

ART TECHNOLOGY GROUP INC

Form 424B3

November 19, 2009

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**Filed pursuant to rule 424(b)(3)  
Registration No. 333-162794**

**PROSPECTUS**

**\$250,000,000**

**Common Stock  
Preferred Stock  
Warrants  
Debt Securities**

This prospectus provides you with a general description of securities that we may offer and sell from time to time. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that sale and may add to or update the information in this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you invest in our securities.

The securities may be offered directly by us, through agents designated from time to time by us or to or through underwriters or dealers. If any agents, underwriters or dealers are involved in the sale of any of the securities, their names and any applicable purchase price, fee, commission or discount arrangement between or among them will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. See the sections entitled *About This Prospectus* and *How We Plan to Offer and Sell the Securities* for more information. No securities may be sold without delivery of this prospectus and the applicable prospectus supplement describing the method and terms of the offering of such securities.

Our common stock is traded on The Nasdaq Global Market under the symbol *ARTG*. The last reported sale price of our common stock on The Nasdaq Global Market on November 13, 2009 was \$4.23 per share.

**Investing in our securities involves various risks. In our filings with the Securities and Exchange Commission, which are incorporated by reference in this prospectus, we identify and discuss risk factors that you should consider before investing in our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is November 18, 2009.

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**ABOUT THIS PROSPECTUS**

This document is called a prospectus, and it provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement containing specific information about the terms of the securities being offered. That prospectus supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The prospectus supplement may also add to, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus and in a prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

We have filed a registration statement with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, we may offer and sell any combination of the securities described in this prospectus in one or more offerings.

Our SEC registration statement containing this prospectus, including exhibits, provides additional information about us and the securities offered under this prospectus. The registration statement can be read at the SEC's web site or at the SEC's offices. The SEC's web site and street address are provided under the heading **Where You Can Find More Information**.

When acquiring securities, you should rely only on the information provided in this prospectus and in the related prospectus supplement, including any information incorporated by reference. No one is authorized to provide you with information different from that which is contained, or deemed to be contained, in the prospectus and related prospectus supplement. We are not offering the securities in any state where the offer is prohibited. You should not assume that the information in this prospectus, any prospectus supplement or any document incorporated by reference is truthful or complete as of any date other than the date indicated on the cover page of the relevant document.

Unless otherwise stated or unless the context otherwise requires, all references to **we**, **us**, **our**, **our company** or **the Company** in this prospectus refer collectively to Art Technology Group, Inc., a Delaware corporation, and its subsidiaries, and their respective predecessor entities for the applicable periods, considered as a single enterprise.

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**PROSPECTUS SUMMARY**

This section contains a general summary of the information contained in this prospectus. It may not include all of the information that is important to you. You should read the entire prospectus, any accompanying prospectus supplement and the documents incorporated by reference before making an investment decision.

**Art Technology Group, Inc.**

We develop and market a comprehensive suite of e-commerce software products and software-as-a-service, or SaaS, solutions that are designed to help online businesses increase their revenues. We also provide related services, including support and maintenance, professional services, application hosting, e-commerce optimization services for enhancing online sales, and education. Our customers use our products and services to power their e-commerce websites, attract prospects, convert sales, increase order size, and offer ongoing customer care services. Our solutions are designed to provide a scalable, reliable and sophisticated e-commerce website for our customers to create a satisfied, loyal and profitable online customer base.

We seek to differentiate ourselves by offering solutions that enable our customers to provide a richer, more personalized and more compelling online shopping experience. We provide merchandisers and marketers more control over the online channel, and enable customer service agents to provide consumers more consistent, personalized and relevant assistance. Our solutions deliver better consistency and relevancy by capturing and maintaining information about customers' personal preferences, online activity, and transaction history, and by using this information to deliver more personalized and contextual content.

Our ATG Commerce Suite consists of solutions delivered through perpetual software licenses or delivered as recurring SaaS solutions. Our ATG e-Commerce Optimization Services interoperate with any e-commerce platform, and are delivered as recurring SaaS solutions. Our e-commerce optimization services include Click-to-Call, Click-to-Chat, Call Tracking services and Recommendation services.

We market our products and services primarily to Global 2000 companies and other businesses that have large numbers of online users and utilize the Internet as an important business channel. We focus primarily on businesses in the retail, consumer products, manufacturing, media and entertainment, telecommunications, financial services, travel and insurance industries. We have approximately 700 customers, including Amazon, American Eagle Outfitters, AOL, AT&T, Best Buy, B&Q, Cabela's, Carrefour, Cingular, Collective Brands, Conde Nast, Continental Airlines, Dell, DirecTV, El Corte Ingles, Expedia, France Telecom, Harvard Business School Publishing, Hewlett-Packard, Intuit, Hilton, HSBC, L.L. Bean, Lexmark, Macy's, Meredith, Microsoft, Neiman Marcus, New York & Company, Nokia, Nutrisystem, OfficeMax, Overstock.com, PayPal, Philips, Procter & Gamble, Sears, Shop Direct Group, Sony, Sprint, Symantec, T Mobile, Target, Urban Outfitters, Verizon, Viacom, and Vodafone.

We were incorporated in 1991 in the Commonwealth of Massachusetts and reincorporated in 1997 in the State of Delaware. Our corporate headquarters are at One Main Street, Cambridge, Massachusetts 02142. We have domestic offices in Chicago, Illinois; New York, New York; Washington D.C.; Reston, Virginia; San Francisco, California; and Seattle, Washington; and international offices in Canada, France, Northern Ireland, and the United Kingdom. Our Internet web site address is [www.atg.com](http://www.atg.com). The information found on our website is not part of this prospectus.

**The Securities We May Offer**

With this prospectus, we may offer common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock or debt securities, or any combination of the foregoing. The aggregate offering price of

securities that we offer with this prospectus will not exceed \$250,000,000. Each time we offer securities with this prospectus, we will provide offerees with a prospectus supplement that will contain the specific terms of the securities being offered.

### **Risks Affecting Us**

Our business is subject to a number of risks, which are highlighted in the section entitled **Risk Factors** immediately following this summary and in the prospectus supplement and the documents incorporated by reference.

**Table of Contents****RISK FACTORS**

Prior to making an investment decision with respect to the securities that we may offer, prospective investors should carefully consider, in light of their particular investment objectives and financial circumstances, the specific factors set forth under the caption "Risk Factors" in the applicable prospectus supplement pertaining thereto and in our most recent annual report on Form 10-K and quarterly report on Form 10-Q filed with the SEC, as well as any amendments thereto reflected in subsequent filings with the SEC, and in any of our other filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act incorporated by reference into this prospectus and the applicable prospectus supplement. For more information, see "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus and the documents incorporated by reference in this prospectus, contain forward-looking statements. You should carefully consider the various risk factors described above that are incorporated by reference into this prospectus from our SEC filings, which risk factors may cause our actual results to differ materially from those indicated by such forward-looking statements. You should not place undue reliance on our forward-looking statements.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table presents our ratio of earnings to fixed charges for the periods indicated (dollar amounts in thousands).

	Year Ended December 31,					Nine Months Ended September 30, 2009
	2004	2005	2006	2007	2008	
Income (loss) from operations	\$ (9,989)	\$ 5,582	\$ 5,366	\$ (5,991)	\$ 4,429	\$ 10,571
Fixed charges:						
Interest expense(1)						
Rental interest(2)	424	405	344	434	459	232
Total fixed charges	424	405	344	434	459	232
Income (loss) from operations plus fixed charges	\$ (9,565)	\$ 5,987	\$ 5,710	\$ (5,557)	\$ 4,888	\$ 10,803
Ratio of Earnings to Fixed Charges	N/A	14.78	16.60	N/A	10.65	46.56
Coverage Deficiency(3)	\$ 9,565	\$	\$	\$ 5,557	\$	\$

- (1) Includes interest expensed and capitalized; excludes interest related to FIN 48 tax reserves.
- (2) Represents an estimate of the portion of our rent expense incurred under operating leases that constitutes interest based on an estimated borrowing rate of prime plus five percent.
- (3) In 2004 and 2007 we incurred losses from operations and as a result our earnings were insufficient to cover our fixed charges. The amount shown represents the amount of the coverage deficiency in each such period.

#### **HOW WE INTEND TO USE THE PROCEEDS**

Unless stated differently in a prospectus supplement, we will use the net proceeds from the sale of the securities that we may offer with this prospectus and any accompanying prospectus supplement for general corporate purposes. General corporate purposes may include capital expenditures, acquisitions, investments, repurchase of our capital stock and any other purposes that we may specify in any prospectus supplement. We may invest the net proceeds temporarily until we use them for their stated purpose.

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**DESCRIPTION OF COMMON STOCK WE MAY OFFER**

*The following summary description of our common stock is based on the provisions of our Restated Certificate of Incorporation, as amended, which we refer to as our certificate of incorporation or our charter, our amended and restated by-laws, which we refer to as our by-laws, and the applicable provisions of the Delaware General Corporation Law, which we refer to as the DGCL. This description may not contain all of the information that is important to you and is subject to, and is qualified in its entirety by reference to our certificate of incorporation, our by-laws and the applicable provisions of the DGCL. For information on how to obtain copies of our certificate of incorporation and by-laws, see *Where You Can Find More Information*.*

We may offer common stock. We may also offer common stock issuable upon the conversion of debt securities or preferred stock or the exercise of warrants.

**Authorized and Outstanding Capital Stock**

Our authorized capital stock consists of 200,000,000 shares of common stock, \$0.01 par value per share, and 10,000,000 shares of preferred stock, \$0.01 par value, of which 500,000 shares are designated Series A junior participating preferred stock. As of October 30, 2009, we had 126,956,626 shares of common stock outstanding and no shares of preferred stock outstanding. All outstanding shares of our common stock are duly authorized, validly issued, fully paid and non-assessable.

**Common Stock**

*Voting Rights.* The holders of our common stock have one vote per share. Holders of our common stock are not entitled to vote cumulatively for the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority, or, in the case of the election of directors, by a plurality, of the votes cast at a meeting at which a quorum is present, voting together as a single class, subject to any voting rights granted to holders of any then outstanding preferred stock.

*Dividends.* Holders of common stock will share ratably in any dividends declared by our board of directors, subject to the preferential rights of any preferred stock then outstanding. We may pay dividends consisting of shares of common stock to holders of shares of common stock.

*Other Rights.* Upon the liquidation, dissolution or winding up of our company, all holders of common stock are entitled to share ratably in any assets available for distribution to holders of shares of common stock, subject to the preferential rights of any preferred stock then outstanding. No shares of common stock are subject to redemption or have preemptive rights to purchase additional shares of common stock.

**Rights Plan**

In September 2001, we adopted a rights plan. Under the rights plan, we distributed one preferred stock purchase right, which we refer to as a right, as a dividend on each outstanding share of our common stock. The rights will expire on September 26, 2011 unless they are redeemed or exchanged before that time. Each right entitles the holder to purchase one one-thousandth of a share of our Series A junior participating preferred stock at a purchase price of \$15.00 per right, subject to adjustment.

The rights are exercisable only upon the occurrence of certain events, which we refer to as triggering events, including the acquisition by a person or group of beneficial ownership of 15% or more of the then-outstanding shares of our common stock or the commencement of a tender or exchange offer by any person or group that would result in that person or group owning 15% or more of the then-outstanding shares of our common stock. If any person or group becomes the beneficial owner of 15% or more of the shares of our common stock, except in a tender or exchange offer for all shares at a fair price as determined by the outside members of our board of directors, each right not owned by the 15% stockholder will entitle its holder to purchase that number of shares of our common stock which equals the exercise price of the right divided by one-half of the market price of our common stock at the date of the occurrence of the triggering event. In addition, under certain circumstances following a triggering event, if we are involved in a merger or other business combination transaction with another entity in which we are not the surviving corporation or in which our common stock is changed or converted, or if we sell or transfer 50% or more

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of our assets or earning power to another entity, each right will entitle its holder to purchase a number of shares of common stock of the other entity that equals the exercise price of the right divided by one-half of the market price of that common stock at the date of the occurrence of the triggering event. We generally will be entitled to redeem the rights at \$.001 per right at any time until the tenth business day following public announcement that a 15% stock position has been acquired and in specified other circumstances.

The rights have anti-takeover effects. They may cause substantial dilution to a person or entity attempting to acquire us on terms not approved by our board of directors, except under the terms of an offer conditioned on a substantial number of rights being acquired. The rights should not interfere with any merger or other business combination approved by the board, since we may redeem the rights at \$.001 per right.

## **Preferred Stock**

Our certificate of incorporation provides that we may issue shares of preferred stock from time to time in one or more series. Our board of directors is authorized to fix the voting rights, if any, designations, powers, preferences, qualifications, limitations and restrictions thereof, applicable to the shares of each series. Our board of directors may, without stockholder approval, issue preferred stock with voting and other rights, including preferred stock or rights to acquire preferred stock in connection with implementing a shareholder rights plan, that could adversely affect the voting power and other rights of the holders of our common stock and could have anti-takeover effects. The ability of our board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control of our company or the removal of existing management. Our board of directors has designated 500,000 shares of preferred stock as our Series A junior participating preferred stock.

## **Provisions of Our Certificate of Incorporation and By-Laws That May Have Anti-Takeover Effects**

Certain provisions of our certificate of incorporation and by-laws described below, as well as the ability of our board of directors to issue shares of preferred stock and to set the voting rights, preferences and other terms thereof, may be deemed to have an anti-takeover effect and may discourage takeover attempts not first approved by our board of directors, including takeovers that stockholders may believe to be in their best interests.

These provisions also could have the effect of discouraging open market purchases of our common stock because these provisions may be considered disadvantageous by a stockholder who desires subsequent to such purchases to participate in a business combination transaction with us or to elect a new director to our board.

*Business Combinations.* We are subject to the provisions of Section 203 of the Delaware General Corporation Law. Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to specified exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of a corporation's voting stock.

*Classified Board.* Our charter divides our board of directors into three classes with staggered three-year terms. In addition, our charter provides that directors may be removed only for cause by the affirmative vote of the holders of two-thirds of our shares of capital stock entitled to vote. Under our charter, any vacancy on the board, including a vacancy resulting from an enlargement of the board, may only be filled by the affirmative vote of a majority of our directors then in office. The classification of the board and the limitations on the removal of directors and filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from acquiring, control of the company. Our charter and by-laws require the affirmative vote of the holders of at least 75% of the shares of

our capital stock issued and outstanding and entitled to vote to amend or repeal any of the provisions described in this paragraph.

*Limitation of Liability; Indemnification.* Our charter contains provisions permitted under Delaware corporate law relating to the liability of directors. These provisions eliminate a director's liability for monetary damages for a breach of fiduciary duty, except in circumstances involving wrongful acts, such as the breach of a director's

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duty of loyalty or acts or omissions that involve intentional misconduct or a knowing violation of law. This limitation on liability does not alter the liability of our directors and officers under federal securities laws. Furthermore, our charter contains provisions to indemnify our directors and officers to the fullest extent permitted by the Delaware corporate law. These provisions do not limit or eliminate our right or the right of any stockholder to seek non-monetary relief, such as an injunction or rescission in the event of a breach by a director or an officer of the duty of care to us. We believe that these provisions assist us in attracting and retaining qualified individuals to serve as directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be provided to our directors or officers, or persons controlling our company as described above, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

*Stockholder Action; Special Meeting of Stockholders.* Our charter provides that any action required or permitted to be taken by our stockholders may be taken only at a duly called annual or special meeting of stockholders and may not be taken by written action in lieu of a meeting. In addition, our charter provides that special meetings of our stockholders may be called only by the chairman of our board of directors, our president or a majority vote of our board of directors. Under our by-laws, in order for any matter to be considered properly brought before a meeting, a stockholder must comply with advance notice requirements. These provisions have the effect of limiting holders of less than a majority of our voting securities from calling a special meeting of stockholders. They also could have the effect of delaying until the next stockholder meeting actions that are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage a third party from making a tender offer for our common stock, because even if it acquired a majority of our outstanding voting securities, the third party would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting, and not by written consent. Our charter and by-laws require the affirmative vote of the holders of at least 75% of the shares of our capital stock issued and outstanding and entitled to vote to amend or repeal any of the provisions described in this paragraph.

*Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our by-laws provide that nominations for election to our board of directors may be made either by the board or by a stockholder who complies with specified notice provisions. Our by-laws contain similar advance notice provisions for stockholder proposals for action at stockholder meetings. These provisions prevent stockholders from making nominations for directors and stockholder proposals from the floor at any stockholder meeting and require that any stockholder making a nomination or stockholder proposal submit the name of the nominee or the text of the stockholder proposal, together with specified information about the nominee or the stockholder proposal, prior to the meeting at which directors are to be elected or action is to be taken. These provisions ensure that stockholders have adequate time to consider nominations and proposals before action is required, and they may also have the effect of delaying stockholder action. Our by-laws require the affirmative vote of the holders of at least 75% of our outstanding voting securities to amend or repeal these provisions.

## **NASDAQ Global Market Listing**

Our common stock is listed on the NASDAQ Global Market under the trading symbol ARTG.

## **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

## **DESCRIPTION OF PREFERRED STOCK WE MAY OFFER**

*This section outlines some of the provisions of the preferred stock we may offer. This description may not contain all of the information that is important to you and is subject to, and is qualified in its entirety by reference to our certificate of incorporation, by-laws and the applicable provisions of the DGCL. The specific terms of any series of preferred stock will be described in the applicable prospectus supplement. Any series of preferred stock we issue will be governed by our certificate of incorporation (as amended and in effect as of the date of such issuance) and by*

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*the certificate of amendment or certificate of designation related to that series. We will file the certificate of amendment or certificate of designation with the SEC and incorporate it by reference as an exhibit to our registration statement at or before the time we issue any preferred stock of that series of authorized preferred stock.*

### **Authorized Preferred Stock**

We have authorized 10,000,000 shares of preferred stock, \$0.01 par value, of which 500,000 shares are designated Series A junior participating preferred stock. No shares of our preferred stock are outstanding.

The prospectus supplement relating to any series of preferred stock that we may offer will contain the specific terms of the preferred stock.

### **DESCRIPTION OF WARRANTS WE MAY OFFER**

*This section outlines some of the provisions of each warrant agreement pursuant to which warrants may be issued, the warrants or rights of warrant holders, and any warrant certificates. This description may not contain all of the information that is important to you and is qualified in its entirety by reference to any warrant agreement with respect to the warrants of any particular series. The specific terms of any series of warrants will be described in the applicable prospectus supplement. If so described in the prospectus supplement, the terms of that series of warrants may differ from the general description of terms presented below.*

We may issue warrants. We may issue these securities in such amounts or in as many distinct series as we wish. This section summarizes the terms of these securities that apply generally. Most of the financial and other specific terms of any such series of securities will be described in the applicable prospectus supplement. Those terms may vary from the terms described here.

When we refer to a series of securities in this section, we mean all securities issued as part of the same series under any applicable indenture, agreement or other instrument. When we refer to the applicable prospectus supplement, we mean the prospectus supplement describing the specific terms of the security you purchase. The terms used in the applicable prospectus supplement generally will have the meanings described in this prospectus, unless otherwise specified in the applicable prospectus supplement.

### **Warrants**

We may issue warrants, options or similar instruments for the purchase of our common stock, preferred stock or debt securities. We refer to these collectively as warrants. Warrants may be issued independently or together with common stock, preferred stock or debt securities, and may be attached to or separate from those securities.

### **Agreements**

Each series of warrants may be evidenced by certificates and may be issued under a separate indenture, agreement or other instrument to be entered into between us and a bank, trust company or other institution that we select as agent with respect to such series. The warrant agent will act as our agent in connection with the warrant agreement or any warrant certificates and will not assume any obligation or relationship of agency or trust for or with any warrant holders. Copies of the forms of agreements and the forms of certificates representing the warrants will be filed with the SEC near the date of filing of the applicable prospectus supplement with the SEC. Because the following is a summary of certain provisions of the forms of agreements and certificates, it does not contain all information that may be important to you. You should read all the provisions of the agreements and the certificates once they are available.

No warrant agreement will be qualified as an indenture, and no warrant agent will be required to qualify as a trustee, under the Trust Indenture Act. Therefore, holders of warrants issued under warrant agreements will not have the protections of the Trust Indenture Act with respect to their warrants.

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### **General Terms of Warrants**

The prospectus supplement relating to a series of warrants will identify the name and address of the warrant agent, if any. The prospectus supplement will describe the terms of the series of warrants in respect of which this prospectus is being delivered, including:

the offering price;

the designation and terms of any securities with which the warrants are issued and in that event the number of warrants issued with each security or each principal amount of security;

the dates on which the right to exercise the warrants will commence and expire, and the price at which the warrants are exercisable;

the amount of warrants then outstanding;

material U.S. federal income tax consequences of holding or exercising these securities; and

any other terms of the warrants.

Warrant certificates may be exchanged for new certificates of different denominations and may be presented for transfer of registration and, if exercisable for other securities or other property, may be exercised at the warrant agent's corporate trust office or any other office indicated in the prospectus supplement. If the warrants are not separately transferable from any securities with which they were issued, an exchange may take place only if the certificates representing the related securities are also exchanged. Prior to exercise of any warrant exercisable for other securities or other property, warrant holders will not have any rights as holders of the underlying securities, including the right to receive any principal, premium, interest, dividends, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

*Modification Without Consent.* We and the applicable warrant agent may amend any warrant or warrant agreement without the consent of any holder:

to cure any ambiguity;

to correct or supplement any defective or inconsistent provision; or

to make any other change that we believe is necessary or desirable and will not adversely affect the interests of the affected holders in any material respect.

We do not need any approval to make changes that affect only warrants to be issued after the changes take effect. We may also make changes that do not adversely affect a particular warrant in any material respect, even if they adversely affect other warrants in a material respect. In those cases, we do not need to obtain the approval of the holder of the unaffected warrant; we need only obtain any required approvals from the holders of the affected warrants.

*Modification With Consent.* We and any agent for any series of warrants may also amend any agreement and the related warrants by a supplemental agreement with the consent of the holders of a majority of the warrants of any series affected by such amendment. However, no such amendment that:

increases the exercise price of such warrant;

shortens the time period during which any such warrant may be exercised;

reduces the number of securities the consent of holders of which is required for amending the agreement or the related warrants; or

otherwise adversely affects the exercise rights of warrant holders in any material respect; may be made without the consent of each holder affected by that amendment.

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**DESCRIPTION OF DEBT SECURITIES WE MAY OFFER**

*This section outlines some of the provisions of the debt securities we may issue and the indenture and supplemental indentures pursuant to which they may be issued. This description may not contain all of the information that is important to you and is qualified in its entirety by reference to the form of indenture and the applicable supplemental indenture with respect to the debt securities of any particular series. The specific terms of any series of debt securities will be described in the applicable prospectus supplement. If so described in a particular supplement, the specific terms of any series of debt securities may differ from the general description of terms presented below.*

We may issue secured or unsecured debt securities. Our debt securities will be issued under an indenture to be entered into between us and a trustee to be designated by us, a form of which is filed as an exhibit to the registration statement of which this prospectus forms a part. Our debt securities may be convertible into our common stock or other of our securities.

When we offer to sell a particular series of debt securities, we will describe the specific terms of the series in a supplement to this prospectus. We will also indicate in the prospectus supplement whether the general terms and provisions described in this prospectus apply to a particular series of debt securities. To the extent the information contained in the prospectus supplement differs from this summary description, you should rely on the information in the prospectus supplement.

Unless otherwise specified in a supplement to this prospectus, the debt securities will be our direct, unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness. The holders of our debt securities will be structurally subordinated to holders of any indebtedness (including trade payables) of any of our subsidiaries.

In the event that any series of debt securities will be subordinated to other indebtedness that we have outstanding or may incur, the terms of the subordination will be set forth in the prospectus supplement relating to such debt securities.

We have described select portions of the indenture below. This description may not contain all of the information that is important to you. The form of indenture has been included as an exhibit to the registration statement of which this prospectus is a part, and you should read the indenture for provisions that may be important to you. In the summary below, we have included references to the section numbers of the indenture so that you can easily locate these provisions.

**General**

The terms of each series of debt securities will be established by or pursuant to a resolution of our board of directors and set forth or determined in the manner provided in a resolution of our board of directors, in an officers' certificate or by a supplemental indenture. (Section 2.02)

We may issue an unlimited amount of debt securities under the indenture that may be in one or more series with the same or various maturities, at par, at a premium, or at a discount. When we offer a particular series of debt securities, we will identify the title of the debt securities, the trustee or trustees (to which we refer in this description collectively as the trustee), and the aggregate principal amount of the debt securities we are offering, and we will describe the following terms of the debt securities, if applicable:

the price or prices (expressed as a percentage of the principal amount) at which we will issue the debt securities;

any limit on the aggregate principal amount of the debt securities;

the date or dates on which we will pay the principal on the debt securities;

the rate or rates (which may be fixed or variable) per annum or, if applicable, the method used to determine the rate or rates (including any rate or rates determined by reference to any commodity, commodity index, stock exchange index or financial index) at which the debt securities will bear interest, the date or dates from

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which interest will accrue, the date or dates on which interest will commence and be payable and any regular record date for the interest payable on any interest payment date;

the place or places where principal of and interest on the debt securities will be payable, where the debt securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon us in respect of the debt securities and the indenture may be served, and the method of such payment, if by wire transfer, mail or other means;

the terms and conditions on which we may redeem the debt securities;

any obligations we have to redeem or purchase the debt securities pursuant to any sinking fund or analogous provisions or at the option of a holder of debt securities and the date or dates on which or period or periods within which, the price or prices at which and the other detailed terms and provisions upon which the debt securities will be redeemed or purchased pursuant to such obligations;

the denominations in which the debt securities will be issued, if other than denominations of \$1,000 and integral multiples thereof;

whether the debt securities will be issued as bearer or fully registered securities and, if they are to be issued as fully registered securities, whether they will be in the form of certificated debt securities or global debt securities;

the portion of principal amount of the debt securities payable upon acceleration or declaration of acceleration of the maturity date, if other than the principal amount;

the currency of denomination of the debt securities;

the designation of the currency, currencies or currency units in which payment of principal of and interest on the debt securities will be made;

if payments of principal of or interest on the debt securities will be made in one or more currencies or currency units other than that or those in which the debt securities are denominated, the manner in which the exchange rate with respect to these payments will be determined;

the terms, if any, of subordination of the debt securities;

any provisions relating to any security provided for the debt securities;

any addition to or change in the events of default described in this prospectus or in the indenture with respect to the debt securities and any change in the acceleration provisions described in this prospectus or in the indenture with respect to the debt securities;

any addition to or change in the covenants described in this prospectus or in the indenture with respect to the debt securities;

any provisions relating to conversion of any debt securities into equity interests, including the conversion price and the conversion period, whether conversion will be mandatory, at the option of the holders of the debt securities or at our option, events requiring an adjustment of the conversion price, and provisions affecting conversion if the debt securities are redeemed;

any exchange features of the debt securities;

whether any underwriter(s) will act as market maker(s) for the debt securities;

the extent to which a secondary market for the debt securities is expected to develop;

any addition to or change in the provisions relating to satisfaction and discharge of the indenture described in this prospectus with respect to the debt securities, or in the provisions relating to legal defeasance or covenant defeasance under the indenture described in this prospectus with respect to the debt securities;

any addition to or change in the provisions relating to modification of the indenture both with and without the consent of holders of debt securities issued under the indenture;

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any other terms or provisions of the debt securities, which may supplement, modify or delete any provision of the indenture as it applies to that series; and

any registrars, paying agents, service agents, depositories, interest rate calculation agents, exchange rate calculation agents or other agents with respect to the debt securities. (Section 2.02)

We will provide you with information on the material United States federal income tax considerations and other special considerations applicable to any series of debt securities in the applicable prospectus supplement.

The indenture does not limit our ability to issue convertible or subordinated debt securities. Any conversion or subordination provisions of a particular series of debt securities will be set forth in the resolution of our board of directors, the officers' certificate or supplemental indenture related to that series of debt securities and will be described in the relevant prospectus supplement.

We may issue debt securities that provide for an amount less than their stated principal amount to be due and payable upon declaration of acceleration of their maturity pursuant to the terms of the indenture.

One or more series of debt securities may be sold at a discount to their stated principal amount or may bear no interest or interest at a rate which at the time of issuance is below market rates. One or more series of debt securities may be variable rate debt securities that may be exchanged for fixed rate debt securities.

Debt securities may be issued where the amount of principal and/or interest payable is determined by reference to one or more currency exchange rates, commodity prices, commodity indices, stock exchange indices, financial indices, equity indices or other factors. Holders of such securities may receive a principal amount or a payment of interest that is greater than or less than the amount of principal or interest otherwise payable on such dates, depending upon the value of the applicable currencies, commodities, commodity indices, stock exchange indices, financial indices, equity indices or other factors. Information as to the methods for determining the amount of principal or interest, if any, payable on any date, the currencies, commodities, commodity indices, stock exchange indices, financial indices, equity indices or other factors to which the amount payable on such date is linked and certain additional United States federal income tax considerations will be set forth in the applicable prospectus supplement.

If we denominate the purchase price of any of the debt securities in a foreign currency or currencies or a foreign currency unit or units, or if the principal of and interest on any series of debt securities is payable in a foreign currency or currencies or a foreign currency unit or units, we will provide you with information on the restrictions, elections, general United States federal tax considerations, specific terms and other information with respect to that issue of debt securities and such foreign currency or currencies or foreign currency unit or units in the applicable prospectus supplement.

When we determine to issue debt securities, we will instruct the trustee to authenticate for issuance such debt securities in a principal amount that we will provide in a resolution of our board of directors, in an officers' certificate or by a supplemental indenture. Our instructions may authorize the trustee to authenticate and deliver such debt securities upon our oral instructions or the oral instructions of our authorized agent or agents. (Section 2.03)

## **Transfer and Exchange**

We expect most debt securities to be issued in denominations of \$1,000 and integral multiples thereof. Each debt security will be represented by either one or more global securities deposited with and registered in the name of a depository to be designated by us in the applicable prospectus supplement, or a nominee (we refer to any debt security

represented by a global security as a book-entry debt security ), or by a certificate issued in definitive registered or bearer form (we refer to any fully registered debt security represented by a certificate as a registered certificated debt security ), as set forth in the applicable prospectus supplement. Except as set forth under the heading Global Securities below, book-entry debt securities will not be issuable in certificated form.

You may transfer or exchange registered certificated debt securities at any office we maintain for this purpose in accordance with the terms of the indenture. No service charge will be made for any transfer or exchange of

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registered certificated debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange. (Section 2.07)

You may effect the transfer of registered certificated debt securities, and the right to receive the principal of and interest on those registered certificated debt securities, only by surrendering the certificate representing those registered certificated debt securities and the issuance by us or the trustee of a certificate to the new holder. (Section 2.07)

## **Global Securities**

The debt securities of a series may be issued in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depository (the depository ) identified in the prospectus supplement. Global securities will be issued to the depository in registered certificated form and in either temporary or definitive form. Unless and until it is exchanged in whole or in part for the individual debt securities, a global security may not be transferred except as a whole by the depository for such global security to a nominee of such depository or by a nominee of such depository to such depository or another nominee of such depository or by such depository or any such nominee to a successor of such depository or a nominee of such successor. The specific terms of the depository arrangement with respect to any debt securities of a series and the rights of and limitations upon owners of beneficial interests in a global security will be described in the applicable prospectus supplement. (Section 2.14)

## **No Protection in the Event of a Change of Control or a Highly Leveraged Transaction**

Unless we state otherwise in the applicable prospectus supplement, the debt securities will not contain any provisions which may afford holders of the debt securities protection in the event we have a change in control or in the event of a highly leveraged transaction (whether or not such transaction results in a change in control) that could adversely affect holders of debt securities.

## **Covenants**

We will set forth in the applicable prospectus supplement any restrictive covenants applicable to the particular debt securities being issued.

## **Subordination**

United Technologies Corp.

13,295,134

**Total Aerospace & Defense**

31,982,411

**Commercial Services & Supplies 1.0%**

366,100

Covanta Holding Corp. \*

8,303,148

**Industrial Conglomerates 2.8%**

612,400

General Electric Co.

23,736,624

**Machinery 1.7%**

271,800

Dover Corp.

13,861,800

**TOTAL INDUSTRIALS**

77,883,983

**INFORMATION TECHNOLOGY 14.5%**

**Communications Equipment 4.4%**

573,700

Cisco Systems Inc. \*

16,585,667

343,900

Corning Inc.

8,198,576

294,300

QUALCOMM Inc.

12,257,595

**Total Communications Equipment**

37,041,838

**Computers & Peripherals 1.2%**

533,800

EMC Corp. \*

9,880,638

**Electronic Equipment & Instruments 0.6%**

136,050

Tyco Electronics Ltd. \*

4,873,311

**Internet Software & Services 1.9%**

16,200

Google Inc., Class A Shares \*

8,262,000

247,600

VeriSign Inc. \*

7,351,244

**Total Internet Software & Services**

15,613,244

**IT Services 2.7%**

227,111

Fidelity National Information Services Inc.

11,271,519

392,210

Hewitt Associates Inc., Class A Shares \*

11,734,923

**Total IT Services**

23,006,442

**Semiconductors & Semiconductor Equipment 1.2%**

447,900

Applied Materials Inc.

9,871,716

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Shares		Security	Value
<b>INFORMATION TECHNOLOGY</b>	<b>14.5% (continued)</b>		
<b>Software</b>	<b>2.5%</b>		
	759,300	Oracle Corp. *	\$ 14,517,816
	353,500	Symantec Corp. *	6,787,200
		<b>Total Software</b>	21,305,016
		<b>TOTAL INFORMATION TECHNOLOGY</b>	121,592,205
<b>MATERIALS</b>	<b>1.3%</b>		
<b>Metals &amp; Mining</b>	<b>1.3%</b>		
	286,480	Alcoa Inc.	10,943,536
<b>UTILITIES</b>	<b>1.9%</b>		
<b>Gas Utilities</b>	<b>1.9%</b>		
	368,360	National Fuel Gas Co.	15,968,406
		<b>TOTAL COMMON STOCKS</b>	
		(Cost \$605,885,679)	610,155,130
<b>Face Amount</b>			
<b>ASSET-BACKED SECURITIES</b>	<b>0.7%</b>		
<b>Home Equity</b>	<b>0.7%</b>		
\$	750,000	Asset-Backed Funding Certificates, Series 2004-FF1, Class M2, 6.770% due 1/25/34 (c)	725,784
	193,175	Countrywide Asset-Backed Certificates:	
	410,000	Series 2003-03, Class M4, 6.720% due 3/25/33 (c)	188,466
		Series 2004-05, Class M4, 6.570% due 6/25/34 (c)	400,042
	73,417	Finance America Net Interest Margin Trust, Series 2004-01, Class A, 5.250% due 6/27/34 (d)	1
	197,643	Fremont Home Loan Trust:	
	875,000	Series 2004-01, Class M5, 6.420% due 2/25/34 (c)	188,667
	1,005,000	Series 2004-D, Class M5, 6.320% due 11/25/34 (c)	868,834
		GSAMP Trust, Series 2004-OPT, Class M3, 6.470% due 11/25/34 (c)	980,517
	2,951	Merrill Lynch Mortgage Investors Inc., Series 2005-WM1N, Class N1, 5.000% due 9/25/35 (d)	2,751
	1,500,000	Option One Mortgage Loan Trust, Series 2004-02, Class M2, 6.370% due 5/25/34 (c)	1,500,072
	549,183	Renaissance Home Equity Loan Trust, Series 2003-4, Class M3, 7.220% due 3/25/34 (c)	534,749
	141,210	Sail Net Interest Margin Notes:	
	71,380	Series 2003-BC2A, Class A, 7.750% due 4/27/33 (d)	10,583
		Series 2004-2A, Class A, 5.500% due 3/27/34 (d)	9,331
		<b>TOTAL ASSET-BACKED SECURITIES</b>	
		(Cost \$5,784,267)	5,409,797
<b>COLLATERALIZED MORTGAGE OBLIGATIONS</b>	<b>0.4%</b>		
	260,000	American Home Mortgage Investment Trust, Series 2005-4, Class M3, 6.120% due 11/25/45 (c)	257,844
		Federal Home Loan Mortgage Corp. (FHLMC):	

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76,206	Series 2764, Class DT, 6.000% due 3/15/34 (c)	67,814
558,063	Series 2780, Class SL, PAC, 6.000% due 4/15/34 (c)	544,458
747,021	Harborview Mortgage Loan Trust, Series 2005-10, Class B6, 6.390% due 11/19/35 (c)	730,213
501,207	Merit Securities Corp., Series 11PA, Class B2, 6.820% due 9/28/32 (c)(d)	464,113
434,373	MLCC Mortgage Investors Inc.: Series 2004-A, Class B2, 6.240% due 4/25/29 (c)	434,431
732,307	Series 2004-B, Class B2, 6.200% due 5/25/29 (c)	734,490
	<b>TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS</b> (Cost \$3,266,818)	3,233,363

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>CORPORATE BONDS &amp; NOTES 8.7%</b>		
<b>Aerospace &amp; Defense 0.1%</b>		
\$ 275,000	Alliant Techsystems Inc., Senior Subordinated Notes, 6.750% due 4/1/16	\$ 261,937
250,000	Hawker Beechcraft Acquisition Co., Senior Notes, 8.875% due 4/1/15 (d)(e)	248,125
	<b>Total Aerospace &amp; Defense</b>	<b>510,062</b>
<b>Airlines 0.1%</b>		
170,000	Continental Airlines Inc., Notes, 8.750% due 12/1/11	161,500
460,000	DAE Aviation Holdings Inc., Senior Notes, 11.250% due 8/1/15 (d)	448,500
	<b>Total Airlines</b>	<b>610,000</b>
<b>Auto Components 0.1%</b>		
295,000	Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13	222,725
1,075,000	Visteon Corp., Senior Notes, 8.250% due 8/1/10	956,750
	<b>Total Auto Components</b>	<b>1,179,475</b>
<b>Automobiles 0.2%</b>		
110,000	Ford Motor Co., Debentures, 8.875% due 1/15/22	93,225
630,000	General Motors Corp., Senior Debentures: 8.250% due 7/15/23	516,600
1,300,000	8.375% due 7/15/33	1,075,750
	<b>Total Automobiles</b>	<b>1,685,575</b>
<b>Building Products 0.1%</b>		
540,000	Associated Materials Inc., Senior Subordinated Notes, 9.750% due 4/15/12	553,500
490,000	NTK Holdings Inc., Senior Discount Notes, step bond to yield 11.186% due 3/1/14	301,350
	<b>Total Building Products</b>	<b>854,850</b>
<b>Capital Markets 0.2%</b>		
160,000	E*TRADE Financial Corp., Senior Notes: 7.375% due 9/15/13	161,600
65,000	7.875% due 12/1/15	67,275
1,200,000	Kaupthing Bank HF, Subordinated Notes, 7.125% due 5/19/16 (d)	1,278,496
	<b>Total Capital Markets</b>	<b>1,507,371</b>
<b>Chemicals 0.2%</b>		
572,000	Equistar Chemicals LP, Senior Notes, 10.625% due 5/1/11	600,600
570,000	Georgia Gulf Corp., Senior Subordinated Notes, 9.500% due 10/15/14	544,350
110,000	Huntsman International LLC, Senior Subordinated Notes, 7.875% due 11/15/14	118,250
6,000	PPG Industries Inc., Notes, 6.500% due 11/1/07	6,006
	<b>Total Chemicals</b>	<b>1,269,206</b>
<b>Commercial Banks 0.3%</b>		
68,181	Fifth Third Bank, Notes, 2.870% due 8/10/09	66,596
1,300,000	Resona Preferred Global Securities Cayman Ltd., Bonds, 7.191% due 7/30/15 (c)(d)(f)	1,314,577

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1,300,000	Shinsei Finance Cayman Ltd., Junior Subordinated Bonds, 6.418% due 7/20/14 (c)(d)(f)	1,250,630
<b>Commercial Services &amp; Supplies 0.2%</b>	<b>Total Commercial Banks</b>	<b>2,631,803</b>
180,000	Allied Security Escrow Corp., Senior Subordinated Notes, 11.375% due 7/15/11	179,100
75,000	Allied Waste North America Inc., Senior Notes, Series B, 7.250% due 3/15/15	72,750
405,000	DynCorp International LLC/DIV Capital Corporation, Senior Subordinated Notes, Series B, 9.500% due 2/15/13	415,125

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Commercial Services &amp; Supplies 0.2% (continued)</b>		
\$ 600,000	Interface Inc., Senior Subordinated Notes, 9.500% due 2/1/14	\$ 627,000
290,000	Rental Services Corp., Senior Bonds, 9.500% due 12/1/14 (d)	284,200
225,000	Waste Management Inc., Senior Note, 6.375% due 11/15/12	232,505
	<b>Total Commercial Services &amp; Supplies</b>	<b>1,810,680</b>
<b>Consumer Finance 0.7%</b>		
300,000	Aiful Corp., Notes, 6.000% due 12/12/11 (d)	301,260
1,050,000	Ford Motor Credit Co.: Notes, 7.000% due 10/1/13	946,021
	Senior Notes:	
750,000	5.800% due 1/12/09	720,472
135,000	9.750% due 9/15/10	136,421
559,000	10.610% due 6/15/11 (c)	579,968
170,000	8.000% due 12/15/16	156,925
	General Motors Acceptance Corp., Notes:	
500,000	5.625% due 5/15/09	476,832
1,900,000	6.625% due 5/15/12	1,740,054
300,000	6.750% due 12/1/14	270,006
125,000	SLM Corp., Medium-Term Notes, Series A, 5.560% due 1/26/09 (c)	123,217
	<b>Total Consumer Finance</b>	<b>5,451,176</b>
<b>Containers &amp; Packaging 0.2%</b>		
550,000	Graham Packaging Co. Inc., Senior Subordinated Notes, 9.875% due 10/15/14	519,750
535,000	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13	537,675
195,000	Plastipak Holdings Inc., Senior Notes, 8.500% due 12/15/15 (d)	197,925
	<b>Total Containers &amp; Packaging</b>	<b>1,255,350</b>
<b>Diversified Consumer Services 0.0%</b>		
	Education Management LLC/Education Management Finance Corp.:	
20,000	Senior Notes, 8.750% due 6/1/14	20,000
210,000	Senior Subordinated Notes, 10.250% due 6/1/16	210,000
	<b>Total Diversified Consumer Services</b>	<b>230,000</b>
<b>Diversified Financial Services 0.4%</b>		
150,000	AAC Group Holding Corp., Senior Discount Notes, step bond to yield 9.092% due 10/1/12	129,750
100,000	Aiful Corp., Notes, 5.000% due 8/10/10 (d)	98,133
100,000	Bank of America Corp., Subordinated Notes, 5.420% due 3/15/17	95,434
610,000	Basell AF SCA, Senior Secured Subordinated Second Priority Notes, 8.375% due 8/15/15 (d)	545,950
125,000	Capital One Bank, Notes, 5.750% due 9/15/10	125,566
110,493	Core Investment Grade Bond Trust I, Pass-Through Certificates, 4.642% due 11/30/07	110,146
125,000	Countrywide Home Loans Inc., Medium-Term Notes, Series M, 4.125% due 9/15/09	120,441
250,000		249,682

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	General Electric Capital Corp., Medium-Term Notes, Series A, 5.450% due 1/15/13	
162,000	Global Cash Access LLC/Global Cash Finance Corp., Senior Subordinated Notes, 8.750% due 3/15/12	166,050
125,000	HSBC Finance Corp., Senior Subordinated Notes, 5.875% due 2/1/09	125,903
60,000	Milacron Escrow Corp., Senior Secured Notes, 11.500% due 5/15/11	56,400
10,000	Residential Capital Corp., Senior Notes: 6.460% due 4/17/09 (c)	9,635
40,000	Residential Capital Corp., Senior Notes: 6.460% due 5/22/09 (c)	38,051
430,000	Residential Capital LLC, Senior Notes, 6.500% due 6/1/12	390,463
57,000	UCAR Finance Inc., Senior Notes, 10.250% due 2/15/12	59,850

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Diversified Financial Services 0.4% (continued)</b>		
\$ 130,000	Vangent Inc., Senior Subordinated Notes, 9.625% due 2/15/15 (d)	\$ 123,500
620,000	Vanguard Health Holdings Co. I LLC, Senior Discount Notes, step bond to yield 10.257% due 10/1/15	455,700
260,000	Vanguard Health Holdings Co. II LLC, Senior Subordinated Notes, 9.000% due 10/1/14	243,100
	<b>Total Diversified Financial Services</b>	<b>3,143,754</b>
<b>Diversified Telecommunication Services 0.6%</b>		
600,000	Deutsche Telekom International Finance, Senior Notes, 5.750% due 3/23/16	582,135
215,000	Hawaiian Telcom Communications Inc., Senior Subordinated Notes, Series B, 12.500% due 5/1/15	226,825
180,000	Intelsat Bermuda Ltd.: 9.250% due 6/15/16	184,500
680,000	Senior Notes, 11.250% due 6/15/16	714,000
295,000	Level 3 Financing Inc.: 9.250% due 11/1/14	283,200
30,000	Senior Notes, 9.150% due 2/15/15 (c)(d)	28,500
250,000	Nordic Telephone Co. Holdings, Senior Secured Bonds, 8.875% due 5/1/16 (d)	248,750
450,000	NTL Cable PLC, Senior Notes: 8.750% due 4/15/14	452,250
220,000	9.125% due 8/15/16	223,300
140,000	PAETEC Holding Corp., Senior Note, 9.500% due 7/15/15 (d)	134,400
740,000	Qwest Communications International Inc., Senior Notes, Series B, 7.500% due 2/15/14	714,100
100,000	Telecom Italia Capital S.p.A., Senior Notes, 5.250% due 10/1/15	93,195
140,000	Univision Communications Inc., Senior Notes, 9.750% due 3/15/15 (d)(e)	128,100
450,000	Verizon Florida Inc., Senior Notes, Series F, 6.125% due 1/15/13	456,168
660,000	Windstream Corp., Senior Notes, 8.625% due 8/1/16	671,550
	<b>Total Diversified Telecommunication Services</b>	<b>5,140,973</b>
<b>Electric Utilities 0.1%</b>		
325,000	FirstEnergy Corp., Notes, Series C, 7.375% due 11/15/31	354,353
100,000	Orion Power Holdings Inc., Senior Notes, 12.000% due 5/1/10	109,000
230,000	Pacific Gas & Electric Co., Senior Unsubordinated Notes, 5.800% due 3/1/37	216,080
	<b>Total Electric Utilities</b>	<b>679,433</b>
<b>Electronic Equipment &amp; Instruments 0.1%</b>		
1,065,000	NXP BV/NXP Funding LLC, Senior Notes, 9.500% due 10/15/15	926,550
<b>Energy Equipment &amp; Services 0.2%</b>		
725,000	Complete Production Services Inc., 8.000% due 12/15/16	699,625
529,000	Dresser-Rand Group Inc., Senior Subordinated Notes, 7.375% due 11/1/14	510,485
55,000	Pride International Inc., Senior Notes, 7.375% due 7/15/14	54,863
10,000	Southern Natural Gas Co., Senior Notes, 8.000% due 3/1/32	11,181

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		<b>Total Energy Equipment &amp; Services</b>	1,276,154
<b>Food &amp; Staples Retailing</b>	<b>0.0%</b>		
	150,000	Safeway Inc., Senior Notes, 6.500% due 11/15/08	151,893
<b>Food Products</b>	<b>0.0%</b>		
	125,000	Dole Food Co. Inc., Senior Notes:	
	261,000	7.250% due 6/15/10	115,312
		8.875% due 3/15/11	244,035
		<b>Total Food Products</b>	359,347
<b>Health Care Providers &amp; Services</b>	<b>0.3%</b>		
	590,000	Community Health Systems Inc., Senior Notes, 8.875% due 7/15/15 (d)	575,987

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Health Care Providers &amp; Services 0.3% (continued)</b>		
\$ 295,000	HCA Inc.:	\$ 229,362
345,000	Notes, 6.375% due 1/15/15	267,375
	Senior Notes, 6.500% due 2/15/16	
	Senior Secured Notes:	
215,000	9.250% due 11/15/16 (d)	213,925
165,000	9.625% due 11/15/16 (d)(e)	164,175
	IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes, 8.750% due 6/15/14	410,125
425,000	Tenet Healthcare Corp., Senior Notes:	
180,000	6.375% due 12/1/11	153,900
650,000	7.375% due 2/1/13	546,000
1,000	9.875% due 7/1/14	895
150,000	UnitedHealth Group Inc., Senior Notes, 3.300% due 1/30/08	148,694
	<b>Total Health Care Providers &amp; Services</b>	<b>2,710,438</b>
<b>Hotels, Restaurants &amp; Leisure 0.8%</b>		
1,000,000	Boyd Gaming Corp., Senior Subordinated Notes, 6.750% due 4/15/14	945,000
265,000	Buffets Inc., Senior Notes, 12.500% due 11/1/14	215,975
	Choctaw Resort Development Enterprise, Senior Notes, 7.250% due 11/15/19 (d)	305,550
315,000	Denny's Holdings Inc., Senior Notes, 10.000% due 10/1/12	561,000
550,000	El Pollo Loco Inc., Senior Notes, 11.750% due 11/15/13	101,500
100,000	Herbst Gaming Inc., Senior Subordinated Notes, 7.000% due 11/15/14	387,000
450,000	Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000% due 11/15/10	702,900
660,000	Isle of Capri Casinos Inc., Senior Subordinated Notes, 7.000% due 3/1/14	126,875
140,000	MGM MIRAGE Inc.:	
380,000	Notes, 6.750% due 9/1/12	357,200
	Senior Notes:	
575,000	5.875% due 2/27/14	506,000
320,000	7.625% due 1/15/17	299,200
203,000	Senior Subordinated Notes, 9.375% due 2/15/10	208,582
	Pinnacle Entertainment Inc., Senior Subordinated Notes, 8.250% due 3/15/12	507,500
500,000	Seneca Gaming Corp., Senior Notes, 7.250% due 5/1/12	618,750
625,000	Station Casinos Inc.:	
	Senior Notes:	
60,000	6.000% due 4/1/12	55,200
250,000	7.750% due 8/15/16	235,625
105,000	Senior Subordinated Notes, 6.875% due 3/1/16	88,988
	Turning Stone Casino Resort Enterprise, Senior Notes, 9.125% due 12/15/10 (d)	507,500
500,000	<b>Total Hotels, Restaurants &amp; Leisure</b>	<b>6,730,345</b>

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<b>Household Durables</b>	<b>0.2%</b>		
	335,000	K Hovnanian Enterprises Inc., Senior Notes, 8.625% due 1/15/17	278,050
	325,000	Norcraft Cos. LP/Norcraft Finance Corp., Senior Subordinated Notes, 9.000% due 11/1/11	326,625
	700,000	Norcraft Holdings LP/Norcraft Capital Corp., Senior Discount Notes, step bond to yield 9.608% due 9/1/12	605,500
	80,000	Sealy Mattress Co., Senior Subordinated Notes, 8.250% due 6/15/14	79,200
		<b>Total Household Durables</b>	<b>1,289,375</b>
<b>Independent Power Producers &amp; Energy Traders</b>	<b>0.2%</b>		
	152,070	Mirant Mid Atlantic LLC, Pass-Through Certificates, Series B, 9.125% due 6/30/17	167,175
	250,000	NRG Energy Inc., Senior Notes: 7.250% due 2/1/14	241,875

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Independent Power Producers &amp; Energy Traders 0.2% (continued)</b>		
\$ 1,025,000	7.375% due 2/1/16	\$ 991,688
380,000	TXU Corp., Senior Notes, Series P, 5.550% due 11/15/14	308,444
	<b>Total Independent Power Producers &amp; Energy Traders</b>	<b>1,709,182</b>
<b>Insurance 0.1%</b>		
500,000	Nationwide Life Global Funding I, Notes, 5.450% due 9/28/07 (c)(d)	500,092
<b>IT Services 0.1%</b>		
400,000	SunGard Data Systems Inc.: Senior Notes, 9.125% due 8/15/13	404,000
270,000	Senior Subordinated Notes, 10.250% due 8/15/15	271,350
	<b>Total IT Services</b>	<b>675,350</b>
<b>Media 0.8%</b>		
355,000	Affinion Group Inc.: Senior Notes, 10.125% due 10/15/13	358,550
100,000	Senior Subordinated Notes, 11.500% due 10/15/15	101,000
390,000	AMC Entertainment Inc., Senior Subordinated Notes, 11.000% due 2/1/16	404,625
205,000	CCH I Holdings LLC/CCH I Holdings Capital Corp.: Senior Accreting Notes, 12.125% due 1/15/15	198,850
380,000	Senior Notes, 11.750% due 5/15/14	364,800
569,000	CCH I LLC/CCH Capital Corp., Senior Secured Notes, 11.000% due 10/1/15	571,845
480,000	CCH II LLC/CCH II Capital Corp., Senior Notes: 10.250% due 9/15/10	490,800
65,000	10.250% due 10/1/13	66,787
105,000	Charter Communications Holdings LLC/Charter Communications Holdings Capital Corp., Senior Discount Notes, 11.750% due 5/15/11	106,050
240,000	CMP Susquehanna Corp., 9.875% due 5/15/14	224,400
810,000	Comcast Corp., Notes, 6.500% due 1/15/17	822,002
410,000	Idearc Inc., Senior Notes, 8.000% due 11/15/16	390,525
65,000	ION Media Networks Inc., Senior Secured Notes, 11.610% due 1/15/13 (c)(d)	65,813
180,000	Lamar Media Corp., Senior Subordinated Notes, 6.625% due 8/15/15	164,700
355,000	R.H. Donnelley Corp.: Senior Discount Notes: Series A-1, 6.875% due 1/15/13	321,275
300,000	Series A-2, 6.875% due 1/15/13	271,500
450,000	Senior Notes, Series A-3, 8.875% due 1/15/16	439,875
810,000	Time Warner Inc., Senior Notes, 6.875% due 5/1/12	846,353
260,000	TL Acquisitions Inc., Senior Notes, 10.500% due 1/15/15 (d)	240,500
	<b>Total Media</b>	<b>6,450,250</b>
<b>Metals &amp; Mining 0.2%</b>		
960,000		1,010,400

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		Freeport-McMoRan Copper & Gold Inc., Senior Notes, 8.375% due 4/1/17	
	15,000	Metals USA Holdings Corp., Senior Notes, 11.360% due 1/15/12 (c)(d)(e)	15,000
	435,000	Metals USA Inc., Senior Secured Notes, 11.125% due 12/1/15	465,450
	155,000	Noranda Aluminum Holding Corp., Senior Notes, 11.146% due 11/15/14 (c)(d)(e)	146,475
	100,000	Novelis Inc., Senior Notes, 7.250% due 2/15/15	100,750
	135,000	Tube City IMS Corp., 9.750% due 2/1/15	131,962
	156,000	Vale Overseas Ltd., Notes, 6.875% due 11/21/36	152,529
		<b>Total Metals &amp; Mining</b>	<b>2,022,566</b>
<b>Multi-Utilities</b>	<b>0.0%</b>		
	125,000	Keyspan Gas East Corp., Medium-Term Notes, 6.900% due 1/15/08	125,819
<b>Multiline Retail</b>	<b>0.1%</b>		
	250,000	Dollar General Corp.: Senior Notes, 10.625% due 7/15/15 (d)	222,500

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Multiline Retail 0.1% (continued)</b>		
\$ 250,000	Senior Subordinated Notes, 11.875% due 7/15/17 (d)(e)	\$ 213,750
535,000	Neiman Marcus Group Inc., Senior Subordinated Notes, 10.375% due 10/15/15	565,762
	<b>Total Multiline Retail</b>	<b>1,002,012</b>
<b>Office Electronics 0.0%</b>		
290,000	Xerox Corp., Senior Notes, 6.750% due 2/1/17	295,096
<b>Oil, Gas &amp; Consumable Fuels 0.9%</b>		
60,000	Anadarko Petroleum Corp., Senior Notes: 5.950% due 9/15/16	59,065
1,240,000	6.450% due 9/15/36	1,201,174
440,000	Belden & Blake Corp., Secured Notes, 8.750% due 7/15/12	442,200
775,000	Chesapeake Energy Corp., Senior Notes, 6.375% due 6/15/15	731,406
85,000	Compagnie Generale de Geophysique SA, Senior Notes, 7.500% due 5/15/15	83,300
330,000	ConocoPhillips Holding Co., Senior Notes, 6.950% due 4/15/29	360,726
180,000	El Paso Corp., Medium-Term Notes: 7.800% due 8/1/31	174,745
1,050,000	7.750% due 1/15/32	1,013,522
450,000	EXCO Resources Inc., Senior Notes, 7.250% due 1/15/11	448,875
260,000	International Coal Group Inc., Senior Notes, 10.250% due 7/15/14	227,500
140,000	Kerr-McGee Corp.: 6.950% due 7/1/24	145,736
300,000	Notes, 6.875% due 9/15/11	313,362
605,000	OPTI Canada Inc., Senior Secured Notes, 8.250% due 12/15/14 (d)	608,025
160,000	Petroplus Finance Ltd., Senior Note, 7.000% due 5/1/17 (d)	146,800
290,000	SemGroup LP, Senior Notes, 8.750% due 11/15/15 (d)	287,100
260,000	Stone Energy Corp., Senior Subordinated Notes, 8.250% due 12/15/11	257,400
100,000	Williams Cos. Inc.: Notes, 8.750% due 3/15/32	111,000
470,000	Senior Notes, 7.750% due 6/15/31	476,463
170,000	XTO Energy Inc., Senior Notes, 7.500% due 4/15/12	182,839
	<b>Total Oil, Gas &amp; Consumable Fuels</b>	<b>7,271,238</b>
<b>Paper &amp; Forest Products 0.2%</b>		
140,000	Abitibi-Consolidated Co. of Canada, Senior Notes: 6.000% due 6/20/13	111,300
220,000	8.375% due 4/1/15	180,400
160,000	Abitibi-Consolidated Inc.: Debentures, 7.400% due 4/1/18	122,400
40,000	Notes, 7.750% due 6/15/11	35,400
545,000	Appleton Papers Inc., Senior Subordinated Notes, Series B, 9.750% due 6/15/14	561,350
435,000	NewPage Corp.: Senior Secured Notes, 11.606% due 5/1/12 (c)	467,625
200,000	Senior Subordinated Notes, 12.000% due 5/1/13	209,250

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		Verso Paper Holdings LLC, Senior Secured Notes, 9.125% due 8/1/14 (d)	206,537
	205,000		
	150,000	Weyerhaeuser Co., Notes, 6.750% due 3/15/12	153,957
		<b>Total Paper &amp; Forest Products</b>	<b>2,048,219</b>
<b>Pharmaceuticals</b>	<b>0.0%</b>		
		Leiner Health Products Inc., Senior Subordinated Notes, 11.000% due 6/1/12	373,800
	445,000		
<b>Real Estate Investment Trusts (REITs)</b>	<b>0.0%</b>		
	75,000	iStar Financial Inc., Senior Notes, Series B, 4.875% due 1/15/09	74,304
	50,000	Simon Property Group LP, Notes, 6.375% due 11/15/07	50,073

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Real Estate Investment Trusts (REITs) 0.0% (continued)</b>		
\$ 85,000	Ventas Realty LP/Ventas Capital Corp., Senior Notes, 6.500% due 6/1/16	\$ 78,944
	<b>Total Real Estate Investment Trusts (REITs)</b>	203,321
<b>Real Estate Management &amp; Development 0.1%</b>		
270,000	Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, 9.500% due 10/1/15	225,450
450,000	Realogy Corp., Senior Subordinated Notes, 12.375% due 4/15/15 (d)	378,000
	<b>Total Real Estate Management &amp; Development</b>	603,450
<b>Road &amp; Rail 0.2%</b>		
1,005,000	Hertz Corp., Senior Subordinated Notes, 10.500% due 1/1/16	1,045,200
50,000	Kansas City Southern de Mexico, Senior Notes, 7.625% due 12/1/13 (d)	50,125
430,000	Kansas City Southern Railway, Senior Notes, 7.500% due 6/15/09	425,700
	<b>Total Road &amp; Rail</b>	1,521,025
<b>Semiconductors &amp; Semiconductor Equipment 0.0%</b>		
345,000	Freescale Semiconductor Inc., Senior Notes, 8.875% due 12/15/14 (d)	316,538
<b>Specialty Retail 0.0%</b>		
235,000	Blockbuster Inc., Senior Subordinated Notes, 9.000% due 9/1/12	196,812
165,000	Eye Care Centers of America, Senior Subordinated Notes, 10.750% due 2/15/15	181,500
	<b>Total Specialty Retail</b>	378,312
<b>Textiles, Apparel &amp; Luxury Goods 0.1%</b>		
390,000	Levi Strauss & Co., Senior Notes, 9.750% due 1/15/15	395,850
180,000	Oxford Industries Inc., Senior Notes, 8.875% due 6/1/11	182,700
	<b>Total Textiles, Apparel &amp; Luxury Goods</b>	578,550
<b>Tobacco 0.0%</b>		
50,000	Alliance One International Inc., Senior Notes: 8.500% due 5/15/12 (d)	49,500
70,000	11.000% due 5/15/12	73,850
	<b>Total Tobacco</b>	123,350
<b>Trading Companies &amp; Distributors 0.1%</b>		
355,000	Ashtead Capital Inc., Notes, 9.000% due 8/15/16 (d)	358,550
100,000	H&E Equipment Services Inc., Senior Notes, 8.375% due 7/15/16	102,500
390,000	Penhall International Corp., Senior Secured Notes, 12.000% due 8/1/14 (d)	415,350
	<b>Total Trading Companies &amp; Distributors</b>	876,400
<b>Transportation Infrastructure 0.0%</b>		
100,000	Saint Acquisition Corp., Secured Notes: 13.107% due 5/15/15 (c)(d)	71,500
395,000	12.500% due 5/15/17 (d)	282,425
	<b>Total Transportation Infrastructure</b>	353,925
<b>Wireless Telecommunication Services 0.5%</b>		
35,000	MetroPCS Wireless Inc., Senior Notes: 9.250% due 11/1/14 (d)	34,475

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30,000	9.250% due 11/1/14 (d)	29,550
1,270,000	New Cingular Wireless Services Inc., Notes, 8.125% due 5/1/12	1,400,325
	Rural Cellular Corp.:	
245,000	Senior Notes, 9.875% due 2/1/10	255,413
110,000	Senior Secured Notes, 8.250% due 3/15/12	113,300
1,190,000	Sprint Capital Corp., Senior Notes, 8.375% due 3/15/12	1,304,537

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>Wireless Telecommunication Services 0.5% (continued)</b>		
\$ 780,000	True Move Co., Ltd., 10.750% due 12/16/13 (d)	\$ 826,800
	<b>Total Wireless Telecommunication Services</b>	3,964,400
	<b>TOTAL CORPORATE BONDS &amp; NOTES</b>	
	(Cost \$75,337,520)	72,796,705
<b>MORTGAGE-BACKED SECURITIES 7.4%</b>		
<b>FHLMC 3.7%</b>		
3,341,010	Federal Home Loan Mortgage Corp. (FHLMC):	
	5.120% due 6/1/35 (c)	3,318,675
764,748	Gold:	
25,734,065	7.000% due 6/1/17	788,494
348,639	6.000% due 7/1/21-2/1/36	25,741,662
745,292	8.500% due 9/1/25	373,769
	6.500% due 8/1/29	762,224
	<b>TOTAL FHLMC</b>	30,984,824
<b>FNMA 3.5%</b>		
822,695	Federal National Mortgage Association (FNMA):	
396,520	8.000% due 12/1/12	838,854
1,759,348	5.500% due 1/1/14	394,586
608,077	7.000% due 3/15/15-6/1/32	1,833,109
820,394	4.207% due 12/1/34 (c)	599,683
1,035,953	4.855% due 1/1/35 (c)	817,318
1,442,201	5.052% due 3/1/35 (c)	1,033,101
1,593,457	5.500% due 4/1/35 (c)	1,396,670
2,979,509	5.689% due 4/1/35 (c)	1,623,201
5,268,612	5.630% due 4/1/36 (c)	3,000,924
10,500,000	5.608% due 5/1/36 (c)	5,304,833
2,800,000	5.000% due 8/1/37 (g)	9,848,674
	6.000% due 8/1/37 (g)	2,774,187
	<b>TOTAL FNMA</b>	29,465,140
<b>GNMA 0.2%</b>		
1,353,922	Government National Mortgage Association (GNMA),	
	5.500% due 8/15/21	1,342,945
	<b>TOTAL MORTGAGE-BACKED SECURITIES</b>	
	(Cost \$62,201,902)	61,792,909
<b>SOVEREIGN BOND 0.0%</b>		
<b>Argentina 0.0%</b>		
69,931	ARS	
	Republic of Argentina, GDP Linked Securities, 0.649%	
	due 12/15/35 (c)	
	(Cost - \$811)	2,401
<b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS 0.4%</b>		
<b>U.S. Government Agencies 0.0%</b>		
100,000	Federal Home Loan Bank (FHLB), Global Bonds,	
	5.500% due 7/15/36	99,210
140,000	Federal National Mortgage Association (FNMA), 6.625%	
	due 9/15/09	144,737

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<b>U.S. Government Obligation</b>	<b>0.4%</b>	<b>Total U.S. Government Agencies</b>	243,947
		U.S. Treasury Bonds:	
40,000		4.500% due 2/15/36	37,412
3,090,000		4.750% due 2/15/37	3,008,891
		<b>Total U.S. Government Obligations</b>	<b>3,046,303</b>
		<b>TOTAL U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS</b>	
		(Cost \$3,329,986)	3,290,250

*See Notes to Schedule of Investments.*

## LMP Capital and Income Fund Inc.

Schedule of Investments (unaudited) (continued)

July 31, 2007

Face Amount	Security	Value
<b>U.S. TREASURY INFLATION PROTECTED SECURITIES 1.0%</b>		
\$ 2,732,044	U.S. Treasury Bonds, Inflation Indexed, 2.375% due 1/15/27	\$ 2,705,579
98,771	U.S. Treasury Notes, Inflation Indexed: 0.875% due 4/15/10	94,134
3,142,410	2.375% due 4/15/11	3,124,737
2,783,592	2.375% due 1/15/17	2,761,846
	<b>TOTAL U.S. TREASURY INFLATION PROTECTED SECURITIES</b>	
	(Cost \$8,523,610)	8,686,296
<b>Contracts</b>		
<b>PURCHASED OPTIONS 1.0%</b>		
337	Eurodollar Futures, Call @ \$94.00, expires 6/16/08	943,600
780	Intersil Corp., Put @ \$30.00, expires 1/19/08	234,000
1,803	Johnson & Johnson, Call @ \$60.00, expires 1/17/09	1,244,070
909	Johnson & Johnson, Call @ \$65.00, expires 1/17/09	399,960
322	KLA-Tencor Corp., Put @ \$60.00, expires 1/19/08	199,640
627	Marsh & McLennan Cos. Inc., Call @ \$25.00, expires 1/19/08	263,340
742	S & P 500 Index, Put @ \$1,425.00, expires 10/20/07	3,153,500
	U.S. Treasury Notes 10 Year Futures, Call @ \$103.00, expires 8/24/07	1,481,328
335	U.S. Treasury Notes 5 Year Futures, Call @ \$102.00, expires 8/24/07	724,969
209		
	<b>TOTAL PURCHASED OPTIONS</b>	
	(Cost \$7,578,118)	8,644,407
	<b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS</b>	
	(Cost \$771,908,711)	774,011,258
<b>Face</b>		
<b>Amount</b>		
<b>SHORT-TERM INVESTMENTS 7.5%</b>		
<b>U.S. Government Agencies 3.7%</b>		
\$ 30,400,000	Federal Home Loan Bank (FHLB) Discount Notes, 5.091% due 8/1/07 (h)(i)	30,400,000
100,000	Federal National Mortgage Association (FNMA), Discount Notes, 5.203% due 3/17/08 (h)	96,861
	<b>Total U.S. Government Agencies</b>	30,496,861
<b>Repurchase Agreements 3.8%</b>		
16,080,000	Morgan Stanley repurchase agreement dated 7/31/07, 5.230% due 8/1/07; Proceeds at maturity - \$16,082,336; (Fully collateralized by U.S. government note, 0.000% due 4/25/08; Market value - \$16,483,774) (i)	16,080,000
16,084,000	Nomura Securities International Inc. repurchase agreement dated 7/31/07, 5.250% due 8/1/07; Proceeds at maturity - \$16,086,346; (Fully collateralized by U.S. government note, 4.750% due 11/17/15;	16,084,000

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Market value -\$16,406,183) (i)	
<b>Total Repurchase Agreements</b>	32,164,000
<b>TOTAL SHORT-TERM INVESTMENTS</b>	
(Cost \$62,660,813)	62,660,861
<b>TOTAL INVESTMENTS 100.0%</b>	
(Cost \$834,569,524#)	836,672,119

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Face amount denominated in U.S. dollars, unless otherwise noted.

\* Non-income producing security.

- (a) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).
- (b) Illiquid security.
- (c) Variable rate security. Interest rate disclosed is that which is in effect at July 31, 2007.
- (d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.
- (e) Payment-in-kind security for which part of the income earned may be paid as additional principal.

*See Notes to Schedule of Investments.*

**LMP Capital and Income Fund Inc.**

Schedule of Investments (unaudited) (continued)

July 31, 2007

- (f) Security has no maturity date. The date shown represents the next call date.
- (g) This security is traded on a to-be-announced ( TBA ) basis (See Note 1).
- (h) Rate shown represents yield-to-maturity.
- (i) All or a portion of this security is segregated for open futures contracts, extended settlements, and forward currency contracts.
- # Aggregate cost for federal income tax purposes is substantially the same.

Abbreviations used in this schedule:

ADR - American Depositary Receipt

ARS - Argentine Peso

GDP - Gross Domestic Product

PAC - Planned Amortization Class

*See Notes to Schedule of Investments.*

**Notes to Schedule of Investments (unaudited)**

**1. Organization and Significant Accounting Policies**

LMP Capital and Income Fund Inc. (the Fund) was incorporated in Maryland on November 12, 2003 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Boards authorized 100 million shares of \$0.001 par value common stock. The Fund's investment objective is total return with an emphasis on income. The Fund pursues its investment objective by investing at least 80% of its assets in a board 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).

**(a) Investment Valuation.** Equity securities for which market quotations are available are valued at the last reported 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 last quoted 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 other 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 of 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 with maturities of 60 days or less 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 all times, 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) Written Options.** When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily to reflect the current market value of the option written. If the option expires, the Fund realizes a gain from investments equal to the amount of the premium received. When a written call option is exercised, the difference between the premium received plus the option exercise price and the Fund's basis in the underlying security (in the case of a covered written call option), or the cost to purchase the

underlying security (in the case of an uncovered written call option), including brokerage commission, is treated as a realized gain or loss. When a written put option is exercised, the amount of the premium received is added to the cost of the security purchased by the Fund from the exercise of the written put option to form the Fund's basis in the underlying security purchased. The writer or buyer of an option traded on an exchange can liquidate the position before the exercise of the option by entering into a closing transaction. The cost of a closing transaction is deducted from the original premium received resulting in a realized gain or loss to the Fund.

The risk in writing a covered call option is that the Fund may forego the opportunity of profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised. The risk in writing a call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(d) Financial Futures Contracts.** The Fund may enter into financial futures contracts typically to hedge a portion of the portfolio. Upon entering into a financial futures contract, the Fund is required to deposit cash or securities as initial margin, equal to a certain percentage of the contract amount (initial margin deposit). Additional securities are also segregated up to the current market value of the financial futures contracts. Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying financial instruments. The Fund recognizes an unrealized gain or loss equal to the daily variation margin. When the

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

financial futures contracts are closed, a realized gain or loss is recognized equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund's basis in the contracts.

The risks associated with entering into financial futures contracts include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying financial instruments. In addition, investing in financial futures contracts involves the risk that the Fund could lose more than the initial margin deposit and subsequent payments required for a futures transaction. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**(e) Forward Foreign Currency Contracts.** The Fund may enter into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed.

The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

**(f) 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 securities. Securities purchased on a TBA basis are not settled until they are delivered to the Fund, normally 15 to 45 days after purchase. Beginning on the date the Fund enters into a TBA transaction, cash, U.S. government securities or other liquid high-grade debt obligations are segregated in an amount equal in value to the purchase price of the TBA security. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities.

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

**(h) Foreign Currency Translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(i) 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 involves 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.

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

**Notes to Schedule of Investments (unaudited) (continued)****2. Investments**

At July 31, 2007, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$	33,469,424
Gross unrealized depreciation		(31,366,829)
Net unrealized appreciation	\$	2,102,595

During the period ended July 31, 2007, written option transactions for the Fund were as follows:

	Number of Contracts		Premiums
Options written, outstanding October 31, 2006	1,090	\$	215,858
Options written	2,956		1,341,798
Options closed	(4,046)		(1,557,656)
Options written, outstanding July 31, 2007			

At July 31, 2007, the Fund had open forward foreign currency contracts as described below. The unrealized gain on the open contracts reflected in the accompanying financial statements were as follows:

Foreign Currency	Local Currency		Market Value	Settlement Date		Unrealized Loss
<b>Contracts to Buy:</b>						
Japanese Yen	72,660,000	\$	610,494	8/8/07	\$	(94)
<b>Contracts to Sell:</b>						
Pound Sterling	808,000		1,645,103	8/8/07		(40,440)
Net Unrealized Loss on Open Forward Foreign Currency Contracts					\$	(40,534)

At July 31, 2007, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Gain (Loss)
<b>Contracts to Buy:</b>					
Eurodollar	2	3/08	\$ 474,672	\$ 475,300	\$ 628
Eurodollar	2	6/08	476,048	475,725	(323)
Fin Euro	1	9/08	238,218	237,913	(305)
Stearling Futures	184	3/08	347,881	381,695	33,814
U.S. Treasury 2 Year Notes	62	9/07	12,664,513	12,706,125	41,612

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U.S. Treasury Bonds	25	9/07	2,728,891	2,751,563	22,672
					\$ 98,098
<b>Contracts to Sell:</b>					
U.S. Treasury 5 Year Notes	16	9/07	\$ 1,657,795	\$ 1,687,500	\$ (29,705)
U.S. Treasury 10 Year Notes	21	9/07	2,230,160	2,255,859	(25,699)
					\$ (55,404)
Net Unrealized Gain on Open Futures Contracts					\$ 42,694

At July 31, 2007, the Fund held TBA securities with a total cost of \$12,611,578.

ITEM 2. CONTROLS AND PROCEDURES.

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

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

ITEM 3. EXHIBITS.

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

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**SIGNATURES**



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

LMP Capital and Income Fund Inc.

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

Date: September 26, 2007

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

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

Date: September 26, 2007

By/s/ Kaprel Ozsolak  
Kaprel Ozsolak  
Chief Financial Officer

Date: September 26, 2007

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