Chase & Co.	1,484,902
15,900	Legg Mason, Inc.	1,126,674
8,000	Lehman Brothers Holdings Inc.	733,760
35,600	Merrill Lynch & Co., Inc.	1,919,908
		<hr/>
		13,758,556
		<hr/>
<b>Insurance 0.9%</b>		
24,300	American International Group, Inc.	1,235,655
28,100	Assurant, Inc.	929,829
8	Berkshire Hathaway Inc., Class A Shares (a)	674,800
30,800	The Chubb Corp.	2,518,824
8,000	The Hartford Financial Services Group, Inc.	578,960
15,300	IPC Holdings, Ltd.	575,739
14,200	PartnerRe Ltd.	827,576
17,250	Willis Group Holdings Ltd. (b)	577,013
		<hr/>
		7,918,396
		<hr/>

*See Notes to Financial Statements.*

SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

**Schedule of Investments** (unaudited) (continued)

April 30, 2005

Shares	Security*	Value
<b>Real Estate</b> 7.4%		
19,300	Alexandria Real Estate Equities, Inc.	\$ 1,328,226
65,200	AMB Property Corp.	2,542,148
155,000	American Financial Realty Trust	2,376,150
7,400	Apartment Investment and Management Co., Class A Shares	282,088
62,100	Archstone-Smith Trust	2,233,737
60,000	Arden Realty, Inc.	2,141,400
25,000	Ashford Hospitality Trust Inc. (b)	256,000
31,900	AvalonBay Communities Inc.	2,296,800
46,500	BioMed Realty Trust, Inc.	939,300
17,200	Boston Properties Inc.	1,143,284
12,400	BRE Properties Inc., Class A Shares	461,528
66,800	CarrAmerica Realty Corp.	2,207,072
12,000	Developers Diversified Realty Corp.	509,280
20,900	Duke Realty Corp.	639,540
218,000	Equity Office Properties Trust	6,860,460
50,200	Equity Residential	1,724,370
29,800	Federal Realty Investment Trust	1,594,300
67,400	General Growth Properties Inc.	2,636,014
22,500	Gramercy Capital Corp.	447,300
57,900	Heritage Property Investment Trust (b)	1,783,320
27,000	Highwoods Properties, Inc.	759,510
90,000	iStar Financial Inc.	3,585,600
12,400	Kimco Realty Corp.	686,836
70,000	Liberty Property Trust	2,788,100
7,400	The Macerich Co.	446,220
100,000	Maguire Properties, Inc. (b)	2,550,000
105,000	New Plan Excel Realty Trust, Inc. (b)	2,710,050
7,200	Pan Pacific Retail Properties, Inc.	435,024
60,000	Prentiss Properties Trust	1,993,200
106,300	ProLogis	4,208,417
39,200	PS Business Parks Inc.	1,582,112
21,000	Public Storage Inc.	1,232,700
26,393	Reckson Associates Realty Corp.	851,174
34,500	Simon Property Group, Inc.	2,279,415
45,900	SL Green Realty Corp.	2,799,900

*See Notes to Financial Statements.*



SALOMON BROTHERS CAPITAL AND INCOME FUND INC.

## Schedule of Investments (unaudited) (continued)

April 30, 2005

Shares	Security*	Value
<b>Real Estate 7.4% (continued)</b>		
25,000	United Dominion Realty Trust, Inc.	\$ 553,750
26,900	Vornado Realty Trust	2,056,505
		<hr/>
		65,920,830
		<hr/>
<b>Total Financials</b>		<b>98,580,054</b>
		<hr/>
<b>Healthcare 5.1%</b>		
<b>Biotechnology 1.6%</b>		
49,800	Amgen Inc. (a)	2,898,858
78,000	Genentech, Inc. (a)	5,533,320
53,300	InterMune, Inc. (a)(b)	575,640
64,400	OSI Pharmaceuticals, Inc. (a)	3,048,374
60,400	Transkaryotic Therapies, Inc. (a)(b)	2,046,352
		<hr/>
		14,102,544