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LUMINENT MORTGAGE CAPITAL INC
Form S-11/A
March 29, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 29, 2004

REGISTRATION NO. 333-113493

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-11
FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

LUMINENT MORTGAGE CAPITAL, INC.
(Exact name of registrant as specified in its governing instruments)

MARYLAND
(State of other jurisdiction of incorporation or
organization)

06-1694835
(I.R.S. Employer Identification No.)

909 MONTGOMERY STREET, SUITE 500
SAN FRANCISCO, CALIFORNIA 94133
(415) 486-2110
(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

ALBERT J. GUTIERREZ, CFA
PRESIDENT
LUMINENT MORTGAGE CAPITAL, INC.
909 MONTGOMERY STREET, SUITE 500
SAN FRANCISCO, CALIFORNIA 94133
(415) 486-2110
COPIES TO:

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333 SOUTH GRAND AVE.
LOS ANGELES, CALIFORNIA 90071
(213) 229-7000

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [] _____

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE EXHIBIT INDEX BEGINS ON PAGE II-6.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BECOMES EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 29, 2004

PROSPECTUS

10,000,000 SHARES

LUMINENT LOGO

COMMON STOCK

We are offering 10,000,000 shares of our common stock. We will receive all of the net proceeds from the sale of these shares. Our common stock is subject to transfer restrictions designed to preserve our status as a real estate investment trust, or REIT.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol "LUM." On March 17, 2004, the last reported sale price of our common

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stock on the NYSE was \$14.48 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 11 FOR A DISCUSSION OF RISKS RELATING TO OUR COMMON STOCK, INCLUDING, AMONG OTHERS:

- We commenced operations in June 2003 and have a limited operating history. Our manager, Seneca Capital Management LLC, or Seneca, has limited experience managing a REIT. Accordingly, we might not be able to operate our business or implement our operating policies and strategies successfully.
- We have not identified any specific mortgage-backed securities to acquire with the net proceeds of this offering. Accordingly, you will not have the opportunity to review the assets we will acquire with the net proceeds of this offering prior to your investment. In addition, we may not be able to acquire such assets on a timely basis or upon favorable terms.
- We may enter into ineffective derivative transactions or other hedging activities that may reduce our net interest income or cause us to suffer losses.
- Interest rate mismatches between our mortgage-backed securities and our borrowings used to fund our purchases of mortgage-backed securities might reduce our net income or result in a loss during periods of changing interest rates.
- Increased levels of prepayments on the mortgages underlying our mortgage-backed securities might decrease our net interest income or result in a net loss.
- We generally seek to borrow eight to 12 times the amount of our equity. Such leveraging could reduce our net income and our cash available for distributions or cause us to suffer losses.
- Our investment strategy permits us to invest up to 10% of our assets in unrated mortgage-related assets, including mortgage-backed securities rated below investment grade. These assets carry an increased likelihood of default or rating downgrade relative to investment-grade assets, which may cause us to suffer losses.
- Our board of directors may change our operating policies and strategies without prior notice to you or stockholder approval and such changes could harm our business and results of operations and the value of our stock.
- Our results may suffer as a consequence of a potential conflict of interest arising out of our relationship with Seneca, on the one hand, and Seneca's relationship with other third parties, on the other hand. In addition, this potential conflict may reduce the amount of time and effort that Seneca devotes to managing our business and may result in suitable investment opportunities being allocated to other entities.
- We pay Seneca incentive compensation based on our portfolio's performance. Accordingly, Seneca may recommend riskier or more speculative investments in an effort to maximize its incentive compensation.

PER SHARE TOTAL

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Public offering price.....	\$	\$
Underwriting discounts and commissions.....	\$	\$
Proceeds, before expenses, to us.....	\$	\$

We have granted the underwriters a 30-day option to purchase up to an additional 1,500,000 shares of common stock to cover over-allotments, if any. We expect the shares of our common stock will be ready for delivery to purchasers on or about _____, 2004.

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.

FRIEDMAN BILLINGS RAMSEY
 CREDIT SUISSE FIRST BOSTON
 JMP SECURITIES
 FLAGSTONE SECURITIES

The date of this prospectus is _____, 2004

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY BE USED ONLY WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY BE ACCURATE ONLY ON THE DATE OF THIS DOCUMENT.

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FOR PURCHASERS IN AUSTRIA ONLY: ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN AUSTRIA. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THESE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN AUSTRIA. ANY INDIVIDUAL SALES OF THESE SECURITIES TO ANY PERSON IN AUSTRIA WERE MADE ONLY TO A LIMITED CIRCLE OF INSTITUTIONAL INVESTORS IN ACCORDANCE WITH sec. 3/1/11 OF THE AUSTRIAN CAPITAL MARKETS ACT OR IN A PRIVATE PLACEMENT WHERE A MAXIMUM OF 250 INDIVIDUALS WERE INDIVIDUALLY APPROACHED AND IDENTIFIED BY NAME. THESE SECURITIES MUST NOT BE RESOLD OR SOLD OTHER THAN IN COMPLIANCE WITH THE AUSTRIAN CAPITAL MARKETS ACT.

FOR PURCHASERS IN BELGIUM ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE BELGIAN BANKING, FINANCE AND INSURANCE COMMISSION ("BFIC"). THE SECURITIES OFFERING HAS NOT BEEN AND WILL NOT BE APPROVED BY THE BFIC, AND THE TRANSACTION WILL NOT BE ADVERTISED IN BELGIUM. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR

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UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN BELGIUM. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THESE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN BELGIUM. THE SECURITIES MUST NOT BE OFFERED, DISTRIBUTED OR SOLD IN BELGIUM EXCEPT IN COMPLIANCE WITH THE REQUIREMENTS FOR A NON-PUBLIC OFFERING LAID DOWN IN ARTICLES 2 AND 3 OF THE ROYAL DECREE OF 7 JULY 1999. INDIVIDUAL SALES OF THESE SECURITIES TO ANY PERSON IN BELGIUM MAY ONLY BE MADE IF (i) NO UNAUTHORIZED INTERMEDIARY HAS BEEN INVOLVED, (ii) THE OFFER HAS NOT BEEN ADVERTISED TO MORE THAN 50 INDIVIDUALS, AND (iii) A MAXIMUM OF 50 INDIVIDUALS HAS BEEN ACTIVELY SOLICITED. INDIVIDUAL SALES OF THESE SECURITIES TO PROFESSIONAL INVESTORS, AS DEFINED IN ARTICLE 3 OF THE ROYAL DECREE OF 7 JULY 1999, ARE PERMITTED, AS WELL AS INDIVIDUAL SALES FOR A CONSIDERATION OF AT LEAST EUR 250,000 PER INVESTOR.

FOR PURCHASERS IN CANADA ONLY:

OFFERS AND SALES IN CANADA

THIS OFFERING CIRCULAR IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSTRUED AS, AN ADVERTISEMENT OR A PUBLIC OFFERING OF SHARES OF THE COMPANY'S COMMON STOCK IN CANADA OR ANY PROVINCE OR TERRITORY THEREOF. ANY OFFER OR SALE OF SHARES OF THE COMPANY'S COMMON STOCK IN CANADA WILL BE MADE ONLY IN THE PROVINCES OF QUEBEC, ONTARIO AND MANITOBA, ONLY UNDER AN EXEMPTION FROM THE REQUIREMENTS TO FILE A PROSPECTUS WITH THE RELEVANT SECURITIES REGULATORS AND ONLY BY A DEALER REGISTERED UNDER APPLICABLE PROVINCIAL SECURITIES LAWS OR, ALTERNATIVELY, PURSUANT TO AN EXEMPTION FROM THE DEALER REGISTRATION REQUIREMENT IN THE RELEVANT PROVINCE IN WHICH SUCH OFFER OR SALE IS MADE.

THIS OFFERING CIRCULAR IS FOR THE CONFIDENTIAL USE OF ONLY THOSE PERSONS TO WHOM IT IS DELIVERED BY ANY UNDERWRITER OR DEALER IN CONNECTION WITH THE OFFERING OF SHARES OF THE COMPANY'S COMMON STOCK IN THE PROVINCES OF QUEBEC, ONTARIO AND MANITOBA. THE UNDERWRITERS AND THE DEALERS RESERVE THE RIGHT TO

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REJECT ALL OR PART OF ANY OFFER TO PURCHASE SHARES OF THE COMPANY'S COMMON STOCK FOR ANY REASON OR ALLOCATE TO ANY PURCHASER LESS THAN ALL OF THE SHARES OF THE COMPANY'S COMMON STOCK FOR WHICH IT HAS SUBSCRIBED.

RESPONSIBILITY

EXCEPT AS OTHERWISE EXPRESSLY REQUIRED BY APPLICABLE LAW OR AS AGREED TO IN CONTRACT, NO REPRESENTATION, WARRANTY OR UNDERTAKING (EXPRESS OR IMPLIED) IS MADE AND NO RESPONSIBILITIES OR LIABILITIES OF ANY KIND OR NATURE WHATSOEVER ARE ACCEPTED BY ANY UNDERWRITER OR DEALER AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OR ANY OTHER INFORMATION PROVIDED BY THE COMPANY IN CONNECTION WITH THE OFFERING OF THE SHARES OF THE COMPANY'S COMMON STOCK IN THE PROVINCES OF QUeBEC, ONTARIO AND MANITOBA.

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RESALE RESTRICTIONS

THE DISTRIBUTION OF THE SHARES OF THE COMPANY'S COMMON STOCK IN THE PROVINCES OF QUEBEC, ONTARIO AND MANITOBA IS BEING MADE ON A PRIVATE PLACEMENT BASIS ONLY AND IS EXEMPT FROM THE REQUIREMENT THAT THE COMPANY PREPARE AND FILE A PROSPECTUS WITH THE RELEVANT SECURITIES REGULATORS. ACCORDINGLY, ANY RESALE OF THE SHARES OF THE COMPANY'S COMMON STOCK MUST BE MADE IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS, WHICH REQUIRE REALES TO BE MADE IN ACCORDANCE WITH EXEMPTIONS FROM REGISTRATION AND PROSPECTUS REQUIREMENTS. CANADIAN PURCHASERS ARE ADVISED TO SEEK LEGAL ADVICE PRIOR TO ANY RESALE OF THE SHARES OF THE COMPANY'S COMMON STOCK.

REPRESENTATIONS OF PURCHASERS

EACH CANADIAN INVESTOR WHO PURCHASES SHARES OF THE COMPANY'S COMMON STOCK WILL BE DEEMED TO HAVE REPRESENTED TO THE COMPANY, THE UNDERWRITERS AND ANY DEALER WHO SELLS SHARES OF THE COMPANY'S COMMON STOCK TO SUCH PURCHASER THAT: (I) THE OFFERING OF THE SHARES OF THE COMPANY'S COMMON STOCK WAS NOT MADE THROUGH AN ADVERTISEMENT OF THE SHARES IN ANY PRINTED MEDIA OF GENERAL AND REGULAR PAID CIRCULATION, RADIO, TELEVISION OR TELECOMMUNICATIONS, INCLUDING ELECTRONIC DISPLAY, OR ANY OTHER FORM OF ADVERTISING IN CANADA; (II) SUCH PURCHASER HAS REVIEWED THE TERMS REFERRED TO ABOVE UNDER "RESALE RESTRICTIONS"; (III) WHERE REQUIRED BY LAW, SUCH PURCHASER IS PURCHASING AS PRINCIPAL FOR ITS OWN ACCOUNT AND NOT AS AGENT; (IV) SUCH PURCHASER, OR ANY ULTIMATE PURCHASER FOR WHICH SUCH PURCHASER IS ACTING AS AGENT, IS ENTITLED UNDER APPLICABLE CANADIAN SECURITIES LAWS TO PURCHASE SUCH SHARES OF THE COMPANY'S COMMON STOCK WITHOUT THE BENEFIT OF A PROSPECTUS QUALIFIED UNDER SUCH SECURITIES LAWS AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING: (A) IN THE CASE OF A PURCHASER LOCATED IN A PROVINCE OTHER THAN ONTARIO, WITHOUT THE DEALER HAVING TO BE REGISTERED, (B) IN THE CASE OF A PURCHASER LOCATED IN THE PROVINCE OF MANITOBA, SUCH PURCHASER IS AN "ACCREDITED INVESTOR" AS DEFINED IN SECTION 1.1 OF MULTILATERAL INSTRUMENT 45-103 -- CAPITAL RAISING EXEMPTIONS, (C) IN THE CASE OF A PURCHASER LOCATED IN ONTARIO, SUCH PURCHASER, OR ANY ULTIMATE PURCHASER FOR WHICH SUCH PURCHASER IS ACTING AS AGENT, IS AN "ACCREDITED INVESTOR", OTHER THAN AN INDIVIDUAL, AS THAT TERM IS DEFINED IN ONTARIO SECURITIES COMMISSION RULE 45-501 -- EXEMPT DISTRIBUTIONS AND IS A PERSON TO WHICH A DEALER REGISTERED AS AN INTERNATIONAL DEALER IN ONTARIO MAY SELL SHARES OF THE COMPANY'S COMMON STOCK, AND (D) IN THE CASE OF A PURCHASER LOCATED IN QUEBEC, SUCH PURCHASER IS A "SOPHISTICATED PURCHASER" WITHIN THE MEANING OF SECTION 44 OR 45 OF THE SECURITIES ACT (QUEBEC).

TAXATION AND ELIGIBILITY FOR INVESTMENT

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CANADIAN PURCHASERS OF SHARES OF THE COMPANY'S COMMON STOCK SHOULD CONSULT THEIR OWN LEGAL AND TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OF THE COMPANY'S COMMON STOCK IN THEIR PARTICULAR CIRCUMSTANCES AND WITH RESPECT TO THE ELIGIBILITY OF THE SHARES OF THE COMPANY'S COMMON STOCK FOR INVESTMENT BY THE PURCHASER UNDER RELEVANT CANADIAN FEDERAL AND PROVINCIAL LEGISLATION AND REGULATIONS.

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RIGHTS OF ACTION FOR DAMAGES OR RESCISSION (ONTARIO PURCHASERS ONLY)

SECURITIES LEGISLATION IN ONTARIO PROVIDES THAT EVERY PURCHASER OF SHARES OF THE COMPANY'S COMMON STOCK PURSUANT TO THIS OFFERING CIRCULAR SHALL HAVE A STATUTORY RIGHT OF ACTION FOR DAMAGES OR RESCISSION AGAINST THE COMPANY IN THE EVENT THIS OFFERING CIRCULAR CONTAINS A MISREPRESENTATION AS DEFINED IN THE SECURITIES ACT (ONTARIO). ONTARIO PURCHASERS WHO PURCHASE SHARES OF THE COMPANY'S COMMON STOCK OFFERED BY THIS OFFERING CIRCULAR DURING THE PERIOD OF DISTRIBUTION ARE DEEMED TO HAVE RELIED ON THE MISREPRESENTATION IF IT WAS A MISREPRESENTATION AT THE TIME OF PURCHASE. ONTARIO PURCHASERS WHO ELECT TO EXERCISE A RIGHT OF RESCISSION AGAINST THE COMPANY ON WHOSE BEHALF THE DISTRIBUTION IS MADE SHALL HAVE NO RIGHT OF ACTION FOR DAMAGES AGAINST THE COMPANY. THE RIGHT OF ACTION FOR RESCISSION OR DAMAGES CONFERRED BY THE STATUTE IS IN ADDITION TO, AND WITHOUT DEROGATION FROM, ANY OTHER RIGHT THE PURCHASER MAY HAVE AT LAW. PROSPECTIVE ONTARIO PURCHASERS SHOULD REFER TO THE APPLICABLE PROVISIONS OF ONTARIO SECURITIES LEGISLATION AND ARE ADVISED TO CONSULT THEIR OWN LEGAL ADVISERS AS TO WHICH, OR WHETHER ANY, OF SUCH RIGHTS OR OTHER RIGHTS MAY BE AVAILABLE TO THEM.

THE FOREGOING SUMMARY IS SUBJECT TO THE EXPRESS PROVISIONS OF THE SECURITIES ACT (ONTARIO) AND THE RULES, REGULATIONS AND OTHER INSTRUMENTS THEREUNDER, AND REFERENCE IS MADE TO THE COMPLETE TEXT OF SUCH PROVISIONS CONTAINED THEREIN. SUCH PROVISIONS MAY CONTAIN LIMITATIONS AND STATUTORY DEFENSES ON WHICH THE COMPANY MAY RELY. THE ENFORCEABILITY OF THESE RIGHTS MAY BE LIMITED AS DESCRIBED BELOW UNDER "ENFORCEMENT OF LEGAL RIGHTS."

THE RIGHTS OF ACTION DISCUSSED ABOVE WILL BE GRANTED TO THE ONTARIO PURCHASERS TO WHOM SUCH RIGHTS ARE CONFERRED UPON ACCEPTANCE BY THE UNDERWRITERS OR THE RELEVANT DEALER OF THE PURCHASE PRICE FOR THE SHARES OF THE COMPANY'S COMMON STOCK. THE RIGHTS DISCUSSED ABOVE ARE IN ADDITION TO AND WITHOUT DEROGATION FROM ANY OTHER RIGHT OR REMEDY WHICH ONTARIO PURCHASERS MAY HAVE AT LAW.

ENFORCEMENT OF LEGAL RIGHTS

ALL OF THE DIRECTORS AND OFFICERS OF THE COMPANY AS WELL AS THE EXPERTS NAMED HEREIN, MAY BE LOCATED OUTSIDE OF CANADA AND, AS A RESULT, IT MAY NOT BE POSSIBLE FOR ONTARIO PURCHASERS TO EFFECT SERVICE OF PROCESS WITHIN CANADA UPON THE COMPANY OR SUCH PERSONS. ALL OR A SUBSTANTIAL PORTION OF THE ASSETS OF THE COMPANY AND SUCH OTHER PERSONS MAY BE LOCATED OUTSIDE OF CANADA AND, AS A RESULT, IT MAY NOT BE POSSIBLE TO SATISFY A JUDGMENT AGAINST THE COMPANY OR SUCH PERSONS IN CANADA OR TO ENFORCE A JUDGMENT OBTAINED IN CANADIAN COURTS AGAINST THE COMPANY OR SUCH PERSONS OUTSIDE OF CANADA.

LANGUAGE OF DOCUMENTS

UPON RECEIPT OF THIS DOCUMENT, YOU HEREBY CONFIRM THAT YOU HAVE EXPRESSLY REQUESTED THAT ALL DOCUMENTS EVIDENCING OR RELATING IN ANY WAY TO THE SALE OF THE SHARES OF THE COMPANY'S COMMON STOCK DESCRIBED HEREIN (INCLUDING FOR GREATER CERTAINTY ANY PURCHASE CONFIRMATION OR ANY NOTICE) BE DRAWN UP IN THE ENGLISH LANGUAGE ONLY. PAR LA RECEPTION

DE CE DOCUMENT, VOUS CONFIRMEZ PAR LES PRESENTES QUE VOUS AVEZ EXPRESSEMENT EXIGE QUE TOUS LES DOCUMENTS FAISANT FOI OU SE RAPPORTANT DE QUELQUE MANIERE QUE CE SOIT A LA VENTE DES ACTIONS DECRIRES AUX PRESENTES (INCLUANT, POUR PLUS DE CERTITUDE, TOUTE CONFIRMATION D'ACHAT OU TOUT AVIS) SOIENT REDIGES EN ANGLAIS SEULEMENT.

FOR PURCHASERS IN DENMARK ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE FILED WITH OR APPROVED BY THE DANISH SECURITIES COUNCIL ("FONDSRADET") OR ANY OTHER REGULATORY AUTHORITY IN THE KINGDOM OF DENMARK. THE SHARES HAVE NOT BEEN OFFERED OR SOLD AND MAY NOT BE OFFERED OR SOLD OR DELIVERED DIRECTLY OR INDIRECTLY IN DENMARK, UNLESS IN COMPLIANCE WITH CHAPTER 12 OF THE DANISH ACT ON TRADING IN SECURITIES AS AMENDED FROM TIME TO TIME AND DANISH EXECUTIVE ORDER NO. 166 OF 13 MARCH 2003 ON THE FIRST PUBLIC OFFER IN DENMARK OF THE SHARES ISSUED PURSUANT TO THIS OFFERING CIRCULAR. THE RECIPIENT OF THIS OFFERING CIRCULAR MAY NOT FORWARD ANY OFFER TO, OR REPLACE THEMSELVES WITH, ANY OTHER INVESTOR IN DENMARK WITHOUT COMPLYING WITH THE RELEVANT LAWS.

FOR PURCHASERS IN FINLAND ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN PREPARED TO COMPLY WITH THE STANDARDS AND REQUIREMENTS APPLICABLE UNDER FINNISH LAW, INCLUDING THE SECURITIES MARKET ACT (26.5.1989/495) AS AMENDED, AND THEY HAVE NOT BEEN APPROVED BY THE FINNISH FINANCIAL SUPERVISION AUTHORITY. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN FINLAND. THE SECURITIES MUST NOT BE DIRECTLY OR INDIRECTLY OFFERED, DISTRIBUTED OR SOLD IN FINLAND EXCEPT IN COMPLIANCE WITH ALL APPLICABLE PROVISIONS OF THE LAWS OF FINLAND, INCLUDING THE FINNISH SECURITIES MARKET ACT (26.5.1989/495) AND THE REGULATIONS ISSUED THEREUNDER, AS AMENDED.

FOR PURCHASERS IN FRANCE ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE CERTIFIED BY THE FRENCH AUTORITE DES MARCHES FINANCIERS ("AMF") (FORMERLY THE COMMISSION DES OPERATIONS DE BOURSE ("COB")). THE SECURITIES OFFERING HAS NOT AND WILL NOT BE APPROVED BY THE AMF, AND THE TRANSACTION WILL NOT BE ADVERTISED IN FRANCE. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN FRANCE. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THESE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN FRANCE. THE TRANSFER TO THE PUBLIC, EITHER DIRECTLY OR INDIRECTLY, OF THE SECURITIES PURCHASED MUST COMPLY WITH FRENCH PUBLIC OFFERING REGULATIONS PURSUANT TO ARTICLES L. 411-1, L. 411-2 AND L. 412-1 OF THE FRENCH MONETARY AND FINANCIAL CODE (THE "MF CODE"). PURCHASERS OF THE SECURITIES MAY TAKE PART IN THE TRANSACTION ONLY FOR THEIR OWN ACCOUNT. INDIVIDUAL SALES OF THESE SECURITIES IN FRANCE MAY ONLY BE MADE EITHER TO QUALIFIED INVESTORS IN FRANCE AS DEFINED IN ARTICLE L. 411-2 OF THE MF CODE OR TO A RESTRICTED CIRCLE OF INVESTORS AS DEFINED IN ARTICLE L. 411-2 OF THE MF CODE. WHEN SALES OF SECURITIES ARE MADE TO A RESTRICTED CIRCLE OF INVESTORS AS DEFINED IN ARTICLE L. 411-2 OF THE MF CODE WHICH IS NOT LESS THAN 100 INDIVIDUALS, EACH OF THESE INDIVIDUALS MUST PROVIDE CERTIFICATION AS TO THEIR PERSONAL ASSOCIATION, OF A PROFESSIONAL OR FAMILY NATURE, WITH A MEMBER OF THE MANAGEMENT

OF THE COMPANY. FURTHERMORE, FOLLOWING ARTICLE L. 423-1 OF THE MF CODE WITH REGARD TO SOLICITATION AND ARTICLE L. 341-10 OF THE MF CODE WITH REGARD TO CANVASSING, NO SOLICITATION OR CANVASSING OF THE PUBLIC WILL BE CONDUCTED IN CONNECTION WITH THE SECURITIES OFFERING.

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FOR PURCHASERS IN GERMANY ONLY: ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN GERMANY. ACCORDINGLY, THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE SHARES TO THE PUBLIC IN GERMANY. THEREFORE, THE SHARES MAY NOT BE OFFERED, SOLD, OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE SHARES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN GERMANY OR BE USED FOR, OR IN CONNECTION WITH, AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE SHARES TO THE PUBLIC IN GERMANY. INDIVIDUAL SALES OF THE SHARES TO ANY PERSON IN GERMANY MAY ONLY BE MADE TO (I) CERTAIN PERSONS WHO ON A PROFESSIONAL OR COMMERCIAL BASIS (AS DEFINED IN sec. 2 PARA. 1 GERMAN SALES PROSPECTUS ACT) PURCHASE OR SELL SECURITIES FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF THIRD PARTIES, OR (II) A LIMITED GROUP OF PERSONS (AS DEFINED IN sec. 2 PARA. 2 GERMAN SALES PROSPECTUS ACT), AND ACCORDING TO ANY OTHER GERMAN SECURITIES, PROSPECTUS, TAX AND OTHER APPLICABLE LAWS AND REGULATIONS.

FOR PURCHASERS IN GUERNSEY ONLY: THE SHARES MAY ONLY BE OFFERED OR SOLD IN OR FROM WITHIN THE BAILLIWICK OF GUERNSEY EITHER (I) BY PERSONS LICENSED TO DO SO UNDER THE PROTECTION OF INVESTORS (BAILLIWICK OF GUERNSEY) LAW, 1987 (AS AMENDED) (THE "POI LAW"); OR (II) TO PERSONS LICENSED UNDER THE POI LAW; OR (III) TO PERSONS LICENSED UNDER THE INSURANCE BUSINESS (BAILLIWICK OF GUERNSEY) LAW, 2002, THE BANKING SUPERVISION (BAILLIWICK OF GUERNSEY) LAW, 1994, OR THE REGULATION OF FIDUCIARIES, ADMINISTRATION BUSINESSES AND COMPANY DIRECTORS, ETC, (BAILLIWICK OF GUERNSEY) LAW, 2000.

CONSENT UNDER THE CONTROL OF BORROWING (BAILLIWICK OF GUERNSEY) ORDINANCES 1959 - 2003 HAS NOT BEEN OBTAINED TO THE CIRCULATION OF THIS OFFERING CIRCULAR IN THE BAILLIWICK OF GUERNSEY. ACCORDINGLY, NO OFFER OF THE SHARES THAT IS A PUBLIC OFFER, AN OFFER TO EXISTING HOLDERS OF SECURITIES OF THE COMPANY, OR AN OFFER TO EXISTING HOLDERS OF SECURITIES OF ANY BODY CORPORATE SPECIFIED IN THIS OFFER, MAY BE CIRCULATED IN THE BAILLIWICK OF GUERNSEY. THE DIRECTORS OF THE COMPANY MAY, BUT ARE NOT OBLIGED TO, APPLY FOR SUCH CONSENT IN THE FUTURE.

FOR PURCHASERS IN ICELAND ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE ICELANDIC FINANCIAL SUPERVISORY AUTHORITY ("FME"). THE SECURITIES OFFERING HAS NOT BEEN AND WILL NOT BE APPROVED BY THE FME, AND THE TRANSACTION WILL NOT BE ADVERTISED IN ICELAND. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN ICELAND. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THESE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN ICELAND.

FOR PURCHASERS IN THE REPUBLIC OF IRELAND ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH ANY REGULATORY OR OTHER AUTHORITIES

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IN IRELAND. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN IRELAND. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THESE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN IRELAND. INDIVIDUAL SALES OF THESE SECURITIES TO ANY PERSON IN IRELAND MAY ONLY BE MADE TO LESS THAN TWENTY (20) PERSONS, WHETHER INSTITUTIONS OR INDIVIDUALS, AND WHETHER ON A SOLICITED OR UNSOLICITED BASIS.

FOR PURCHASERS IN THE STATE OF ISRAEL ONLY: NEITHER THE OFFERING CONTEMPLATED BY THIS OFFERING CIRCULAR NOR THE SECURITIES OFFERED THEREUNDER HAVE BEEN OR WILL BE REGISTERED WITH THE SECURITIES COMMISSION OF THE STATE OF

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ISRAEL. ACCORDINGLY, THE SECURITIES OFFERED BY THIS OFFERING CIRCULAR MAY NOT BE OFFERED OR SOLD TO THE GENERAL PUBLIC IN THE STATE OF ISRAEL. THE SECURITIES OFFERED BY THIS OFFERING CIRCULAR SHALL ONLY BE OFFERED TO, AND MAY ONLY BE ACQUIRED BY, THOSE PARTIES THAT ARE "ACCREDITED INVESTORS" AS DEFINED IN SECTION 15 OF THE SECURITIES LAW, 5728-1968, OF THE STATE OF ISRAEL AND THE RULES AND REGULATIONS ADOPTED THEREUNDER.

FOR PURCHASERS IN THE REPUBLIC OF ITALY ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN SUBMITTED TO THE CLEARANCE PROCEDURES OF COMMISSIONE NAZIONALE PER LE SOCIETA E LA BORSA ("CONSOB") AND HAVE NOT BEEN AND WILL NOT BE SUBJECT TO THE FORMAL REVIEW OR CLEARANCE PROCEDURES OF CONSOB AND ACCORDINGLY MAY NOT BE USED IN CONNECTION WITH ANY OFFERING OF SHARES OF COMMON STOCK IN THE REPUBLIC OF ITALY ("ITALY") OTHER THAN TO "PROFESSIONAL INVESTORS" (AS DEFINED BELOW AND IN ACCORDANCE WITH APPLICABLE ITALIAN SECURITIES LAWS AND REGULATIONS). ANY OFFER OF SHARES OF COMMON STOCK IN ITALY IN RELATION TO THE OFFERING IS BEING MADE ONLY TO PROFESSIONAL INVESTORS (EACH A "PROFESSIONAL INVESTOR") PURSUANT TO ARTICLE 30, PARAGRAPH 2 AND ARTICLE 100 A OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, AS AMENDED ("DECREE NO. 58"), AND AS DEFINED IN ARTICLES 25 AND 31, PARAGRAPH 2 OF CONSOB REGULATION NO. 11522 OF 1 JULY 1998, AS AMENDED ("REGULATION NO. 11522"), AND EXCLUDING INDIVIDUALS AS DEFINED PURSUANT TO THE AFOREMENTIONED ARTICLE 31, PARAGRAPH 2 WHO MEET THE REQUIREMENTS IN ORDER TO EXERCISE ADMINISTRATIVE, MANAGERIAL OR SUPERVISORY FUNCTIONS AT A REGISTERED SECURITIES DEALING FIRM (A SOCIETA DI INTERMEDIAZIONE MOBILIARE, OR "SIM"), MANAGEMENT COMPANIES AUTHORIZED TO MANAGE INDIVIDUAL PORTFOLIOS ON BEHALF OF THIRD PARTIES (SOCIETA DI GESTIONE DEL RISPARMIO, OR "SGR") AND FIDUCIARY COMPANIES (SOCIETA FIDUCIARIE) MANAGING PORTFOLIO INVESTMENTS REGULATED BY ARTICLE 60, PARAGRAPH 4 OF LEGISLATIVE DECREE NO. 415 OF 23 JULY 1996 AND OTHERWISE IN ACCORDANCE WITH APPLICABLE ITALIAN LAWS AND REGULATIONS PROVIDED THEREIN. UNDER NO CIRCUMSTANCES SHOULD THIS OFFERING CIRCULAR BE CIRCULATED AMONG, OR BE DISTRIBUTED IN ITALY TO, ANY MEMBER OF THE GENERAL PUBLIC IN ITALY OR TO INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE CATEGORIES OF PROFESSIONAL INVESTORS. ANY SUCH OFFER OR ISSUE OR ANY DISTRIBUTION OF THIS OFFERING CIRCULAR WITHIN ITALY AND/OR THE RENDERING OF ADVICE OF ANY NATURE WHATSOEVER IN CONNECTION WITH THE OFFERING MUST BE CONDUCTED EITHER BY BANKS, INVESTMENT FIRMS (AS DEFINED IN DECREE NO. 58) AND FINANCIAL COMPANIES ENROLLED IN THE SPECIAL REGISTER PROVIDED FOR BY ARTICLE 107 OF LEGISLATIVE DECREE NO. 385 OF 1 SEPTEMBER 1993, AS AMENDED, TO THE EXTENT DULY AUTHORIZED TO ENGAGE

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IN THE PLACEMENT AND/OR UNDERWRITING OF FINANCIAL INSTRUMENTS IN ITALY IN ACCORDANCE WITH THE RELEVANT PROVISIONS OF DECREE NO. 58.

FOR PURCHASERS IN JERSEY ONLY: CONSENT UNDER THE CONTROL OF BORROWING (JERSEY) ORDER 1958 (THE "COB ORDER") HAS NOT BEEN OBTAINED FOR THE CIRCULATION OF THIS OFFERING CIRCULAR. ACCORDINGLY, THE OFFER THAT IS THE SUBJECT OF THIS OFFERING CIRCULAR MAY ONLY BE MADE IN JERSEY WHERE SUCH OFFER IS NOT AN OFFER TO THE PUBLIC (AS DEFINED IN THE COB ORDER) OR WHERE (IN THE ABSENCE OF A RELEVANT CONNECTION WITH JERSEY) THE OFFER IS VALID (AS DEFINED IN THE COB ORDER) IN THE UNITED KINGDOM AND IS CIRCULATED IN JERSEY ONLY TO PERSONS SIMILAR TO THOSE TO WHOM, AND IN A MANNER SIMILAR TO THAT IN WHICH, IT IS FOR THE TIME BEING CIRCULATED IN THE UNITED KINGDOM. THE DIRECTORS OF THE COMPANY MAY, BUT ARE NOT OBLIGED TO, APPLY FOR SUCH CONSENT IN THE FUTURE. INVESTMENT BUSINESS CARRIED OUT IN OR FROM WITHIN JERSEY, INCLUDING BUT NOT LIMITED TO THE SALE OR ADVICE IN RELATION TO INVESTMENTS, IS REGULATED UNDER THE FINANCIAL SERVICES (JERSEY) LAW 1998.

FOR INDIVIDUAL PURCHASERS IN LUXEMBOURG ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE COMMISSION FOR THE SUPERVISION OF THE FINANCIAL SECTOR ("CSSF"). THE SECURITIES HAVE NOT BEEN AND WILL NOT BE AUTHORIZED FOR PUBLIC OFFERING IN LUXEMBOURG AND MAY NOT BE OFFERED OR SOLD IN

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LUXEMBOURG IN CIRCUMSTANCES THAT WOULD CONSTITUTE A PUBLIC OFFER UNLESS THE REQUIREMENTS OF LUXEMBOURG LAW CONCERNING PUBLIC OFFERS HAVE BEEN COMPLIED WITH. THIS OFFERING CIRCULAR MAY NOT BE DUPLICATED. IN ADDITION, THEY MAY NOT BE PASSED TO ANOTHER PERSON.

FOR INSTITUTIONAL INVESTORS IN LUXEMBOURG ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE COMMISSION FOR THE SUPERVISION OF THE FINANCIAL SECTOR ("CSSF"). THE SECURITIES HAVE NOT BEEN AND WILL NOT BE AUTHORIZED FOR PUBLIC OFFERING IN LUXEMBOURG AND MAY NOT BE OFFERED OR SOLD IN LUXEMBOURG IN CIRCUMSTANCES THAT WOULD CONSTITUTE A PUBLIC OFFER UNLESS THE REQUIREMENTS OF LUXEMBOURG LAW CONCERNING PUBLIC OFFERS HAVE BEEN COMPLIED WITH.

FOR PURCHASERS IN MONACO ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED WITH OR APPROVED BY THE REGULATORY AUTHORITIES IN MONACO. THIS OFFERING CIRCULAR IS PERSONAL TO THE RECIPIENT AND HAVE BEEN PREPARED SOLELY FOR USE IN CONNECTION WITH THE OFFERING DESCRIBED HEREIN. DISTRIBUTION OF THIS OFFERING CIRCULAR TO ANY PERSON OTHER THAN THE RECIPIENT AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE SUCH RECIPIENT WITH RESPECT TO THE OFFER AND SALE OF THE SECURITIES IS UNAUTHORIZED, AND ANY DISCLOSURE OF ANY OF THEIR CONTENTS IS PROHIBITED. EACH RECIPIENT, BY ACCEPTING DELIVERY OF THIS OFFERING CIRCULAR, AGREES TO THE FOREGOING AND AGREES TO MAKE NO COPIES OF THIS OFFERING CIRCULAR. THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR ANY SOLICITATION OF AN OFFER TO BUY, ANY OF THE SHARES OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFERING OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER OF THE SHARES DESCRIBED HEREIN SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF. IF THE RECIPIENT DOES NOT PURCHASE ANY SHARES, OR THIS OFFERING IS TERMINATED, THE RECIPIENT AGREES TO RETURN THIS OFFERING CIRCULAR AND ALL DOCUMENTS

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DELIVERED CONCERNING THEM TO THE UNDERWRITERS OR THEIR REPRESENTATIVE WHO PROVIDED THE SAME.

FOR PURCHASERS IN THE NETHERLANDS ONLY: THE COMPANY'S SHARES OF COMMON STOCK MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN OR FROM THE NETHERLANDS AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, OTHER THAN TO INDIVIDUALS OR LEGAL ENTITIES, WHICH INCLUDE, BUT ARE NOT LIMITED TO, BANKS, BROKERS, DEALERS, INSTITUTIONAL INVESTORS AND UNDERTAKINGS WITH A TREASURY DEPARTMENT, WHO OR WHICH TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF A BUSINESS OR A PROFESSION.

FOR PURCHASERS IN NORWAY ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN FILED WITH THE NORWEGIAN COMPANY REGISTRY OR WITH THE OSLO STOCK EXCHANGE IN ACCORDANCE WITH THE NORWEGIAN SECURITIES TRADING ACT, CHAPTER 5, AND THEREFORE MAY NOT BE DISTRIBUTED TO MORE THAN FIFTY (50) POTENTIAL INVESTORS IN NORWAY.

FOR PURCHASERS IN SAUDI ARABIA ONLY: THIS OFFERING CIRCULAR HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE SAUDI ARABIAN MONETARY AGENCY ("SAMA"). THE SECURITIES OFFERING HAS NOT BEEN AND WILL NOT BE APPROVED BY SAMA, AND THE TRANSACTION WILL NOT BE ADVERTISED IN SAUDI ARABIA. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN SAUDI ARABIA. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THESE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN SAUDI ARABIA. THE OFFERING IS MADE WITHOUT THE APPROVAL, UNDER ARTICLE 228 OF THE REGULATIONS FOR COMPANIES, ROYAL DECREE NO. M/6 DATED 22/3/1385 H. (20 JULY 1965 G.), AS AMENDED, OF THE MINISTRY OF COMMERCE.

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FOR PURCHASERS IN SPAIN ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE REGISTERED BY THE SPANISH SECURITIES EXCHANGE COMMISSION ("COMISION NACIONAL DEL MERCADO DE VALORES"). THE SECURITIES MUST NOT BE OFFERED, DISTRIBUTED OR SOLD IN SPAIN EXCEPT IN COMPLIANCE WITH THE REQUIREMENTS OF THE FOLLOWING SPANISH REGULATIONS, AS AMENDED FROM TIME TO TIME: THE SPANISH SECURITIES MARKET ACT OF 28TH JULY, 1988; AND ROYAL DECREE 291/1992, OF 27TH MARCH 1992, ON ISSUANCE AND PUBLIC SALE OFFERINGS OF SECURITIES.

FOR PURCHASERS IN SWEDEN ONLY: THIS OFFERING CIRCULAR HAS NOT BEEN AND WILL NOT BE APPROVED BY OR REGISTERED WITH THE SWEDISH FINANCIAL SUPERVISORY AUTHORITY ("SFSA"). THE SECURITIES OFFERING HAS NOT BEEN AND WILL NOT BE APPROVED BY THE SFSA, AND THE TRANSACTION WILL NOT BE ADVERTISED IN SWEDEN. ANY PERSON WHO IS IN POSSESSION OF THIS OFFERING CIRCULAR UNDERSTANDS THAT NO ACTION HAS BEEN OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN SWEDEN. ACCORDINGLY, NEITHER THIS OFFERING CIRCULAR NOR ANY OTHER OFFERING MATERIALS RELATING TO THE SECURITIES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN SWEDEN.

FOR PURCHASERS IN SWITZERLAND ONLY: THE COMPANY HAS NOT BEEN AUTHORIZED BY THE SWISS FEDERAL BANKING COMMISSION AS A FOREIGN INVESTMENT FUND; NOR DOES THIS OFFERING CIRCULAR CONSTITUTE AN ISSUE PROSPECTUS FOR THE OFFERING OF NEW SHARES IN ACCORDANCE WITH APPLICABLE SWISS LEGISLA-

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TION. ACCORDINGLY, COMMON SHARES MAY NOT BE OFFERED TO THE PUBLIC IN OR FROM SWITZERLAND. THIS OFFERING CIRCULAR MAY ONLY BE USED BY THOSE PERSONS TO WHOM THEY HAVE BEEN HANDED OUT IN CONNECTION WITH THE OFFER DESCRIBED THEREIN. THEY MAY NOT BE USED IN CONNECTION WITH ANY OTHER OFFER AND SHALL IN PARTICULAR NOT BE DISTRIBUTED TO THE PUBLIC IN SWITZERLAND.

FOR INSTITUTIONAL INVESTORS IN THE UNITED KINGDOM ONLY: THE COMPANY HAS NOT PREPARED OR FILED AND WILL NOT PREPARE OR FILE IN THE UNITED KINGDOM PURSUANT TO THE PUBLIC OFFERS OF SECURITIES REGULATIONS 1995 ("POS") A PROSPECTUS REGARDING THE SECURITIES OFFERED. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED TO PERSONS IN THE UNITED KINGDOM EXCEPT TO PERSONS WHOSE ORDINARY ACTIVITIES INVOLVE THEM IN ACQUIRING, HOLDING, MANAGING OR DISPOSING OF INVESTMENTS (AS PRINCIPAL OR AGENT) FOR THE PURPOSES OF THEIR BUSINESSES, OR OTHERWISE IN CIRCUMSTANCES THAT WILL NOT CONSTITUTE OR RESULT IN AN OFFER TO THE PUBLIC IN THE UNITED KINGDOM WITHIN THE MEANING OF THE POS.

THIS OFFERING CIRCULAR HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 AND ACCORDINGLY MAY ONLY BE ISSUED OR PASSED ON IN THE UNITED KINGDOM IN ACCORDANCE WITH THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001 (THE "ORDER") INCLUDING TO "INVESTMENT PROFESSIONALS" AS DEFINED IN THE ORDER OR TO PERSONS TO WHOM THEY MAY OTHERWISE LAWFULLY BE ISSUED OR PASSED ON. THIS OFFERING CIRCULAR SHOULD NOT BE RELIED UPON BY ANY OTHER PERSON.

FOR SOPHISTICATED INVESTORS IN THE UNITED KINGDOM ONLY: THERE ARE RESTRICTIONS ON THE OFFER AND SALE OF SECURITIES IN THE UNITED KINGDOM. ALL APPLICABLE PROVISIONS OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") AND THE PUBLIC OFFERS OF SECURITIES REGULATIONS 1995 ("POS") MUST BE COMPLIED WITH. YOUR ATTENTION IS SPECIFICALLY DRAWN TO THE FOLLOWING MATTERS WHICH APPLY TO THIS OFFERING CIRCULAR.

THE COMPANY HAS NOT PREPARED OR FILED AND WILL NOT PREPARE OR FILE IN THE UNITED KINGDOM PURSUANT TO THE POS A PROSPECTUS REGARDING THE SECURITIES OFFERED. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED TO PERSONS IN THE UNITED KINGDOM EXCEPT TO PERSONS WHOSE ORDINARY ACTIVITIES INVOLVE THEM IN ACQUIRING, HOLDING, MANAGING OR DISPOSING OF INVESTMENTS (AS PRINCIPAL OR AGENT) FOR THE

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PURPOSES OF THEIR BUSINESSES, OR OTHERWISE IN CIRCUMSTANCES THAT WILL NOT CONSTITUTE OR RESULT IN AN OFFER TO THE PUBLIC IN THE UNITED KINGDOM WITHIN THE MEANING OF THE POS.

SECTION 21 OF THE FSMA WOULD REQUIRE THIS OFFERING CIRCULAR TO BE APPROVED BY AN AUTHORIZED PERSON UNLESS AN EXEMPTION IS AVAILABLE UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTIONS) ORDER 2001 (THE "ORDER"). THIS OFFERING CIRCULAR HAS NOT BEEN APPROVED BY AN AUTHORIZED PERSON AND ARE EXEMPT FROM THE GENERAL RESTRICTIONS IN SECTION 21 OF THE FSMA ON THE GROUNDS THAT THEY ARE BEING MADE AVAILABLE TO A CERTIFIED SOPHISTICATED INVESTOR WITHIN THE

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MEANING OF ARTICLE 50 OF THE ORDER. IN ORDER TO QUALIFY AS A CERTIFIED SOPHISTICATED INVESTOR, AN INDIVIDUAL MUST HAVE:

- (A) A CURRENT CERTIFICATE SIGNED BY AN AUTHORIZED PERSON TO THE EFFECT THAT THE INDIVIDUAL IS CURRENTLY KNOWLEDGEABLE TO UNDERSTAND THE RISKS ASSOCIATED WITH THE SECURITIES BEING OFFERED; AND
- (B) MADE A STATEMENT SIGNED BY THE INDIVIDUAL DATED WITHIN THE PERIOD OF 12 MONTHS PRIOR TO THE ISSUE OF THIS OFFERING CIRCULAR CONFIRMING THE INDIVIDUAL'S QUALIFICATION FOR EXEMPTION AS A SOPHISTICATED INVESTOR AND THE INDIVIDUAL'S UNDERSTANDING THAT THE INDIVIDUAL MAY THEREFORE RECEIVE COMMUNICATIONS WHICH HAVE NOT BEEN APPROVED BY AN AUTHORIZED PERSON AND THAT SUCH COMMUNICATIONS WILL NOT BE SUBJECT TO THE CONTROLS WHICH WOULD OTHERWISE APPLY,

IN EACH CASE IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 50 OF THE ORDER, TOGETHER REFERRED TO AS A "CERTIFICATION". BY ACCEPTING AND ACTING UPON THIS OFFERING CIRCULAR, YOU ARE DEEMED TO WARRANT AND UNDERTAKE THAT:

- (A) YOU FALL WITHIN THE SOPHISTICATED INVESTOR EXEMPTION CONTAINED IN THE ORDER, AS DESCRIBED ABOVE; AND
- (B) YOU WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA AND THE ORDER WITH RESPECT TO ANYTHING YOU DO IN RELATION TO THIS OFFERING CIRCULAR.

COMPLETION OF THE PURCHASE OF ANY SECURITIES PURSUANT TO THIS OFFERING CIRCULAR IS CONDITIONAL IN ALL RESPECTS UPON RECEIPT BY US OF YOUR CURRENT CERTIFICATION. YOU SHOULD NOTE THAT RELIANCE ON THIS OFFERING CIRCULAR FOR THE PURPOSE OF ENGAGING IN ANY INVESTMENT ACTIVITY MAY EXPOSE YOU TO A SIGNIFICANT RISK OF LOSING ALL OF THE PROPERTY YOU HAVE INVESTED OR INCURRING ADDITIONAL LIABILITY. IF YOU ARE IN ANY DOUBT ABOUT THE INVESTMENT TO WHICH THIS OFFERING CIRCULAR RELATES, YOU SHOULD CONSULT AN AUTHORIZED PERSON SPECIALIZING IN INVESTMENTS OF THIS KIND. IN ADDITION, IF YOU ARE IN ANY DOUBT AS TO THE REQUIREMENTS OF ARTICLE 50 IN THE CONTEXT OF THIS OFFERING CIRCULAR, YOU SHOULD CONSULT YOUR OWN PROFESSIONAL ADVISER.

THIS OFFERING CIRCULAR IS INTENDED FOR USE BY THE ADDRESSEE ONLY AND ARE NOT FOR CIRCULATION AND DISSEMINATION TO THIRD PARTIES. RECIPIENTS OTHER THAN THE PERSON TO WHOM THIS OFFERING CIRCULAR IS ADDRESSED SHALL NOT BE PERMITTED TO ENGAGE IN THE INVESTMENT ACTIVITY TO WHICH THIS OFFERING CIRCULAR RELATES.

We have filed for registration in the U.S. Patent and Trademark Office for the marks "Luminent Mortgage Capital, Inc." and "Luminent." All other brand names or trademarks appearing in this prospectus are the property of their respective holders.

SUMMARY

This summary highlights the material information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the section titled "Risk Factors" and our financial statements and the notes thereto before making an investment in our common stock. As used in this prospectus, "Luminent," "company," "we," "our," and "us" refer to Luminent Mortgage Capital, Inc., except where the context otherwise requires. Unless otherwise indicated, the information in this prospectus assumes that the underwriters will not exercise their over-allotment option to purchase additional shares of our common stock.

LUMINENT MORTGAGE CAPITAL, INC.

We were incorporated in April 2003 to invest primarily in U.S. agency and other highly-rated, single-family, adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage-backed securities, which we acquire in the secondary market. Our strategy is to acquire mortgage-related assets, finance these purchases in the capital markets and use leverage in order to provide an attractive return on stockholders' equity. Through this strategy, we seek to earn income, which is generated from the spread between the yield on our earning assets and our costs, including the interest cost of the funds we borrow.

We commenced operations in June 2003, following the completion of a private placement of our common stock, in which we raised net proceeds of approximately \$159.7 million. On December 18, 2003, we completed our initial public offering, or IPO, of our common stock in which we raised net proceeds of approximately \$157.0 million. Our common stock began trading on the NYSE under the trading symbol "LUM" on December 19, 2003. We received the net proceeds from our IPO in late December. As of December 31, 2003, we had invested substantially all of the net proceeds from that offering, plus approximately \$1.7 billion of borrowed funds, for a total of \$2.2 billion of U.S. agency and other highly-rated, residential mortgage-backed securities. However, at December 31, 2003, we had not fully levered our portfolio to within our target range of eight to 12 times the amount of our equity. As a result, the total amount of mortgage-backed securities and repurchase agreement liabilities as of December 31, 2003 were lower than if we had fully levered our portfolio through additional repurchase agreement liabilities and related mortgage-backed security purchases.

We invest primarily in adjustable-rate and hybrid adjustable-rate mortgage-backed securities. Adjustable-rate mortgage-backed securities have interest rates that reset periodically, typically every six months or on an annual basis. Hybrid adjustable-rate mortgage-backed securities have interest rates that are fixed for the first few years of the loan -- typically three, five, seven or 10 years -- and thereafter reset periodically in a manner similar to adjustable-rate mortgage-backed securities. As of December 31, 2003, approximately 8.6% of our investment portfolio was comprised of adjustable-rate mortgage-backed securities and approximately 88.9% was comprised of hybrid adjustable-rate mortgage-backed securities. In addition, as of December 31, 2003, 63% of the mortgage-backed securities in our investment portfolio were guaranteed by Fannie Mae, Freddie Mac or the Government National Mortgage Administration, or Ginnie Mae, and the remaining 37% had AAA credit ratings from at least one nationally-recognized statistical rating agency.

With the net proceeds of this offering and other borrowed funds, we intend to invest in mortgage-backed securities similar to those currently in our portfolio. We will seek to acquire mortgage-backed securities that will produce competitive returns, taking into consideration the amount and nature of the

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anticipated returns from the investment, our ability to pledge the investment for secured, collateralized borrowings and the costs associated with financing, managing, securitizing and reserving for these investments. As of the date of this prospectus, we have not identified any specific mortgage-backed securities that we intend to acquire with the net proceeds of this offering. All of the mortgage-backed securities that we acquired with the net proceeds of our recent IPO are agency-backed or have AAA credit ratings from at least one nationally-recognized statistical rating agency, and all of the securities are either adjustable-rate or hybrid adjustable-rate mortgage-backed securities. We expect that the substantial majority, or perhaps the entirety of the mortgage-backed securities that we acquire with the net proceeds

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of this offering will be agency-backed or have AAA credit ratings. Such securities are readily available in the market. As of December 31, 2003, the market for residential mortgage debt that had been securitized into mortgage-backed securities was approximately \$4.2 trillion, approximately \$3.4 trillion of which was agency-backed and, therefore, generally consistent with our investment guidelines. As of December 31, 2003, approximately \$51.3 billion of all available mortgage-backed securities were held by REITs.

We have financed our acquisition of mortgage-related assets by investing our equity and by borrowing at short-term rates under repurchase agreements. We intend to continue to finance our acquisitions in this manner. We generally seek to borrow between eight and 12 times the amount of our equity. We actively manage the adjustment periods and the selection of the interest rate indices of our borrowings against the adjustment periods and the selection of indices on our mortgage-related assets in order to manage our liquidity and interest rate-related risks. We may also choose to engage in various hedging activities designed to match more closely the terms of our assets and liabilities. As of December 31, 2003, we were party to hedging arrangements as described in "-- Recent Developments" below.

As a long-term holder of mortgage-backed securities, we are focused on acquiring, financing and managing a diverse portfolio of mortgage-backed securities with a variety of characteristics that we believe will provide attractive returns in a multitude of interest rate and prepayment environments. We do not construct our overall investment portfolio in order to express a directional expectation for interest rates or mortgage prepayment rates.

We review the credit risk associated with each potential investment and may diversify our portfolio to avoid undue geographic, insurer, industry and other types of concentrations. By maintaining a large percentage of our assets in high quality and highly-rated assets, many of which are guaranteed under limited circumstances as to payment of a limited amount of principal and interest by federal agencies or federally chartered entities such as Fannie Mae, Freddie Mac or Ginnie Mae, we believe we can mitigate our exposure to losses from credit risk.

In addition to the strategies described above, we intend to use other strategies to seek to generate earnings and distributions to our stockholders, which may include the following:

- increasing the size of our balance sheet at a rate faster than the rate of increase in our operating expenses;
- using leverage to increase the size of our balance sheet; and
- lowering our effective borrowing costs over time by seeking direct funding with collateralized lenders.

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We are externally managed and advised by Seneca Capital Management LLC, or Seneca, pursuant to a management agreement with Seneca. We have a full-time chief financial officer, who is not employed by Seneca, to provide us with dedicated financial management, analysis and investor relations capability.

We will elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 2003. As such, we will routinely distribute substantially all of the income generated from our operations to our stockholders. As long as we retain our REIT status, we generally will not be subject to U.S. federal or state taxes on our income to the extent that we distribute our net income to our stockholders.

Our principal offices are located at 909 Montgomery Street, Suite 500, San Francisco, California 94133. Our telephone number is (415) 486-2110.

RECENT DEVELOPMENTS

For the quarter ended December 31, 2003, we reported net income of \$5.4 million, or \$0.40 diluted earnings per share, based on 13,414,260 weighted-average shares outstanding. For the period from April 26, 2003 through December 31, 2003, our net income was \$2.8 million, or \$0.27 diluted earnings per share, based on 10,139,811 weighted-average shares outstanding. These results are calculated in accordance

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with accounting principles generally accepted in the United States, which are known as GAAP. REIT taxable net income is calculated according to the requirements of the Internal Revenue Code, rather than GAAP. As such, certain balances, including net capital losses and other compensation and organizational expenses, are added back for the purposes of calculating REIT taxable net income. A reconciliation of our REIT taxable net income to our GAAP net income for the period from April 26, 2003 through December 31, 2003 appears on page 62 of this prospectus.

For the quarter ended December 31, 2003, the weighted-average yield on average earning assets, net of amortization of premium, was 2.81% and the weighted-average interest rate on our repurchase agreement liabilities was 1.20%, resulting in a net interest spread of 1.61%.

At December 31, 2003, our book value was \$282.5 million, or \$11.38 per share, based on 24,814,000 shares outstanding. As of December 31, 2003, the accumulated other comprehensive loss related to the fair market value adjustment for our mortgage-backed securities was \$26.3 million. Our book value at December 31, 2003 includes the impact of the cash distribution of \$0.45 per share for the fourth quarter. At December 31, 2003, our outstanding repurchase agreement balance was \$1.7 billion, equating to leverage of 6.1 (defined as our total debt divided by stockholders' equity), with a weighted-average interest rate of 1.19%. At December 31, 2003, the outstanding repurchase agreements had a weighted-average maturity of approximately 145 days. After consideration of the duration on our Eurodollar futures contracts, the weighted-average maturity of our total liabilities was 255 days.

At December 31, 2003, the weighted-average coupon of our mortgage-related assets was 4.09%. The constant prepayment rate, or CPR, on our mortgage-backed securities was 23% for the quarter ended December 31, 2003. CPR declined over the course of the fourth quarter. CPR is a measure of the rate of prepayment for our mortgage-backed securities, expressed as an annual rate relative to the outstanding principal balance of our mortgage-backed securities.

As of December 31, 2003, the weighted-average effective duration of the

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securities in our overall investment portfolio, assuming constant prepayment rates to the balloon or reset date, or the CPB duration, was 1.75 years. CPB is similar to CPR except that it also assumes that the hybrid adjustable-rate mortgage-backed securities prepay in full at their next reset date. As of December 31, 2003, the mortgages underlying our adjustable-rate and hybrid adjustable-rate mortgage-backed securities had fixed interest rates for a weighted-average of approximately 40 months, after which time the interest rates reset and become adjustable. The average length of time until final maturity of those mortgages was 30 years. Those mortgages are also subject to interest rate caps that limit the amount that the applicable interest rate can increase during any year, known as an annual cap, and through the maturity of the applicable security, known as a lifetime cap. As of December 31, 2003, the mortgages underlying our adjustable-rate and hybrid adjustable-rate mortgage-backed securities had average annual caps of 2.38% and average lifetime caps of 9.99%.

At December 31, 2003, approximately 63.2% of our assets were invested in agency securities with the remaining 36.8% invested in AAA-rated, securitized, residential whole loan mortgages. Mortgage-related assets held at December 31, 2003 were approximately \$2.2 billion and were allocated as follows:

- 8.6% in adjustable-rate mortgage-backed securities;
- 88.9% in hybrid adjustable-rate mortgage-backed securities;
- 2.5% in one balloon mortgage-backed security which matures in January 2008; and
- 0.0% in fixed rate mortgage-backed securities.

As of December 31, 2003, all of the mortgage-backed securities in our portfolio had been purchased at a premium and the portfolio had an average amortized cost of 102.2% of face amount.

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The following table sets forth some of our selected unaudited financial results for the two months ended February 29, 2004:

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE TWO MONTHS ENDED FEBRUARY 29, 2004

STATEMENT OF OPERATIONS DATA:	
Net interest income.....	\$ 8,431
Net income.....	7,456
Basic and diluted earnings per share.....	\$ 0.30
BALANCE SHEET DATA (END OF PERIOD)	
Total mortgage-backed securities, at fair value.....	\$ 2,790,736
Repurchase agreement liabilities.....	2,497,480
Accumulated other comprehensive loss.....	(10,225)
Total stockholders' equity.....	306,343
FINANCIAL RATIOS:	
Weighted-average coupon on mortgage-backed securities.....	4.10%
Weighted-average yield on average earning assets.....	3.16%
Cost of funds on repurchase agreement liabilities.....	1.18%
Net interest spread.....	1.98%
CPR (constant prepayment rate).....	18%

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Leverage ratio (period end).....	8.2
Average amortized cost of mortgage-backed securities (period end).....	101.98%
Book value per share.....	\$ 12.33
Number of shares outstanding (end of period).....	24,841,146

On March 9, 2004 our board of directors declared a cash distribution of \$0.42 per share for the first quarter of 2004, which will be paid on April 26, 2004 to stockholders of record on March 19, 2004. The aggregate amount of our first quarter 2004 distribution will be \$10.4 million. This public offering will close after the distribution record date and, accordingly, purchasers of common stock in this offering will not receive this distribution. Although our results of operations for the three months ending March 31, 2004 cannot be definitely predicted at this time, we expect that this cash distribution will be funded with cash flow from our ongoing operations and not with any portion of the proceeds from this offering. Our current portfolio generates a monthly cash flow significantly in excess of this distribution payable amount. For example, for the three months ended February 29, 2004, we received from our portfolio combined coupon cash flow and principal payments in the amount of \$126.0 million, for an average of \$42.0 million per month.

We engaged in short sales of Eurodollar futures contracts in order to hedge the impact of changes in interest rates on our liability costs. As of March 17, 2004, we had sold short 5,680 Eurodollar futures contracts, which expire in June 2004, September 2004, and December 2004, with a notional amount totaling \$5.7 billion. The value of these futures contracts is marked-to-market daily in our margin account with the custodian. Based upon the daily market value of these futures contracts, we either receive funds into, or wire funds into, our margin account with the custodian to ensure that an appropriate margin account balance is maintained at all times through the expiration of the contracts. Between December 31, 2003 and March 17, 2004, we realized \$416 thousand in losses upon the expiration or closeout of our March 2004 Eurodollar futures contracts. As of March 17, 2004, the unrealized loss on our remaining Eurodollar futures contracts was \$3.6 million.

These contracts have been designated as cash flow hedges of our borrowings under repurchase agreements under Statement of Financial Accounting Standards, or SFAS, No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, and therefore we have applied

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hedge accounting to these transactions. The futures contracts are carried on the balance sheet at fair value with the resulting gain or loss (whether realized or unrealized) associated with the effective portion of the hedge recognized in accumulated other comprehensive income or loss until the quarter following contract expiration. The gain or loss associated with the ineffective portion will be recognized in earnings in the current quarter when the effectiveness measurement is made.

Under SFAS No. 133 and our hedging policy, at the inception and during the life of a hedging relationship, the hedge must be expected to be highly effective in offsetting changes in the hedged item's fair value or the variability in cash flows attributable to the hedged risk. In applying our policy, we have determined that these contracts are highly effective as follows. We use regression methodology to assess the effectiveness of our hedging strategies. Specifically, at the inception of each new hedge and on an ongoing basis, we assess effectiveness using "ordinary least squares" regression to evaluate the correlation between the rates consistent with the hedges and the underlying hedged items. A hedge is highly effective if the changes in the fair

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value of the derivative provide offset of at least 80% and not more than 120% of the changes in fair value or cash flows of the hedged item attributable to the risk being hedged.

RISK FACTORS

An investment in our common stock involves material risks, including a number of potential conflicts of interests between us, on the one hand, and Seneca and its affiliates, on the other hand. Each prospective purchaser of our common stock should consider carefully the matters discussed under "Risk Factors" beginning on page 11 of this prospectus before investing in our common stock. Some of the risks include:

- We commenced operations in June 2003 and have a limited operating history. Our manager, Seneca, has limited experience managing a REIT. Accordingly, we might not be able to operate our business or implement our operating policies and strategies successfully.
- We have not identified any specific mortgage-backed securities to acquire with the net proceeds of this offering. Accordingly, you will not have the opportunity to review the assets we will acquire with the net proceeds of this offering prior to your investment. In addition, we may not be able to acquire such assets on a timely basis or upon favorable terms.
- We may enter into ineffective derivative transactions or other hedging activities that may reduce our net interest income or cause us to suffer losses.
- Interest rate mismatches between our mortgage-backed securities and our borrowings used to fund our purchases of mortgage-backed securities might reduce our net income or result in a loss during periods of changing interest rates.
- Increased levels of prepayments on the mortgages underlying our mortgage-backed securities might decrease our net interest income or result in a net loss.
- We generally seek to borrow eight to 12 times the amount of our equity. Such leveraging could reduce our net income and our cash available for distributions or cause us to suffer losses.
- Our investment strategy permits us to invest up to 10% of our assets in unrated mortgage-related assets, including mortgage-backed securities rated below investment grade. These assets carry an increased likelihood of default or rating downgrade relative to investment-grade assets, which may cause us to suffer losses.
- Our board of directors may change our operating policies and strategies without prior notice to you or stockholder approval and such changes could harm our business and results of operations and the value of our stock.
- Our results may suffer as a consequence of a potential conflict of interest arising out of our relationship with our manager, on the one hand, and our manager's relationship with other third parties, on the other hand. In addition, this potential conflict may reduce the amount of time and

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effort that our manager devotes to managing our business and may result in suitable investment opportunities being allocated to other entities.

- We pay our manager incentive compensation based on our portfolio's performance. Accordingly, our manager may recommend riskier or more speculative investments in an effort to maximize its incentive compensation.

OUR MANAGER AND EXECUTIVE OFFICERS

Our day-to-day operations are externally managed and advised by our manager, Seneca, subject to the direction and oversight of our board of directors. Established in 1989, Seneca is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Seneca engages in investment management as its sole business and manages fixed-income and equity assets for pension and profit-sharing plans, financial institutions, such as banking and insurance companies, and mutual funds for retail and institutional investors. Seneca had over 100 full-time employees and approximately \$14 billion of institutional and private investment accounts at December 31, 2003.

From time to time, we will assess whether we should be internally managed. Our assessment will be based on a number of factors deemed relevant by our board of directors, including our ability to attract and retain full-time employees and the costs and expenses related to becoming internally managed.

A majority of the outstanding equity interests of Seneca are owned by Phoenix Investment Partners, Ltd. Phoenix Investment is a wholly-owned subsidiary of The Phoenix Companies, Inc. (NYSE: PNK). Our board of directors consists of seven members, five of whom are not affiliated with Seneca or Phoenix. Neither this prospectus nor this offering are endorsed or guaranteed in any way by Seneca or Phoenix.

Our executive officers have significant experience in providing investment advisory services, with an average of 17 years of experience. Prior to founding Seneca, Gail P. Seneca, our chief executive officer, spent two years as senior vice president of the Asset Management Division of Wells Fargo Bank, where she managed fixed-income assets in excess of \$10 billion. Before joining Seneca as its fixed income chief investment officer, Albert J. Gutierrez, our president, spent two years as head of portfolio management, trading and investment systems at American General Investment Management, where he was responsible for approximately \$75 billion in client assets, and 12 years with Conseco Capital Management as a senior vice president in charge of fixed income research and trading as well as insurance asset portfolio management. Other than our full-time chief financial officer, all of our executive officers are also employees and/or officers of Seneca, as described in the following table:

NAME -----	POSITION WITH SENECA -----	POSITION WITH US -----
Gail P. Seneca, Ph.D.	President/Chief Executive Officer and Chief Investment Officer	Chairman of the Board of Directors and Chief Executive Officer
Albert J. Gutierrez, CFA	Fixed Income Chief Investment Officer and Principal	President and Director
Christopher J. Zyda	None	Senior Vice President and Chief Financial Officer
Andrew S. Chow, CFA	Fixed Income Portfolio Manager	Senior Vice President
Troy A. Grande, CFA	Fixed Income Portfolio Manager	Senior Vice President

THE MANAGEMENT AGREEMENT

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We have entered into a management agreement with Seneca dated June 11, 2003. Pursuant to the management agreement, Seneca, as our sole manager, generally implements our business strategy, is responsible for our day-to-day operations and performs services and activities relating to our assets and

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operations in accordance with the terms of the management agreement. Seneca's services for us can be divided into the following three main activities:

- Asset Management -- Seneca advises us with respect to, arranges for and manages the acquisition, financing, management and disposition of, our investments.
- Liability Management -- Seneca evaluates the credit risk and prepayment risk of our investments and arranges borrowing and hedging strategies.
- Capital Management -- Seneca coordinates our capital raising activities.

In conducting these activities, Seneca advises us on the formulation of, and implements, our operating strategies and policies, arranges for our acquisition of assets, monitors the performance of our assets, arranges for various types of financing and hedging strategies, and provides administrative and managerial services in connection with our operations. At all times in the performance of these activities, Seneca is subject to the direction and oversight of our board of directors.

Pursuant to the management agreement and a cost-sharing agreement between Seneca and us, Seneca may earn or be entitled to receive the following compensation, fees and other benefits:

- Base management fee -- 1% per annum of the first \$300 million of our average net worth, plus 0.8% per annum of our average net worth in excess of \$300 million during such fiscal year, calculated on a quarterly basis;
- Incentive compensation -- a specified percentage of our REIT taxable net income (before deducting incentive compensation, net operating losses and certain other items) in excess of a threshold amount of taxable income, calculated on a quarterly basis and subject to annual reconciliation;
- Out-of-pocket expense reimbursements -- reimbursement of actual out-of-pocket expenses incurred in connection with our administration on an ongoing basis;
- Reimbursement of overhead expenses -- reimbursement of actual costs attributable to our use of services rendered by Seneca pursuant to the cost-sharing agreement. Our portion of such costs is allocated to us as determined by Seneca, subject to reasonable approval by a majority of our independent directors; and
- Termination fee -- payable only upon termination by us without cause or by Seneca upon our change of control. Actual amount of fee depends on the circumstances of the termination.

For a more detailed discussion of the compensation and other fees payable to Seneca, see the sections titled "The Manager -- The Management Agreement" and "The Manager -- The Cost-Sharing Agreement."

CONFLICTS OF INTEREST

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We are subject to potential conflicts of interest involving Seneca and its affiliates because, among other reasons:

- the incentive compensation, which is based on our net income, may create an incentive for Seneca to recommend investments with greater income potential, which may be relatively more risky than would be the case if its compensation from us did not include an incentive-based component;
- Seneca and its affiliates are permitted to purchase mortgage-backed securities for their own account and to advise accounts of other clients, and certain investment opportunities appropriate for us also will be appropriate for these accounts; and
- two of our directors, and all but one of our executive officers, are managers or employees of, or otherwise affiliated with, Seneca.

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For a more detailed discussion of potential conflicts of interests between us, on the one hand, and Seneca and its affiliates, on the other hand, see the section titled "Conflicts of Interests; Certain Relationships and Related Transactions."

The management agreement does not limit or restrict the right of Seneca or any of its affiliates from engaging in any business or rendering services to any other person, including, without limitation, the purchase of, or rendering advice to others purchasing, mortgage-backed securities that meet our investment guidelines. However, Seneca has agreed that for as long as Seneca is our exclusive manager pursuant to the management agreement, it will not sponsor any other mortgage REIT that invests primarily in high-quality, residential mortgage-backed securities, without first obtaining the approval of a majority of our independent directors.

THIS OFFERING

Common stock offered by us.....	10,000,000 shares.
Common stock to be outstanding after this offering.....	34,841,146 shares.
Use of proceeds.....	We intend to invest our net proceeds of this offering (after offering expenses and underwriting discounts and commissions) to expand our portfolio of mortgage-related assets, primarily U.S. agency and other highly-rated, single-family, adjustable-rate and fixed-rate mortgage-backed securities. Until such assets can be identified and obtained, we intend to temporarily invest the balance of the proceeds of this offering in readily marketable interest-bearing assets consistent with our intention to qualify as a REIT. We estimate that the expenses of this offering (excluding underwriting discounts and commissions) will be approximately \$400,000. See "Use of Proceeds."
Trading.....	Our common stock is listed on the NYSE under the symbol "LUM."

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The number of shares of our common stock to be outstanding after this offering, above, is based on 24,841,146 shares outstanding on March 17, 2004, and excludes:

- 55,000 shares of our common stock issuable upon the exercise of options outstanding on March 17, 2004 with a weighted-average exercise price of \$14.82 per share;
- 943,505 additional shares of our common stock as of March 17, 2004 available for issuance under our 2003 stock incentive plan and 2003 outside advisors stock incentive plan; and
- up to 1,500,000 shares of our common stock that may be issued by us upon exercise of the underwriters' over-allotment option.

OUR TAX STATUS

We will elect to be taxed as a REIT under the Internal Revenue Code commencing with our taxable year ending December 31, 2003. Provided we qualify as a REIT, we generally will not be subject to U.S. federal corporate income tax on taxable income that we distribute to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT net taxable income. We face the risk that we might not be able to comply with all of the REIT requirements in the future. Failure to qualify as a REIT would render us subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, and distributions to our stockholders would not be deductible. Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state, local and foreign taxes on our income and property. See "United States Federal Income Tax Considerations."

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RESTRICTIONS ON OWNERSHIP OF OUR STOCK

In order to facilitate our qualification as a REIT, our charter prohibits any stockholder from directly or indirectly owning more than 9.8% of the outstanding shares of any class or series of our stock. We adopted this restriction to promote compliance with the provisions of the Internal Revenue Code which limit the degree to which ownership of a REIT may be concentrated. See "Description of Capital Stock -- Transfer Restrictions."

DISTRIBUTIONS

To avoid corporate income and excise tax and to maintain our qualification as a REIT, we intend to make quarterly distributions to our stockholders that will result in annual distributions of at least 90% of our REIT net taxable income, determined without regard to the deduction for dividends paid and by excluding any net capital gains. REIT net taxable income is calculated pursuant to standards in the Internal Revenue Code and will not necessarily be the same as our net income as calculated in accordance with GAAP. Our board of directors may, in its discretion, cause us to make additional distributions of cash legally available for that purpose. Our distributions from quarter to quarter will depend on our taxable earnings, financial condition and such other factors as our board of directors deems relevant. In the future, our board of directors may elect to adopt a dividend reinvestment plan.

RESALE REGISTRATION STATEMENT AND LOCK-UP AGREEMENTS

Resale Registration Statement. A registration statement covering the resale of up to 11,500,000 shares of our common stock that were issued in our

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June 2003 private placement was declared effective by the Securities and Exchange Commission, or the SEC, on February 13, 2004. We have agreed to use our commercially reasonable efforts to keep the resale registration statement effective until the date on which no "registrable shares" (as defined in the registration rights agreement) remain outstanding, which will generally occur when all of the privately placed shares have either been resold in a registered sale or are eligible for resale under Rule 144. In addition, our obligation to keep the resale registration statement effective is subject to specified, permitted exceptions. We may suspend the selling stockholders' use of the resale prospectus and offers and sales of the shares of our common stock pursuant to the resale prospectus for a period not to exceed 60 days in any 90-day period, and not to exceed an aggregate of 60 days in any 12-month period commencing on June 11, 2003, if our board makes a good faith determination that a suspension is in our best interests. If we do not make certain filings with the SEC in accordance with the registration rights agreement, subject to the permitted suspension periods, we may be required to hold in a segregated, interest-bearing account in trust for, and not to release to, Seneca the incentive compensation otherwise payable to Seneca under the management agreement until we have made the requisite filings.

Lock-Up Agreements. In connection with this offering, each of our directors and officers and Seneca, who will own an aggregate of 415,909 shares of our common stock immediately after this offering, have entered into individual lock-up agreements. These lock-up agreements will, subject to various exceptions, prevent them from reselling their shares until the 91st day after the date of this prospectus. However, 10,261 of these shares are subject to additional transfer restrictions and will not be available for sale until after such date.

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SUMMARY FINANCIAL DATA

The following summary financial data are derived from audited financial statements as of December 31, 2003 and for the period from April 26, 2003 through December 31, 2003. The selected financial data should be read in conjunction with the more detailed information contained in the financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	FOR THE PERIOD FROM APRIL 26, 2003 THROUGH DECEMBER 31, 2003 -----
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	
STATEMENT OF OPERATIONS DATA:	
Revenues:	
Net interest income:	
Interest income.....	\$ 22,654
Interest expense.....	9,009

Net interest income.....	13,645
Losses on sales of mortgage-backed securities.....	(7,831)
Expenses:	
Management fee expense to related party.....	901
Incentive fee expense to related party.....	980
Salaries and benefits.....	99

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Professional services.....	477
Board of directors expense.....	117
Insurance expense.....	291
Custody expense.....	115
Other general and administrative expenses.....	73

Total expenses.....	3,053

Net income.....	\$ 2,761
	=====
Basic and diluted earnings per share.....	\$ 0.27
	=====
Weighted-average number of shares outstanding, basic.....	10,139,280
	=====
Weighted-average number of shares outstanding, diluted.....	10,139,811
	=====

DECEMBER 31, 2003

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

BALANCE SHEET DATA:

Mortgage-backed securities available-for-sale, at fair value.....	\$ 352,123
Mortgage-backed securities available-for-sale, pledged as collateral, at fair value.....	1,809,822
Total mortgage-backed securities available-for-sale, at fair value.....	2,161,945
Total assets.....	2,179,340
Repurchase agreements and margin debt.....	1,728,973
Unsettled security purchases.....	156,127
Total liabilities.....	1,896,844
Accumulated other comprehensive loss.....	(26,510)
Total stockholders' equity.....	282,496
Book value per share.....	\$ 11.38

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business, financial condition or results of operations could be harmed by any of these risks. Similarly, these risks could cause the market price of our common stock to decline and you might lose all or part of your investment. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial might also impair our business operations.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY AND MIGHT NOT BE ABLE TO OPERATE OUR BUSINESS OR IMPLEMENT OUR OPERATING POLICIES AND STRATEGIES SUCCESSFULLY.

We began operations in June of 2003, and we have a limited operating history. The results of our operations will depend on many factors, including

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the availability of opportunities for the acquisition of mortgage-related assets, the level and volatility of interest rates, readily accessible short-and long-term funding alternatives in the financial markets and economic conditions. Moreover, delays in fully leveraging and investing our net proceeds of this offering may cause our performance to be weaker than other fully leveraged and invested mortgage REITs pursuing comparable investment strategies. You will not have the opportunity to evaluate the manner in which we invest or the economic merits of particular assets to be acquired. Furthermore, we face the risk that we might not successfully operate our business or implement our operating policies and strategies as described in this prospectus.

WE HAVE NOT YET IDENTIFIED ANY SPECIFIC MORTGAGE-BACKED SECURITIES TO PURCHASE WITH THE NET PROCEEDS OF THIS OFFERING AND MAY BE UNABLE TO INVEST A SIGNIFICANT PORTION OF SUCH NET PROCEEDS ON ACCEPTABLE TERMS OR AT ALL, WHICH COULD HARM OUR FINANCIAL CONDITION AND OPERATING RESULTS.

As of the date of this prospectus, we have not identified any specific mortgage-backed securities that we intend to acquire with the proceeds from this offering. As a result, you will not be able to evaluate the economic merits of any investments we make with the net proceeds of this offering prior to the purchase of your shares. You must rely on our ability to evaluate our investment opportunities. Until we identify and acquire mortgage-backed securities consistent with our investment guidelines, we intend to temporarily invest the balance of the net proceeds of this offering in readily marketable interest-bearing assets consistent with our intention to qualify as a REIT. We cannot assure you that we will be able to identify mortgage-related assets that meet our investment guidelines or that any investment that we make will produce a positive return on our investment. We may be unable to invest the net proceeds of this offering on acceptable terms or at all.

WE MIGHT NOT BE ABLE TO USE DERIVATIVES TO MITIGATE OUR INTEREST RATE AND PREPAYMENT RISKS.

Our policies permit us to enter into interest rate swaps, caps and floors and other derivative transactions to help us reduce our interest rate and prepayment risks. As of December 31, 2003, we sold short 2,090 Eurodollar futures contracts in order to hedge the impact of changes in interest rates on our liability costs. The following table summarizes the expiration dates of these Eurodollar futures contracts and their notional amounts as of December 31, 2003 (in thousands):

EXPIRATION DATE	NOTIONAL AMOUNT
-----	-----
March 2004.....	\$ 880,000
June 2004.....	605,000
September 2004.....	605,000

Total.....	\$2,090,000
	=====

Subsequent to December 31, 2003 through March 17, 2004, we have sold short an additional 4,470 Eurodollar futures contracts. These contracts expire in June 2004, September 2004 and December 2004 and have a notional amount totaling \$2.0 billion, \$1.6 billion and \$840.0 million, respectively. In addition, we realized \$416 thousand in losses subsequent to December 31, 2003 through March 17, 2004

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upon expiration or closeout of our March 2004 Eurodollar future contracts.

In the future, these transactions might mitigate our interest rate and prepayment risks, but cannot eliminate these risks. Moreover, the use of derivative transactions could have a negative impact on our earnings and our status as a REIT, and, therefore, our use of such derivatives could be limited.

WE MAY ENTER INTO INEFFECTIVE DERIVATIVE TRANSACTIONS OR OTHER HEDGING ACTIVITIES THAT MAY REDUCE OUR NET INTEREST INCOME OR CAUSE US TO SUFFER LOSSES.

Our policies permit us to, but we are not required to, enter into derivative transactions such as interest rate swaps, caps and floors and other derivative transactions to help us seek to reduce our interest rate and prepayment risks. The effectiveness of any derivative transactions will depend significantly upon whether we correctly quantify the interest rate or prepayment risks being hedged, our execution of and ongoing monitoring of our hedging activities, and the treatment of such hedging activities for GAAP accounting purposes.

As of December 31, 2003, we sold short 2,090 Eurodollar futures contracts with a notional amount totaling \$2.1 billion in order to hedge the impact of changes in interest rates on our liability costs. In the case of these hedges, and any other future efforts to hedge the effects of interest rate changes on our liability costs, if we enter into hedging instruments that have higher interest rates embedded in them as a result of the forward yield curve, and at the end of the term of these hedging instruments the spot market interest rates for the liabilities that we hedged are actually lower, then we will have locked in higher interest rates for our liabilities than would be available in the spot market at the time and this could result in a narrowing of our net interest rate margin or result in losses. In some situations, we may sell assets or hedging instruments at a loss in order to maintain adequate liquidity.

In addition, we apply SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, and record derivatives at fair value. If the derivatives meet the criteria to be accounted for as hedging transactions, the effects of the transactions could be materially different as to timing than if they do not qualify as hedges, and this may cause a narrowing of our net interest rate margin or result in losses.

OUR INVESTMENT GUIDELINES PERMIT US TO INVEST UP TO 10% OF OUR ASSETS IN UNRATED MORTGAGE-RELATED ASSETS, INCLUDING MORTGAGE-BACKED SECURITIES RATED BELOW INVESTMENT-GRADE, WHICH CARRY A GREATER LIKELIHOOD OF DEFAULT OR RATING DOWNGRADE THAN INVESTMENTS IN INVESTMENT-GRADE MORTGAGE-BACKED SECURITIES AND MAY CAUSE US TO SUFFER LOSSES.

Our asset acquisition policy provides us with the ability to acquire significant amounts of lower credit quality mortgage-related assets, including mortgage-backed securities that are not rated at least investment grade by at least one nationally-recognized statistical rating organization. Under our policy, up to 10% of our total assets may be non-investment grade mortgage-backed securities or other investments such as leveraged mortgage derivative securities, shares of other REITs, mortgage loans or other mortgage-related investments. If we acquire non-investment-grade mortgage-backed securities, we are more likely to incur losses because the mortgages underlying those securities are made to borrowers possessing lower-quality credit. While all agency certificates are subject to a risk of default, that risk is greater with non-investment grade mortgage-backed securities. In addition, the rating agencies are more likely to downgrade the credit quality of those securities, which would reduce the value of those securities.

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INTEREST RATE MISMATCHES BETWEEN OUR ADJUSTABLE-RATE AND HYBRID ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES AND THE BORROWINGS USED TO FUND OUR PURCHASES OF SUCH MORTGAGE-BACKED SECURITIES MIGHT REDUCE OUR NET INCOME OR RESULT IN A LOSS DURING PERIODS OF CHANGING INTEREST RATES.

We invest primarily in adjustable-rate and hybrid adjustable-rate mortgage-backed securities. The mortgages underlying adjustable-rate mortgage-backed securities have interest rates that reset periodically, typically every six months or on an annual basis, based upon market-based indices of interest rates such as U.S. Treasury bonds or LIBOR. The mortgages underlying hybrid adjustable-rate mortgage-backed securities have interest rates that are fixed for the first few years of the loan -- typically three, five, seven or 10 years -- and thereafter their interest rates reset periodically similar to the mortgages underlying adjustable-rate mortgage-backed securities. We have funded our acquisitions and expect to fund our future acquisitions of adjustable-rate and hybrid adjustable-rate mortgage-backed securities in part with borrowings that have interest rates based on indices and repricing terms similar to, but with shorter maturities than, the interest rate indices and repricing terms of the adjustable-rate and hybrid adjustable-rate mortgage-backed securities. On December 31, 2003, 97.5% of our investment portfolio was invested in adjustable-rate or hybrid adjustable-rate mortgage-backed securities having a weighted-average term to next rate adjustment of approximately 40 months, while our borrowings had a weighted-average term of approximately 145 days. After consideration of the duration on our Eurodollar futures contracts, our weighted-average maturity was 255 days. The phrase "weighted-average term to next rate adjustment" refers to the average of the periods of time that must elapse before the interest rates adjust for all of the mortgages underlying our adjustable-rate and hybrid adjustable-rate mortgage-backed securities in our portfolio, which average is weighted in proportion to the book values of the applicable securities. During periods of changing interest rates, this interest rate mismatch between our assets and liabilities could reduce or eliminate our net income and distributions to our stockholders and could cause us to suffer a loss.

Accordingly, in a period of rising interest rates, we could experience a decrease in, or elimination of, net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our adjustable-rate mortgage-backed securities.

INCREASED LEVELS OF PREPAYMENTS ON THE MORTGAGES UNDERLYING OUR MORTGAGE-BACKED SECURITIES MIGHT DECREASE OUR NET INTEREST INCOME OR RESULT IN A NET LOSS.

The mortgage-backed securities that we acquire generally represent interests in pools of mortgage loans. The principal and interest payments we receive from our mortgage-backed securities are generally funded by the payments that mortgage borrowers make on those underlying mortgage loans. When borrowers pre-pay their mortgage loans sooner than expected, corresponding prepayments on the mortgage-backed securities occur sooner than expected by the marketplace. Sooner-than-expected prepayments could harm our results of operations in the following ways, among others:

- We seek to purchase mortgage-backed securities that we believe to have favorable risk-adjusted expected returns relative to market interest rates at the time of purchase. If the coupon interest rate for a mortgage-backed security is higher than the market interest rate at the time it is purchased, then that mortgage-backed security will be acquired at a premium to its par value. In accordance with applicable accounting rules, we are required to amortize any premiums or discounts related to our mortgage-backed securities over their expected terms. The

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amortization of a premium reduces interest income, while the amortization of a discount increases interest income. The expected terms for mortgage-backed securities are a function of the prepayment rates for the mortgages underlying the mortgage-backed securities. Mortgage-backed securities that are at a premium to their par value are more likely to experience prepayment of some or all of their principal through refinancings. If the mortgages underlying our premium mortgage-backed securities are prepaid in whole or in part more quickly than their respective maturity dates, then we must also amortize their respective premiums more quickly, which would decrease our net interest income and harm our profitability.

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- A substantial portion of our adjustable-rate mortgage-backed securities may bear interest at rates that are lower than their "fully-indexed rates," which refers to their applicable index rates plus a margin. If an adjustable-rate mortgage-backed security is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, we will have held that mortgage-backed security while it was less profitable and lost the opportunity to receive interest at the fully-indexed rate over the remainder of its expected life.
- If we are unable to acquire new mortgage-backed securities to replace the prepaid mortgage-backed securities, our financial condition, results of operations and cash flow may suffer and we could incur losses.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by other factors, including, without limitation, conditions in the housing and financial markets, general economic conditions and the relative interest rates on adjustable-rate and fixed-rate mortgage loans. While we seek to minimize prepayment risk, we must balance prepayment risk against other risks and the potential returns of each investment when selecting investments. No strategy can completely insulate us from prepayment or other such risks.

WE MAY INCUR INCREASED BORROWING COSTS RELATED TO REPURCHASE AGREEMENTS THAT WOULD HARM OUR RESULTS OF OPERATIONS.

Our borrowing costs under repurchase agreements are generally adjustable and correspond to short-term interest rates, such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;
- the availability of financing in the market; and
- the value and liquidity of our mortgage-backed securities.

Most of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these repurchase agreements increase, our results of operations will be harmed and we may have losses.

INTEREST RATE CAPS RELATED TO OUR ADJUSTABLE-RATE AND HYBRID ADJUSTABLE-RATE MORTGAGE-BACKED SECURITIES MAY REDUCE OUR INCOME OR CAUSE US TO SUFFER A LOSS DURING PERIODS OF RISING INTEREST RATES.

The mortgages underlying our adjustable-rate and hybrid adjustable-rate

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mortgage-backed securities are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount that the interest rate of a mortgage can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through the maturity of a mortgage. As of December 31, 2003, 97.5% of our mortgage-backed securities were based on adjustable-rate or hybrid adjustable-rate mortgages, substantially all of which were subject to interest rate caps. The percentage of adjustable-rate and hybrid adjustable-rate mortgage-backed securities in our investment portfolio as of December 31, 2003 which are subject to periodic interest rate caps every six months or annually were 16.6% and 80.9%, respectively.

Our borrowings are not subject to similar restrictions. The periodic adjustments to the interest rates of the mortgages underlying our adjustable-rate and hybrid adjustable-rate mortgage-backed securities are based on changes in an objective index. Substantially all of the mortgages underlying our adjustable-rate and hybrid adjustable-rate mortgage-backed securities adjust their interest rates based on one of two main indices, the U.S. Treasury index, a monthly or weekly average yield of benchmark U.S. Treasury securities as published by the Federal Reserve Board, or LIBOR, the interest rate that banks in London offer for deposits in London of U.S. dollars. The percentages of the mortgages underlying the adjustable-rate and

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hybrid adjustable-rate mortgage-backed securities in our investment portfolio as of December 31, 2003 with interest rates that reset based on the U.S. Treasury or LIBOR indices were 39.1% and 58.4%, respectively.

Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps could limit the increases in the yields on our adjustable-rate and hybrid adjustable-rate mortgage-backed securities. This problem is magnified for adjustable-rate and hybrid adjustable-rate mortgage-backed securities that are not fully indexed. Further, some of the mortgages underlying our adjustable-rate and hybrid adjustable-rate mortgage-backed securities may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on adjustable-rate and hybrid adjustable-rate mortgage-backed securities than we need to pay interest on our related borrowings. These factors could reduce our net interest income or cause us to suffer a net loss.

WE MIGHT EXPERIENCE REDUCED NET INTEREST INCOME OR A LOSS FROM HOLDING FIXED-RATE INVESTMENTS DURING PERIODS OF RISING INTEREST RATES.

A significant portion of our investment portfolio consists of hybrid adjustable-rate mortgage-backed securities. As of December 31, 2003, 88.9% of our investment portfolio consisted of hybrid adjustable-rate mortgage-backed securities. We may also invest in fixed-rate mortgage-backed securities from time to time, however, as of December 31, 2003, none of our portfolio consisted of fixed-rate mortgage-backed securities. We fund our acquisition of fixed-rate mortgage-backed securities, including those based on balloon maturity and hybrid adjustable-rate mortgages, in part with short-term repurchase agreements and term loans. During periods of rising interest rates, our costs associated with borrowings used to fund the acquisition of fixed-rate mortgage-backed securities are subject to increases while the income we earn from these assets remains substantially fixed. This would reduce and could eliminate the net interest spread between the fixed-rate mortgage-backed securities that we purchase and our borrowings used to purchase them, which would reduce our net interest income and could cause us to suffer a loss.

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OUR LEVERAGE STRATEGY INCREASES THE RISKS OF OUR OPERATIONS, WHICH COULD REDUCE OUR NET INCOME AND THE AMOUNT AVAILABLE FOR DISTRIBUTIONS OR CAUSE US TO SUFFER A LOSS.

As of December 31, 2003, we had indebtedness of approximately \$1.7 billion. We generally seek to borrow between eight and 12 times the amount of our equity, although at times our borrowings may be above or below this amount. We incur this indebtedness by borrowing against a substantial portion of the market value of our mortgage-backed securities. Our total indebtedness, however, is not expressly limited by our policies and will depend on our and our prospective lender's estimate of the stability of our portfolio's cash flow. We face the risk that we might not be able to meet our debt service obligations or a lender's margin requirements from our income and, to the extent we cannot, we might be forced to liquidate some of our assets at disadvantageous prices. Our use of leverage amplifies the risks associated with other risk factors, which could reduce our net income and the amount available for distributions or cause us to suffer a loss. For example:

- A majority of our borrowings are secured by our mortgage-backed securities, generally under repurchase agreements. A decline in the market value of the mortgage-backed securities used to secure these debt obligations could limit our ability to borrow or result in lenders requiring us to pledge additional collateral to secure our borrowings. In that situation, we could be required to sell mortgage-backed securities under adverse market conditions in order to obtain the additional collateral required by the lender. If these sales are made at prices lower than the carrying value of the mortgage-backed securities, we would experience losses.
- A default under a mortgage-related asset that constitutes collateral for a loan could also result in an involuntary liquidation of the mortgage-related asset, including any cross-collateralized mortgage-backed securities. This would result in a loss to us of the difference between the value of the

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mortgage-related asset upon liquidation and the amount borrowed against the mortgage-related asset.

- To the extent we are compelled to liquidate qualified REIT assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which would jeopardize our status as a REIT. Losing our REIT status would cause us to lose tax advantages applicable to REITs and would decrease our overall profitability and distributions to our stockholders.
- If we experience losses as a result of our leverage policy, such losses could reduce the amounts available for distribution to our stockholders.

AN INCREASE IN INTEREST RATES MIGHT HARM OUR BOOK VALUE.

We use changes in 10-year U.S. Treasury yields as a reference indicator for changes in interest rates because it is a common market benchmark. Increases in the general level of interest rates can cause the fair market value of our assets to decline, particularly those mortgage-backed securities whose underlying mortgages have fixed-rate components. Our fixed-rate mortgage securities and our hybrid adjustable-rate mortgage-backed securities (during the fixed-rate component of the mortgages underlying such securities) will generally be more negatively affected by such increases than our adjustable-rate mortgage securities. In accordance with GAAP, we will be required to reduce the carrying

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value of our mortgage-backed securities by the amount of any decrease in the fair value of our mortgage-backed securities compared to their respective amortized costs. If unrealized losses in fair value occur, we will have to either reduce current earnings or reduce stockholders' equity without immediately affecting current earnings, depending on how we classify such mortgage-backed securities under GAAP. In either case, our net book value will decrease to the extent of any realized or unrealized losses in fair value.

WE MAY INVEST IN LEVERAGED MORTGAGE DERIVATIVE SECURITIES THAT GENERALLY EXPERIENCE GREATER VOLATILITY IN MARKET PRICES, AND THUS EXPOSE US TO GREATER RISK WITH RESPECT TO THEIR RATE OF RETURN.

We may acquire leveraged mortgage derivative securities that expose us to a high level of interest rate risk. The characteristics of leveraged mortgage derivative securities cause those securities to experience greater volatility in their market prices. Thus, acquisition of leveraged mortgage derivative securities will expose us to the risk of greater volatility in our portfolio, which could reduce our net income and harm our overall results of operations.

WE DEPEND ON BORROWINGS TO PURCHASE MORTGAGE-RELATED ASSETS AND REACH OUR DESIRED AMOUNT OF LEVERAGE. IF WE FAIL TO OBTAIN OR RENEW SUFFICIENT FUNDING ON FAVORABLE TERMS OR AT ALL, WE WILL BE LIMITED IN OUR ABILITY TO ACQUIRE MORTGAGE-RELATED ASSETS, WHICH WILL HARM OUR RESULTS OF OPERATIONS.

We depend on short-term borrowings to fund acquisitions of mortgage-related assets and reach our desired amount of leverage. Accordingly, our ability to achieve our investment and leverage objectives depends on our ability to borrow money in sufficient amounts and on favorable terms. In addition, we must be able to renew or replace our maturing short-term borrowings on a continuous basis. We depend on a few lenders to provide the primary credit facilities for our purchases of mortgage-related assets. In addition, our existing indebtedness may limit our ability to make additional borrowings. If our lenders do not allow us to renew our borrowings or we cannot replace maturing borrowings on favorable terms or at all, we might have to sell our mortgage-related assets under adverse market conditions, which would harm our results of operations and may result in permanent losses.

POSSIBLE MARKET DEVELOPMENTS COULD CAUSE OUR LENDERS TO REQUIRE US TO PLEDGE ADDITIONAL ASSETS AS COLLATERAL. IF OUR ASSETS ARE INSUFFICIENT TO MEET THE COLLATERAL REQUIREMENTS, WE MIGHT BE COMPELLED TO LIQUIDATE PARTICULAR ASSETS AT INOPPORTUNE TIMES AND AT DISADVANTAGEOUS PRICES.

Possible market developments, including a sharp or prolonged rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of

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mortgage-backed securities in which our portfolio is concentrated, might reduce the market value of our portfolio, which might cause our lenders to require additional collateral. Any requirement for additional collateral might compel us to liquidate our assets at inopportune times and at disadvantageous prices, thereby harming our operating results. If we sell mortgage-backed securities at prices lower than the carrying value of the mortgage-backed securities, we would experience losses.

OUR USE OF REPURCHASE AGREEMENTS TO BORROW FUNDS MAY GIVE OUR LENDERS GREATER RIGHTS IN THE EVENT THAT EITHER WE OR ANY OF OUR LENDERS FILE FOR BANKRUPTCY.

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and

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liquidate our collateral under the repurchase agreements without delay if we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that our lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either our lender or us.

BECAUSE THE ASSETS THAT WE ACQUIRE MIGHT EXPERIENCE PERIODS OF ILLIQUIDITY, WE MIGHT BE PREVENTED FROM SELLING OUR MORTGAGE-RELATED ASSETS AT OPPORTUNE TIMES AND PRICES.

We bear the risk of being unable to dispose of our mortgage-related assets at advantageous times and prices or in a timely manner because mortgage-related assets generally experience periods of illiquidity. The lack of liquidity might result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale. If we are unable to sell our mortgage-related assets at opportune times, we might suffer a loss and/or reduce our distributions.

OUR BOARD OF DIRECTORS MAY CHANGE OUR OPERATING POLICIES AND STRATEGIES WITHOUT PRIOR NOTICE OR STOCKHOLDER APPROVAL AND SUCH CHANGES COULD HARM OUR BUSINESS AND RESULTS OF OPERATIONS AND THE VALUE OF OUR STOCK.

Our board of directors has the authority to modify or waive our current operating policies and our strategies (including our election to operate as a REIT) without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. However, the effects might be adverse.

COMPETITION MIGHT PREVENT US FROM ACQUIRING MORTGAGE-BACKED SECURITIES AT FAVORABLE YIELDS, WHICH WOULD HARM OUR RESULTS OF OPERATIONS.

Our net income depends on our ability to acquire mortgage-backed securities at favorable spreads over our borrowing costs. In acquiring mortgage-backed securities, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-backed securities, many of which have greater financial resources than we do. As a result, we may not be able to acquire sufficient mortgage-backed securities at favorable spreads over our borrowing costs, which would harm our results of operations.

DEFAULTS ON THE MORTGAGE LOANS UNDERLYING OUR MORTGAGE-BACKED SECURITIES MAY REDUCE THE VALUE OF OUR INVESTMENT PORTFOLIO AND MAY HARM OUR RESULTS OF OPERATIONS.

We bear the risk of any losses resulting from any defaults on the mortgage loans underlying the mortgage-backed securities in our investment portfolio. Many of the mortgage-backed securities that we obtain will have one or more forms of credit enhancement provided by third parties, such as insurance against risk of loss due to default on the underlying mortgage loans or bankruptcy, fraud and special hazard losses. To the extent that third parties have been contracted to insure against these types of losses, the value of such insurance will depend in part on the creditworthiness and claims-paying ability of the insurer and the timeliness of reimbursement in the event of a default on the underlying obligations.

Further, the insurance coverage for various types of losses is limited in amount, and losses in excess of these limitations would be borne by us.

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Other mortgage-backed securities that we purchase will be subject to limited guarantees of the payment of limited amounts of principal and interest on mortgage loans underlying such mortgage-backed securities, either by federal government agencies, including Ginnie Mae, by federally-chartered corporations, including Fannie Mae and Freddie Mac, or by other corporate guarantors. While Ginnie Mae's obligations are backed by the full faith and credit of the United States, the obligations of Fannie Mae and Freddie Mac and other corporate guarantors are solely their own. As a result, a substantial deterioration in the financial strength of Fannie Mae, Freddie Mac or other corporate guarantors could increase our exposure to future delinquencies, defaults or credit losses on our holdings of Fannie Mae or Freddie Mac-backed mortgage-backed securities or other corporate-backed mortgage-backed securities, and could harm our results of operations. In addition, while Freddie Mac guarantees the eventual payment of principal, it does not guarantee the timely payment thereof, and our results of operations may be harmed if borrowers are late or delinquent in their payments on mortgages underlying Freddie Mac-backed mortgage-backed securities. Moreover, Fannie Mae, Freddie Mac, Ginnie Mae and other corporate guarantees relate only to payments of limited amounts of principal and interest on the mortgages underlying such agency-backed or corporate-backed securities, and do not guarantee the market value of such mortgage-backed securities or the yields on such mortgage-backed securities. As a result, we remain subject to interest rate risks, prepayment risks, extension risks and other risks associated with our investment in such mortgage-backed securities and may experience losses in our investment portfolio.

WE REMAIN SUBJECT TO LOSSES DESPITE OUR STRATEGY OF INVESTING IN HIGHLY-RATED MORTGAGE-BACKED SECURITIES.

Our investment guidelines provide that at least 90% of our assets must be invested in mortgage-backed securities that are either agency-backed or are rated at least investment grade by at least one rating agency. While highly-rated mortgage-backed securities are generally subject to a lower risk of default than lower credit quality mortgage-backed securities and may benefit from third-party credit enhancements such as insurance or corporate guarantees, there is no assurance that such mortgage-backed securities will not be subject to credit losses. Furthermore, ratings are subject to change over time as a result of a number of factors, including greater than expected delinquencies, defaults or credit losses, or a deterioration in the financial strength of corporate guarantors, any of which may reduce the market value of such securities. Furthermore, ratings do not take into account the reasonableness of the issue price, interest risks, prepayment risks, extension risks or other risks associated with such mortgage-backed securities. As a result, while we attempt to mitigate our exposure to credit risk on a relative basis by focusing on highly-rated mortgage-backed securities, we cannot eliminate such credit risks and remain subject to other risks to our investment portfolio and may suffer losses, which may harm the market price of our common stock.

DECREASES IN THE VALUE OF THE PROPERTY UNDERLYING OUR MORTGAGE-BACKED SECURITIES MIGHT DECREASE THE VALUE OF OUR ASSETS.

The mortgage-backed securities in which we invest are secured by underlying real property interests. To the extent that the value of the property underlying our mortgage-backed securities decreases, our security might be impaired, which might decrease the value of our assets.

INSURANCE WILL NOT COVER ALL POTENTIAL LOSSES ON THE UNDERLYING REAL PROPERTY AND THE ABSENCE THEREOF MAY HARM THE VALUE OF OUR ASSETS.

Under our asset acquisition policy, we are permitted to invest up to a maximum of 10% of our total assets in assets other than mortgage-backed securities guaranteed by federal agencies or federally chartered entities such

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as Fannie Mae, Freddie Mac or Ginnie Mae, or rated as at least investment grade by a nationally recognized statistical rating agency. Mortgage loans fall outside of this category of investments under our investment guidelines and are subject to the 10% limitation. If we elect in the future to purchase mortgage loans, we may require that each of the mortgage loans that we purchase include comprehensive insurance covering the underlying real property, including liability, fire and extended

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coverage. There are certain types of losses, however, generally of a catastrophic nature, such as earthquakes, floods and hurricanes, that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds, if any, might not be adequate to restore the economic value of the underlying real property, which might impair our security and decrease the value of our assets.

DISTRESSED MORTGAGE LOANS HAVE HIGHER RISK OF FUTURE DEFAULT.

If we elect in the future to purchase mortgage loans, we may purchase distressed mortgage loans as well as mortgage loans that have had a history of delinquencies. These distressed mortgage loans may be in default or may have a greater than normal risk of future defaults and delinquencies, as compared to a pool of newly-originated, high quality loans of comparable type, size and geographic concentration. Returns on an investment of this type depend on accurate pricing of such investment, the borrower's ability to make required payments or, in the event of default, the ability of the loan's servicer to foreclose and liquidate the mortgage loan. We cannot assure you that the servicer will be able to liquidate a defaulted mortgage loan in a cost-effective manner, at an advantageous price or in a timely manner.

SUBORDINATED LOANS ON REAL ESTATE ARE SUBJECT TO HIGHER RISKS.

If we elect in the future to purchase mortgage loans, we may acquire loans secured by commercial properties, including loans that are subordinate to first liens on the underlying commercial real estate. Subordinated mortgage loans are subject to greater risks of loss than first lien mortgage loans. An overall decline in the real estate market could reduce the value of the real property securing such loans such that the aggregate outstanding balance of the second-lien loan and the balance of the more senior loan on the real property exceed the value of the real property.

WE DEPEND ON OUR KEY PERSONNEL AND THE LOSS OF ANY OF OUR KEY PERSONNEL COULD SEVERELY AND DETRIMENTALLY AFFECT OUR OPERATIONS.

We depend on the diligence, experience and skill of our officers and the people working on behalf of our manager for the selection, acquisition, structuring and monitoring of our mortgage-related assets and associated borrowings. Our key officers include Gail Seneca, Albert Gutierrez, Christopher Zyda, Andrew Chow and Troy Grande. We have not entered into employment agreements with our senior officers other than Mr. Zyda, who is our Senior Vice President and Chief Financial Officer. With the exception of Mr. Zyda and our full-time controller, we do not currently employ personnel dedicated solely to our business, and our officers (other than Mr. Zyda) are free to engage in competitive activities in our industry. The loss of any key person could harm our business, financial condition, cash flow and results of operations.

RISKS RELATED TO OUR MANAGER

SENECA HAS LIMITED EXPERIENCE MANAGING A REIT AND WE CANNOT ASSURE YOU THAT

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SENECA'S PAST EXPERIENCE WILL BE SUFFICIENT TO SUCCESSFULLY MANAGE OUR BUSINESS AS A REIT.

Seneca Capital Management LLC has limited experience managing a REIT, and limited experience in complying with the income, asset and other limitations imposed by the REIT provisions of the Internal Revenue Code. Those provisions are complex and the failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or could force us to pay unexpected taxes and penalties. In such event, our net income would be reduced and we could incur a loss.

OUR MANAGER HAS SIGNIFICANT INFLUENCE OVER OUR AFFAIRS, AND MIGHT CAUSE US TO ENGAGE IN TRANSACTIONS THAT ARE NOT IN OUR OR OUR STOCKHOLDERS' BEST INTERESTS.

In addition to managing us and having at least two of its designees as members of our board, Seneca provides advice on our operating policies and strategies. Seneca may also cause us to engage in future

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transactions with Seneca and its affiliates, subject to the approval of, or guidelines approved by, the independent members of our board of directors. Our directors, however, rely primarily on information supplied by our manager in reaching their determinations. Accordingly, our manager has significant influence over our affairs, and may cause us to engage in transactions which are not in our best interest.

OUR MANAGER AND ITS AFFILIATES MIGHT ALLOCATE MORTGAGE-RELATED OPPORTUNITIES TO OTHER ENTITIES, AND THUS MIGHT DIVERT ATTRACTIVE INVESTMENT OPPORTUNITIES AWAY FROM US.

Our operations and assets are managed by specified individuals at Seneca. Seneca and its affiliates, including some of our officers, manage portfolios for parties unrelated to us. These multiple responsibilities might create conflicts of interest for Seneca and these individuals if they are presented with opportunities that might benefit us and their other clients. Seneca and these individuals must allocate investments among our portfolio and their other clients by determining the entity or account for which the investment is most suitable. In making this determination, Seneca and these individuals consider the investment strategy and guidelines of each entity or account with respect to acquisition of assets, leverage, liquidity and other factors that Seneca and these individuals determine appropriate. However, Seneca and those working on its behalf have no obligation to make any specific investment opportunities available to us and the above-mentioned conflicts of interest might result in decisions or allocations of investments that are not in our or our stockholders' best interests.

WE WILL PAY SENECA INCENTIVE COMPENSATION BASED ON OUR PORTFOLIO'S PERFORMANCE. THIS ARRANGEMENT MAY LEAD SENECA TO RECOMMEND RISKIER OR MORE SPECULATIVE INVESTMENTS IN AN EFFORT TO MAXIMIZE ITS INCENTIVE COMPENSATION.

In addition to its base management fee, Seneca earns incentive compensation for each fiscal quarter equal to a specified percentage of the amount by which our return on equity, before deducting inc