

LUMINENT MORTGAGE CAPITAL INC

Form S-3

June 03, 2005

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As filed with the Securities and Exchange Commission on June 3, 2005
Registration Statement No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
Luminent Mortgage Capital, Inc.
(Exact name of Registrant as specified in its charter)

Maryland
*(State or 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)*

Christopher J. Zyda
Senior Vice President and Chief Financial Officer
Luminent Mortgage Capital, Inc.
909 Montgomery Street, Suite 500
San Francisco, California 94133
(415) 486-2110
*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

Copies to:
Frederick W. Dreher, Esq.
John W. Kauffman, Esq.
Duane Morris LLP
4200 One Liberty Place
Philadelphia PA, 19103-7396
(215) 979-1234

Approximate date of commencement of proposed sale to the public: As soon as practicable following the effectiveness of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please 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 delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Price per Share(2)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee
Common Stock, par value \$0.001 per share	7,000,000 shares	10.43	73,010,000	8,593.28

(1) The shares may be sold, from time to time, by the registrant, pursuant to the registrant's Direct Stock Purchase and Dividend Reinvestment Plan.

(2) Calculated pursuant to Rule 457(c), based on \$10.43 per share, which was the average of the high and low prices of the registrant's common stock or reported by the New York Stock Exchange on May 26, 2005. The proposed maximum offering price per share will be determined, from time to time, by the registrant in connection with the issuance by the registrant of the securities registered.

(3) Does not take into account the discount of 0% to 5% (subject to change) offered to participants in the registrant's Direct Stock Purchase and Dividend Reinvestment Plan.

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.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary 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.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JUNE 3, 2005

Direct Stock Purchase and Dividend Reinvestment Plan

7,000,000 Shares

Luminent Mortgage Capital, Inc.

**Please read this prospectus carefully before investing and
retain it for your future reference.**

We are offering existing holders of our common stock and new investors the opportunity to participate in our Direct Stock Purchase and Dividend Reinvestment Plan. The Plan is designed to be a convenient and economical method for existing stockholders to increase their holdings of our common stock and for new investors to make an initial investment in our common stock. Our stock is listed on the New York Stock Exchange, or NYSE.

If you are an existing holder of our common stock, you may elect to have all or a portion of your cash dividends automatically invested in additional shares of our common stock at a discount that may range from 0% to 2% from the market price, as determined by us.

If you are either an existing holder of our common stock or a new investor, you may also purchase shares of our common stock with optional cash payments of \$100 to \$10,000 per month at a discount that may range from 0% to 5%, as determined by us each month. Upon our approval of a request for waiver, you may also invest optional cash payments in excess of the \$10,000 monthly limit.

Also, with respect to shares of our common stock purchased in the open market under the Plan, we will pay brokerage commissions, so long as the combined discount and brokerage commissions do not exceed 5% of the sum of the fair market value of our common stock on the date of purchase plus the brokerage commission, if any, paid on your behalf.

Holders of our common stock who do not elect to reinvest their dividends will continue to receive cash dividends by check as and when such dividends are declared and paid.

You should consider carefully the risk factors included in and incorporated by reference into this prospectus before enrolling in the Plan. The information in this prospectus is not complete and may be changed. 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.

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

Our principal executive offices are located at 909 Montgomery Street, Suite 500, San Francisco, California 94133.

The date of this Prospectus is _____, 2005.

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SUMMARY

The following summary description of our Direct Stock Purchase and Dividend Reinvestment Plan is qualified by reference to the full text of the Plan which appears in this prospectus. Capitalized terms have the meanings given to them in the Plan.

Our Company

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 recently announced an expansion of our business strategy under which we will purchase mortgage loans and then securitize those loans in an effort to provide spread income over the life of the securitization that will reduce our sensitivity to interest rates.

Our REIT Status

We are taxed under the Internal Revenue Code of 1986, as amended, or the Code, as a real estate investment trust, or REIT. As such, we are not required to pay corporate income taxes on the REIT taxable income that we distribute to stockholders as dividends. We pay corporate income taxes on REIT taxable income that we retain (i.e., that portion of our REIT taxable income that we do not distribute as dividends), which is limited to 10% of our annual REIT taxable income, and we also pay corporate income taxes on income we earn in our taxable (i.e., non-REIT) subsidiaries.

Purposes of the Plan

The purpose of the Plan is to provide our existing stockholders and interested new investors with a convenient and less costly method of purchasing shares of our common stock and investing all or a percentage of their cash dividends in additional shares of our common stock. The Plan can also provide us with a means of raising additional capital through the direct sale of our common stock.

Source of Purchase of Shares

Shares of our common stock purchased through the Plan will be supplied, at our discretion, either directly from us as newly issued shares or via purchases by us of our common stock on the open market or through privately negotiated transactions, or by a combination of such purchases.

Investment Options

You may choose from the following options:

Full Dividend Reinvestment: The Plan Administrator will apply all cash dividends relating to all shares of our common stock registered in your name and all cash dividends on all shares held for you under the Plan, together with Optional Cash Payments, toward the purchase of additional shares of our common stock.

Partial Dividend Reinvestment: The Plan Administrator will apply the cash dividends on a percentage of common shares registered in

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your name specified by you to purchase additional shares of our common stock. The Plan Administrator will pay the dividends relating to the remaining shares of our common stock to you in cash.

All Dividends Paid in Cash: Unless you elect to reinvest your dividends in whole or in part, you will continue to receive cash dividends on shares of our common stock registered in your name in the usual manner. You may make Optional Cash Payments to invest in additional shares of our common stock, subject to monthly minimums and maximums.

You may change your investment options at any time by requesting a new enrollment form from the Plan Administrator and returning it to the Plan Administrator. Dividends paid on all shares of our common stock acquired under and held in the Plan will be automatically reinvested in additional shares of our common stock, unless otherwise requested.

Withdrawal	You may withdraw from the Plan with respect to all or a portion of the shares held in your Plan account at any time by notifying the Plan Administrator in writing.
Optional Cash Payments	Each Optional Cash Payment is subject to a minimum per month purchase of \$100 and a maximum per month purchase limit of \$10,000. Optional Cash Payments in excess of \$10,000 require our prior approval.
Threshold Price	When pre-approved Optional Cash Payments in excess of \$10,000 are being used to purchase our common stock from us, rather than in the open market, we may establish a Threshold Price, which is a stated dollar amount that the average of the high and low trading prices of the shares of our common stock on the New York Stock Exchange during the Pricing Period must equal or exceed. Your investment will be reduced, and a proportional amount of your Optional Cash Payment will be returned to you, without interest, for each trading day on which our common stock does not trade at or above the Threshold Price.
Cash Discounts	Each month, we may establish a discount between 0% and 5% from the Market Price applicable to Optional Cash Payments. The discount may vary each month but once established will apply uniformly to all purchases made using Optional Cash Payments during that month. With respect to our common stock purchased with reinvested dividends, we may establish a discount between 0% and 2% from the Market Price.
Investment Date	With respect to dividend reinvestment: The Investment Date will be (i) if shares are acquired directly from us, the dividend payment date authorized by our board of directors, or (ii) in the case of open market purchases, the date or dates of actual investment, but no later than 10 business days following the dividend payment date.

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With respect to Optional Cash Payments:

The Investment Date is generally on or about the 21st day of each month or, in the case of open market purchases, such day or days between the 21st and the next 10 business days thereafter, as market conditions permit. However, we may establish other Investment Dates as provided in the Plan.

Market Price

Whether the shares are acquired directly from us or on the open market, they will be purchased for the Plan at the applicable discount from the Market Price. In no event shall the price paid be less than the Minimum Price, which is 95% of the sum of the fair market value of our common stock on the date of purchase plus brokerage commissions, if any, paid by us.

The Market Price, in the case of shares purchased directly from us, will be the average of the daily high and low sales prices, computed to four decimal places, of our common stock on the NYSE or other applicable securities exchange, as reported in The Wall Street Journal, during the Pricing Period. A Pricing Period is generally a period of 10 consecutive trading days but can be set to other periods by us.

In the case of shares purchased on the open market, the Market Price will be the weighted average of the actual prices paid, computed to four decimal places, for all of our common stock purchased by the Plan Administrator with all Participants reinvested dividends and Optional Cash Payments for the related month.

Expenses

With respect to shares of our common stock purchased directly from us from reinvested dividends or Optional Cash Payments, we will pay expenses incurred in connection with such purchases. With respect to shares of our common stock purchased in the open market, we will also pay brokerage commissions so long as the combined discount and brokerage commissions do not exceed 5% of the sum of the fair market value of our common stock on the date of purchase plus the brokerage commissions, if any, paid on your behalf. We will pay all other costs of administering the Plan.

If you request that the Plan Administrator sell all or any portion of your shares, you must pay a nominal fee per transaction to the Plan Administrator, any related brokerage commissions and applicable stock transfer taxes.

No Interest Pending Investment

No interest will be paid on cash dividends or Optional Cash Payments pending investment or reinvestment under the terms of the Plan.

Amount Offered

This prospectus is part of a registration statement under which we have registered 7,000,000 shares of our common stock authorized to be issued under the Plan. Because we expect to continue the Plan indefinitely, we expect to authorize for issuance and register under the Securities Act additional shares from time to time as necessary for purposes of the Plan and may otherwise amend the Plan.

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CAUTIONARY STATEMENT

This prospectus and the documents incorporated by reference herein contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, including the words anticipate, estimate, should, expect, believe, intend and similar expressions, are included to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in this prospectus, or in documents incorporated by reference in this prospectus, under the caption Risk Factors. Other risks, uncertainties and factors that could cause actual results to differ materially from those projected are detailed from time to time in reports filed by us with the Securities and Exchange Commission, or SEC, including Forms 10-Q and 10-K.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events mentioned, discussed in or incorporated by reference into this prospectus might not occur. Accordingly, our actual results may differ from our current expectations, estimates and projections.

Our forward-looking statements are based upon our management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to us. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us, that might cause our actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

interest rate mismatches between our mortgage-backed securities and the borrowings we use to fund our purchases of such securities;

changes in interest rates and mortgage prepayment rates;

our ability to obtain or renew sufficient funding to maintain our leverage strategies;

potential impacts of our leveraging policies on our net income and cash available for distribution;

our limited operating history and the limited experience of Seneca Capital Management LLC, or Seneca, our management company, in managing a REIT;

the ability of our board of directors to change our operating policies and strategies without stockholder approval or notice to you;

effects of interest rate caps on our adjustable-rate and hybrid adjustable-rate mortgage-backed securities;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

the fact that our manager, Seneca, could be motivated to recommend riskier investments in an effort to maximize its incentive compensation under its management agreement with us;

potential conflicts of interest arising out of our relationship with Seneca, on the one hand, and Seneca's relationships with other third parties, on the other hand;

our ability to invest up to 10% of our investment portfolio in lower-credit quality mortgage-backed securities that carry an increased likelihood of default or rating downgrade relative to investment-grade securities; and

your inability to review the assets that we will acquire with the net proceeds of any securities we offer.

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RISK FACTORS

You should carefully consider the risk factors that could cause our results to differ from expectations and other information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement before deciding to purchase shares of our common stock.

We include risk factors in our periodic reports filed with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act), and the risk factors set forth in our most recent Form 10-K annual report and subsequent Form 10-Q quarterly reports are incorporated by reference. See Incorporation of Important Information by Reference. Our Form 10-Q for the quarter ended March 31, 2005 included risk factors relating to the following topics:

Risks Related to Our Business

Interest rate mismatches between our mortgage-backed securities and the borrowings used to fund our purchases of mortgage-backed securities might reduce our net income or result in losses 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 depend on short-term 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.

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.

We may incur increased borrowing costs related to repurchase agreements that would harm our results of operations.

We have only been in business since June 2003 and our implementation of our operating policies and strategies may not continue to be successful.

Our board of directors may change our operating policies and strategies without stockholder approval or prior notice and such changes could harm our business and results of operations and the value of our stock.

We depend on our key personnel, and the loss of any of our key personnel could severely and detrimentally affect our operations.

Competition might prevent us from acquiring mortgage-backed securities at favorable yields, which would harm our results of operations.

Interest rate caps related to our mortgage-backed securities may reduce our net income or cause us to suffer a loss during periods of rising interest rates.

We might experience reduced net interest income or a loss from holding fixed-rate investments during periods of rising interest rates.

We might not be able to use derivatives to mitigate our interest rate and prepayment risks.

We may enter into ineffective derivative transactions or other hedging activities that may reduce our net interest rate spread or cause us to suffer losses.

An increase in interest rates might adversely affect our book 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.

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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.

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 remain subject to losses despite our strategy of investing in highly-rated mortgage-backed securities.

Our investment guidelines permit us to invest up to 10% of our assets in unrated mortgage-related assets and 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 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.

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.

Decreases in the value of the property underlying our mortgage-backed securities 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.

Distressed mortgage loans have a higher risk of future default.

Subordinated loans on real estate are subject to higher risks.

Risks Related to Seneca

We 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.

Because Seneca is entitled to a significant fee if we terminate the management agreement, economic considerations might preclude us from terminating the management agreement in the event that Seneca fails to meet our expectations.

Seneca's liability is limited under the management agreement, and we have agreed to indemnify Seneca against certain liabilities.

Seneca might allocate mortgage-related opportunities to other entities, and thus might divert attractive investment opportunities away from us.

Seneca may render services to other mortgage investors, which could reduce the amount of time and effort that Seneca devotes to us.

Seneca has significant influence over our affairs, and might cause us to engage in transactions that are not in our or our stockholders' best interests.

Seneca has limited experience managing a REIT and we cannot assure you that Seneca's past experience will be sufficient to manage our business as a REIT successfully.

Investors may not be able to estimate with certainty the aggregate fees and expense reimbursements that will be paid to Seneca under the management agreement and the cost-sharing agreement due to the time and manner in which Seneca's incentive compensation and expense reimbursements are determined.

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Legal and Tax Risks

If we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability.

Complying with REIT requirements might cause us to forego otherwise attractive opportunities.

Complying with REIT requirements may limit our ability to hedge effectively.

Complying with the REIT requirements may force us to borrow to make distributions to our stockholders.

Complying with the REIT requirements may force us to liquidate otherwise attractive investments.

Failure to maintain an exemption from the Investment Company Act would harm our results of operations.

Misplaced reliance on legal opinions or statements by issuers of mortgage-backed securities could result in a failure to comply with REIT income or assets tests.

One-action rules may harm the value of the underlying property.

We may be harmed by changes in various laws and regulations.

We may incur excess inclusion income that would increase the tax liability of our stockholders.

Risks Related to Investing in Our Securities

We have not established a minimum distribution payment level, and we cannot assure you of our ability to make distributions to our stockholders in the future.

Our declared cash distributions may force us to liquidate mortgage-backed securities or borrow additional funds.

Future offerings of debt securities by us, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may harm the value of our common stock.

Changes in yields may harm the market price of our common stock.

The market price and trading volume of our common stock may be volatile.

Issuance of large amounts of our stock could cause our price to decline.

Restrictions on ownership of a controlling percentage of our capital stock might limit your opportunity to receive a premium on our stock.

Broad market fluctuations could harm the market price of our common stock.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control of our company.

The market price of our common stock may be adversely affected by future sales of a substantial number of shares of our common stock by our existing stockholders in the public market or the availability of such shares

for sale.

Terrorist attacks and other acts of violence or war may affect the market for our common stock, the industry in which we operate and our operations and profitability.

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Risks Related to this Offering

The actual price paid for shares acquired under the Plan may be higher than the discounted price determined using the Market Price formula.

Our Plan includes a requirement that all investments be made at a price that is at least equal to 95% of the sum of the fair market value of our stock on the Investment Date plus the brokerage commissions, if any, paid on your behalf. If the value of our stock on the Investment Date significantly exceeds the value of our stock determined using the Market Price formula, the price paid under the Plan will be increased to ensure compliance with this requirement. The minimum pricing requirement is included in the Plan in order to ensure compliance with certain tax rules applicable to REITs. Under those rules, in order to maintain the deductibility of our dividends, the value of the discount we grant cannot exceed 5% of the sum of the fair market value of our shares on the Investment Date plus the brokerage commissions, if any, paid on your behalf.

Your taxable income attributable to discounts received under the Plan will be based on the value of our stock on the Investment Date and not on the Market Price of such stock.

DESCRIPTION OF THE PLAN

The Plan was adopted by our Board of Directors on May 26, 2005. The following series of questions and answers and other information explains and constitutes the Plan in its entirety. Stockholders who do not participate in the Plan will receive cash dividends, as declared, and paid in the usual manner.

Purpose

What is the purpose of the Plan?

The primary purpose of the Plan is to provide holders of our common stock and interested new investors with a convenient and economical method of increasing their investment in us by investing cash dividends or Optional Cash Payments, or both, in additional shares of our common stock without payment of any brokerage commission or service charge and, currently, at a discount ranging from 0% to 5% from the Market Price.

We may also use the Plan to raise additional capital through the sale each month of a portion of the shares available for issuance under the Plan to owners of shares and interested new investors, including brokers or dealers, who, in connection with any resales of such shares, may be deemed to be underwriters. Our ability to waive limitations applicable to the amounts that participants may invest pursuant to the Plan's Optional Cash Payment feature will facilitate these sales.

Under the Plan, if you purchase shares directly from us, the net proceeds of the sale of those shares will be used to purchase additional real estate loans and mortgage-backed securities and for general corporate purposes.

The Plan is intended for the benefit of our investors and not for individuals or investors who engage in transactions that may cause aberrations in the price or trading volume of our common stock. From time to time, financial intermediaries may engage in positioning transactions to benefit from the discount from the Market Price of our common stock acquired through the reinvestment of dividends or Optional Cash Payments under the Plan. Those transactions may cause fluctuations in the price or trading volume of our common stock. We reserve the right to monitor activity in all Plan accounts, and to modify, suspend or terminate participation in the Plan by otherwise eligible holders of our common stock or interested new investors to eliminate practices that are, in our sole discretion, not consistent with the purposes or operation of the Plan, including investment limits per account, or that adversely affect the price of our common stock or that could adversely affect our status as a REIT.

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Available Options

What options are available under the Plan?

Stock Purchase Program. Each month, you may elect to invest Optional Cash Payments in shares of our common stock, subject to a minimum per month purchase of \$100 and a maximum per month purchase limit of \$10,000, subject to waiver. You may make Optional Cash Payments each month even if you do not reinvest dividends.

Dividend Reinvestment Program. Holders of our common stock who wish to participate in the Plan, whether Record Owners, Beneficial Owners or interested new investors who make an initial investment through the Stock Purchase program described above, may elect to have all, a portion or none of the cash dividends paid on our common stock automatically reinvested in additional shares of our common stock through the Dividend Reinvestment program. Cash dividends are paid on our common stock, or if and when outstanding, on any other class of equity security that pays dividends, when and as authorized by our board of directors and declared by us, generally on a quarterly basis. Subject to the availability of shares of our common stock registered for issuance under the Plan, there is generally no limitation on the amount of dividends you may reinvest under the Dividend Reinvestment feature of the Plan.

Benefits and Disadvantages

What are the benefits and disadvantages of the Plan?

Benefits:

Whether you are an eligible stockholder or a new investor, the Plan provides you with the opportunity to make monthly investments through Optional Cash Payments, subject to minimum and maximum amounts, for the purchase of additional shares of our common stock. If you purchase shares of our common stock under the Optional Cash Payment program, you will not pay any brokerage commission or service charge, and your purchase price generally will reflect a discount ranging from 0% to 5% from the Market Price, subject to the Minimum Price requirement.

The Plan provides you with the opportunity to reinvest automatically cash dividends paid on all or a portion of your common stock in additional shares of common stock without payment of any brokerage commission or service charge and at a discount ranging from 0% to 2% from the Market Price, subject to the Minimum Price requirement.

All cash dividends paid on participants' Plan shares enrolled in the Dividend Reinvestment program can be invested in additional shares of our common stock because the Plan permits fractional shares to be credited to Plan accounts. Dividends on such fractional shares, as well as on whole shares, will also be reinvested in additional shares that will be credited to Plan accounts.

The Plan Administrator, at no charge to you and at your election, either sends certificates to you for optional shares purchased or provides for the safekeeping of stock certificates for shares credited to each Plan account.

As a participant in the Plan, you may also elect to deposit with the Plan Administrator certificates for other shares of our common stock registered in your name for safekeeping without charge. Because you bear the risk of loss in sending certificates to the Plan Administrator, certificates should be sent by registered mail, return receipt requested, and properly insured to the address specified under Administration below. If certificates are later issued either upon your request or upon termination of your participation, new, differently numbered certificates will be issued.

Periodic statements reflecting all current activity, including purchases, sales and latest balances, will simplify your record keeping.

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Disadvantages:

Neither we nor the Plan Administrator will pay interest on dividends or Optional Cash Payments held pending reinvestment or investment. In addition, Optional Cash Payments of less than \$100 and that portion of any Optional Cash Payment that exceeds the maximum monthly purchase limit of \$10,000, unless such upper limit has been waived by us, may be subject to return to you without interest. In addition, for pre-approved Optional Cash Payments in excess of \$10,000 used to purchase our common stock directly from us, if the Threshold Price, if any, is not met, a portion or all of your Optional Cash Payments in excess of \$10,000 will be subject to return to you without interest.

With respect to Optional Cash Payments, the actual number of shares to be issued to your Plan account will not be determined until after the end of the relevant Pricing Period. Therefore, during the Pricing Period, you will not know the actual number of shares, if any, you have purchased.

With respect to shares acquired from us, the Market Price may exceed the price at which shares of our common stock are trading on the Investment Date when the shares are issued. The fair market value on the Investment Date generally governs the amount of taxable income to stockholders and may affect the price at which your shares are purchased.

Because Optional Cash Payments must be received by the Plan Administrator by the Optional Cash Payment Due Date, such payments may be exposed to changes in market conditions for a longer period of time than in the case of typical secondary market transactions. In addition, Optional Cash Payments once received by the Plan Administrator will not be returned to you unless you send a written request to the Plan Administrator at least five business days before the commencement of the relevant Pricing Period with respect to that payment.

There is a nominal fee per transaction, a brokerage commission and applicable share transfer taxes on resales that you may be required to pay to the Plan Administrator if you request that the Plan Administrator sell some or all of your shares of our common stock credited to your Plan account.

If you chose to reinvest cash dividends, you will be treated for federal income tax purposes as having received a distribution in cash on the distribution payment date. You may have to use other funds, or sell a portion of our common stock received, to fund the resulting tax liability.

Who is eligible to participate in the Plan?

New investors and existing stockholders of the Company are eligible to participate in the Plan.

How does a new investor participate in the Plan?

If you are a new investor and would like to participate in the Plan, please read this prospectus before you invest. Once you have read this prospectus, you may complete the enclosed enrollment form and mail it to the Plan Administrator in the envelope provided. Alternatively, you may enroll on-line through Investor ServiceDirect® at www.melloninvestor.com.

New investors can participate in the Plan by making an initial investment in our common stock of not less than \$100 up to a maximum of \$10,000, unless a request for waiver has been granted, in which case the initial investment may exceed \$10,000. If you are a new investor, you may make an initial investment by:

Authorizing an electronic debit of at least \$100 but not more than \$10,000 from your U.S. bank account. This alternative is available to on-line investors only; or

Mailing a check or money order for at least \$100 but not more than \$10,000 to the Plan Administrator along with your enrollment form. Please make the check or money order payable to Mellon Bank, N.A./Luminent.

Prospective investors should carefully consider the matters described in the Risk Factors section of this prospectus before making an investment in our common stock.

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Administration

Mellon Bank, N.A. (the Plan Administrator) administers the Plan. Certain administrative support will be provided to the Plan Administrator by Mellon Investor Services, a registered transfer agent, and Mellon Securities LLC, a registered broker/ dealer.

You can enroll in the Plan, obtain information, and perform certain transactions on your Plan account on-line via Investor ServiceDirect®. To access Investor ServiceDirect® please visit the Mellon Investor Services website at: www.melloninvestor.com.

To gain access, you will need a password that you may establish when you visit the website. If you have forgotten your password, call 1-877-978-7778 to have it reset.

You can contact stockholder customer service toll-free within the United States and Canada at:
1-866-865-6323

If you are calling from outside the United States or Canada, please contact stockholder customer service at:
1-201-329-8660.

An automated voice response system is available 24 hours a day, 7 days a week. Customer service representatives are available from 9:00 a.m. to 7:00 p.m., Eastern Time, Monday through Friday (except holidays).

You may write to the Plan Administrator at the following address:

Mellon Investor Services
P.O. Box 3338
South Hackensack, NJ 07606-1938
Please include a reference to Luminent in all correspondence.

Who Administers the Plan?

The Plan Administrator administers the Plan. Mellon Investor Services, a registered transfer agent, and Mellon Securities LLC, a registered broker/ dealer, will provide certain administrative support to the Plan Administrator. If you have questions regarding the Plan, please write to the Plan Administrator at the following address: Mellon Investor Services, P.O. Box 3338, South Hackensack, NJ 07606-1938, or call the Plan Administrator at 1-866-865-6323 (if you are inside the United States or Canada) or 1-201-329-8660 (if you are outside the United States or Canada). An automated voice response system is available 24 hours a day, 7 days a week. Customer service representatives are available from 9:00 a.m. to 7:00 p.m., Eastern Time, Monday through Friday (except holidays). In addition, you may visit the Mellon Investor Services website at www.melloninvestor.com. At this website, you can enroll in the Plan, obtain information and perform certain transactions on your Plan account via Investor ServiceDirect®. See Administration for more information regarding Investor ServiceDirect® and the administration of the Plan.

Certificates for Plan Shares purchased pursuant to the Stock Purchase program but not designated for investment in the Dividend Reinvestment program will be sent to you or held by the Plan Administrator, at your discretion, free of charge. Plan Shares designated for the Dividend Reinvestment program will be held by the Plan Administrator and registered in the Plan Administrator's name (or its nominee) as agent for each Participant in the Plan. As record holder for the Plan shares, the Plan Administrator will receive dividends on all Plan Shares held on the dividend Record Date, will credit such dividends to Participants' accounts on the basis of whole or fractional Plan Shares held in such accounts and will automatically reinvest such dividends in additional shares of our common stock according to the portion of the Participants' shares of stock designated to participate in the Dividend Reinvestment program. Any remaining portion of cash dividends not designated for reinvestment will be sent to you. If the Plan Administrator resigns or otherwise ceases to act as plan administrator, we will appoint a new plan administrator to administer the Plan and advise you of the change.

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Mellon Investor Services LLC also acts as dividend disbursing agent, transfer agent and registrar for our common stock.

Participation

For purposes of this section, responses are generally directed (a) to existing stockholders, according to the method by which their shares are held, or (b) to investors who are not currently stockholders but would like to make an initial purchase of our common stock to become a Participant.

Who is eligible to participate?

Any eligible stockholder and new investor may join the Plan by completing an enrollment form and returning it to the Plan Administrator at the following address: Mellon Investor Services, P.O. Box 3338, South Hackensack, NJ 07606-1938. If you are an eligible stockholder, you may submit an initial optional cash payment of between \$100 and \$10,000 with your completed enrollment form. If you are a new investor, you must submit an initial investment of between \$100 and \$10,000 with your completed enrollment form. Alternatively, you may enroll on-line at www.melloninvestor.com. You may make an initial optional cash payment or an initial investment in excess of \$10,000 only if we grant your request for waiver.

How does an eligible stockholder or interested new investor participate?

If the Plan Administrator receives your enrollment form on or before the record date for the payment of the next dividend, that dividend will be invested in additional shares of common stock for your Plan account. If the enrollment form is received in the period after any dividend record date, that dividend will be paid by check or automatic deposit to a bank account that you designate and your initial dividend reinvestment will commence with the following dividend.

Once enrolled in the Plan, you can meet your individual objectives by choosing among the following categories or combinations of investments:

You may reinvest all or a portion of the cash dividends paid on your shares of common stock in additional shares of our common stock.

You may invest by making Optional Cash Payments of not less than \$100 up to a maximum of \$10,000 per month unless a request for waiver has been granted (in which case your Optional Cash Payments may exceed \$10,000 for the month in which the waiver is granted), regardless of whether dividends are being reinvested.

The purchase price for shares purchased with an initial investment of not less than \$100 up to a maximum of \$10,000 will be equal to the Market Price. See *Purchases and Pricing of Shares* for a description of how the Market Price is determined. If you request a waiver and we approve it, your initial investment may exceed \$10,000. See *Optional Cash Payments and Initial Investments in Excess of \$10,000 Request for Waiver* and *Purchases and Pricing of Shares Purchased Pursuant to a Request for Waiver* for more information.

By enrolling in the Plan, you direct the Plan Administrator to apply dividends and any optional cash payments you might make as a participant to the purchase of additional shares of our common stock in accordance with the Plan's terms and conditions. Unless otherwise instructed, the Plan Administrator will automatically reinvest all dividends declared on shares held under the Plan. If you do not want the dividends paid on your shares to be reinvested, you must provide notice to the Plan Administrator. See *Administration* for information on how to contact the Plan Administrator. To be effective for a particular dividend payment, the Plan Administrator must receive notice on or before the record date for that dividend. If the notice is received after the record date, dividends paid on shares held in your account will be reinvested and credited to your account. Your request will then be processed as soon as practicable after the dividends are reinvested.

Optional cash payments and initial investments can be delivered to the Plan Administrator in the form of a check or money order made payable to Mellon Bank, N.A./Luminent, or by authorizing electronic transfers

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from your bank account by accessing your Plan account on-line through Investor ServiceDirect® at www.melloninvestor.com. If you send a check or money order, please complete the transaction stub attached to your Plan statement and then mail it with your payment to the address specified on the Plan statement. A \$30 fee will be assessed for a check or electronic debit that is returned for insufficient funds.

The Plan Administrator must receive the Optional Cash Payment of an existing stockholder at least one business day prior to the Investment Date.

How does an existing stockholder participate in the Plan?

Enrollment is available on-line through Investor ServiceDirect® at www.melloninvestor.com. See Administration for information on how to access Investor ServiceDirect®. Alternatively, you may enroll by completing the enclosed enrollment form and mailing it to the Plan Administrator in the envelope provided. Your participation will begin promptly after your Plan enrollment is received. Once you enroll, your participation continues automatically for as long as you wish to participate in the Plan.

You may change your dividend reinvestment election at any time on-line through Investor ServiceDirect® or by notifying the Plan Administrator in writing. To be effective with respect to a particular dividend, any such change must be received by the Plan Administrator on or before the record date for that dividend.

You may, of course, choose not to reinvest any of your dividends, in which case the Plan Administrator will remit any dividends to you by check or automatic deposit to a bank account that you designate.

As an existing stockholder, what are my investment options under the Plan?

Once enrolled in the Plan, you may elect to reinvest all or a portion of your dividends in additional shares of our common stock or make Optional Cash Payments of not less than \$100 up to a maximum of \$10,000 per month unless a request for waiver has been granted (in which case your optional cash payments may exceed \$10,000 for the month in which the waiver is granted), regardless of whether dividends are being reinvested.

The purchase price for shares purchased with reinvested dividends and Optional Cash Payments up to \$10,000 per month will be equal to the Market Price. See Purchases and Pricing of Shares for a description of how the Market Price is determined. You may make Optional Cash Payments in excess of \$10,000 in any month only if we grant your request for waiver. If a request for waiver is approved, we may offer discounts ranging from 0% to 5%.

How do I make an Optional Cash Payment under the Plan?

If you already own shares of our common stock, are enrolled in the Plan and want to make Optional Cash Payments, you can authorize an individual automatic deduction from your bank account through Investor ServiceDirect® or send a check or money order to the Plan Administrator for each Optional Cash Payment. If you choose to submit a check or money order, please make sure to include the contribution form from your Plan statement and mail it to the address specified on the Plan statement. If you wish to make regular monthly Optional Cash Payments, you may authorize automatic monthly deductions from your bank account. Optional Cash Payments may not be less than \$100, and the total of all Optional Cash Payments may not exceed \$10,000 in any month, unless a request for waiver has been granted (in which case your Optional Cash Payments may exceed \$10,000 for the month in which the waiver is granted).

When are funds invested under the Plan?

The Investment Date for initial investments and Optional Cash Payments will be the dividend payment date for months in which a dividend is payable. For those months in which a dividend is not payable, the investment date for initial investments and optional cash payments will be the 20th day of the month, or the next succeeding business day if the 20th falls on a weekend or holiday. In the unlikely event that, due to unusual market conditions, the Plan Administrator is unable to invest the funds within 30 days, the Plan

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Administrator will return the funds to you by check. No interest will be paid on funds held by the Plan Administrator pending investment.

How do I make Optional Cash Payments or an initial investment in excess of the maximum monthly amount?

If you wish to make Optional Cash Payments in excess of \$10,000 in any month or an initial investment in excess of \$10,000, see [Optional Cash Payments and Initial Investments in Excess of \\$10,000](#) [Request for Waiver](#) for more information.

Who pays the brokerage trading fees and other expenses?

Unless provided otherwise in the Plan, we will pay all brokerage trading fees, the annual cost of administration and all other charges incurred in connection with the purchase of shares acquired under the Plan, if any. Certain charges may be incurred by you if you withdraw from the Plan as described below. See [Withdrawal by Participant](#).

Eligibility of New Investors

If you are a new investor, you can participate in the Plan by making an initial investment in our common stock of not less than \$100 up to a maximum of \$10,000. You may make an initial investment in excess of \$10,000 only if we grant your request for waiver. New investors may join the Plan by completing the enclosed enrollment form and delivering it, along with an initial investment, to the Plan Administrator. Alternatively, you may enroll in the Plan on-line through Investor ServiceDirect® at www.melloninvestor.com. See [How does a new investor participate in the Plan?](#) for more information on how to make an initial investment through Investor ServiceDirect®.

Eligibility of Existing Stockholders

Eligible stockholders may join the Plan by completing an enrollment form and delivering it to the Plan Administrator. Alternatively, you may enroll in the Plan on-line through Investor ServiceDirect® at www.melloninvestor.com. See [How do I make an Optional Cash Payment under the Plan?](#) for more information on how to make an Optional Cash Payment through Investor ServiceDirect®.

If you own shares that are registered in someone else's name (for example, a bank, broker, or trustee) and you want to participate in the Plan, you may be able to arrange for that person to handle the reinvestment of dividends. If not, your shares should be withdrawn from street name or other form of registration and should be registered in your own name.

Date For Investment of Funds Under The Plan

For months when a dividend is payable, the Investment Date will be the dividend payment date for the quarter. For those months in which we do not pay a dividend, the Investment Date will be the 20th day of the month, or the next succeeding business day if the 20th falls on a weekend or holiday. In the unlikely event that, due to unusual market conditions, the Plan Administrator is unable to invest the funds within 30 days, the Plan Administrator will return the funds to you by check. No interest will be paid on funds held by the Plan Administrator pending investment.

Use of Multiple Accounts

If you set up multiple accounts using variations of the same name, bearing the same social security number or tax identification number, do anything else, regardless of the form, for the purpose of evading the \$10,000 limitation on initial investments and monthly Optional Cash Payments, you will be considered a single participant for purposes of the \$10,000 limitation. If you have some shares of common stock registered in your name and other shares registered under a nominee's or broker's street name, or in the name of a corporation, trust, co-tenancy, partnership or other entity of which you are an affiliate, you and all of your affiliates may

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only invest a total of \$10,000 per month under the Plan. For purposes of this Plan, affiliate is defined in the same manner as in Rule 405 under the Securities Act of 1933 and includes any person or persons controlling, controlled by or under common control with you. Separate custodial or trust accounts for separate beneficiaries will, however, be entitled to invest up to \$10,000 per account each month. Purchases made for an account of a participant in a plan that is qualified under Section 401(a) of the Code will not be included in this \$10,000 limitation.

Optional Cash Payments and Initial Investments in Excess Of \$10,000 Request For Waiver

If you want to make Optional Cash Payments in excess of \$10,000 in any month or an initial investment in excess of \$10,000, you must receive our written approval. To obtain our written approval, you must submit a request for waiver form. You can obtain a request for waiver form by contacting the Plan Administrator's Waiver Department at 1-917-320-6300 and upon completion, please send it to the Plan Administrator's Waiver Department via facsimile at 1-917-320-6312.

We have the sole discretion whether to approve any request to make an Optional Cash Payment or initial investment in excess of the maximum amount and to set the terms of any such Optional Cash Payment or initial investment. If we approve your request for waiver, the Plan Administrator will notify you promptly. In deciding whether to approve a request for waiver, we will consider relevant factors, including, but not limited to, the following:

Whether the Plan is then acquiring newly issued shares directly from us or acquiring shares in the open market or in privately negotiated transactions from third parties;

Our need for additional funds;

The attractiveness of obtaining additional funds through the sale of common stock compared to other sources of funds;

The purchase price likely to apply to any sale of common stock;

The stockholder submitting the request;

The extent and nature of the stockholder's prior participation in the Plan;

The number of shares of common stock held of record by the stockholder; and

The aggregate number of Optional Cash Payments and initial investments in excess of \$10,000 for which requests for waiver have been submitted by all existing stockholders and new investors.

If requests for waiver are submitted for an aggregate amount in excess of the amount we are then willing to accept, we may honor such requests in order of receipt, pro rata or by any other method that we determine to be appropriate. The Plan does not provide for a predetermined maximum amount that an existing stockholder or new investor may invest or a maximum number of shares that may be purchased pursuant to a request for waiver.

Purchases and Pricing of Shares

What will be the price to participants of shares purchased under the Plan?

With respect to reinvested dividends, whether the shares are acquired directly from us or on the open market, they will be purchased for the Plan at a discount between 0% and 2% from the Market Price, as defined below.

Each month, we may establish a discount of between 0% and 5% from the Market Price applicable to Optional Cash Payments. The discount may vary each month but once established will apply uniformly to all purchases made using Optional Cash Payments during that month.

In no event will the price paid be less than the Minimum Price paid by us, which is 95% of the fair market value of our common stock on the date of purchase plus brokerage commissions, if any.

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The Market Price, in the case of shares purchased directly from us, will be the average of the daily high and low sales prices, computed to four decimal places, of our common stock on the NYSE or other applicable securities exchange, as reported in *The Wall Street Journal*, during the Pricing Period, generally the 10 days, or as otherwise designated by us at our sole discretion from time to time and disclosed in any waivers so granted, on which the New York Stock Exchange, or NYSE, is open and for which trades in our common stock are reported immediately preceding the relevant Investment Date, or, if no trading occurs in our common stock on one or more of such days, for the 10 days (or other number) immediately preceding the Inv