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	06-1694835
(State of other jurisdiction of incorporation or organization)	(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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SAN FRANCISCO, CALIFORNIA 94111-3344	LOS ANGELES, CALIFORNIA 90071
(415) 984-8700	(213) 229-7000

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

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 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

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

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

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 RESALES 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

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 iv

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 DECRITES 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

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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.

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 BAILIWICK OF GUERNSEY EITHER (I) BY PERSONS LICENSED TO DO SO UNDER THE PROTECTION OF INVESTORS (BAILIWICK 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 (BAILIWICK OF GUERNSEY) LAW, 2002, THE BANKING SUPERVISION (BAILIWICK OF GUERNSEY) LAW, 1994, OR THE REGULATION OF FIDUCIARIES, ADMINISTRATION BUSINESSES AND COMPANY DIRECTORS, ETC, (BAILIWICK OF GUERNSEY) LAW, 2000.

CONSENT UNDER THE CONTROL OF BORROWING (BAILIWICK OF GUERNSEY) ORDINANCES 1959 - 2003 HAS NOT BEEN OBTAINED TO THE CIRCULATION OF THIS OFFERING CIRCULAR IN THE BAILIWICK 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 BAILIWICK 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

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

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

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

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

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.

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

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

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 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

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.

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

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 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%

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 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 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: PNX). 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 Director 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

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

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

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.

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."

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

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.

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.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE PERIOD FROM APRIL 26, 2003 THROUGH DECEMBER 31, 2003
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

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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DECEMBER 31, 2003
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

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 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 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.

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 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 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

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.

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

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 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

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 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.

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 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

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

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

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 incentive compensation, exceeds a return based on the 10-year U.S. Treasury rate plus 2%. The percentage for this calculation is the weighted-average of the following percentages based on our average net invested assets for the period:

- 20% for the first $400 million of our average net invested assets; and

- 10% of our average net invested assets in excess of $400 million.

Pursuant to the formula for calculating Seneca's incentive compensation, Seneca shares in our profits but not in our losses. Consequently, as Seneca evaluates different mortgage-backed securities and other investments for our account, there is a risk that Seneca will cause us to assume more risk than is prudent in an attempt to increase its incentive compensation. Other key criteria related to determining appropriate investments and investment strategies, including the preservation of capital, might be under-weighted if Seneca focuses exclusively or disproportionately on maximizing its income.

WE MAY BE OBLIGATED TO PAY SENECA INCENTIVE COMPENSATION EVEN IF WE INCUR A LOSS.

Pursuant to the management agreement, Seneca is entitled to receive incentive compensation for each fiscal quarter in an amount equal to a tiered percentage of the excess of our taxable income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. In addition, the management agreement further provides that our taxable income for incentive compensation purposes excludes net capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay Seneca incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

DURING PERIODS OF DECLINING MARKET PRICES FOR SHARES OF OUR COMMON STOCK, WE MAY BE REQUIRED TO ISSUE GREATER NUMBERS OF SHARES TO SENECA FOR THE SAME AMOUNT OF INCENTIVE COMPENSATION ARISING UNDER THE MANAGEMENT AGREEMENT, WHICH WILL HAVE A DILUTIVE EFFECT ON OUR STOCKHOLDERS THAT MAY HARM THE MARKET PRICE OF OUR COMMON STOCK.

Pursuant to the terms of the management agreement, the incentive compensation payable to Seneca for each fiscal quarter is paid one-half in cash and one-half in restricted shares of our common stock. The number of shares to be issued to Seneca is based on (a) one-half of the total incentive compensation for the period, divided by (b) the average of the closing prices of the common stock over the 30 day period ending three days prior to the grant date, less a fair market value discount determined by our board of directors. During periods of declining market prices for shares of our common stock, we may be required to issue more shares to Seneca for the same amount of incentive compensation. Although these shares will initially be subject to restrictions on transfer which lapse ratably over a three-year period, the issuance of these shares will have a dilutive effect on our stockholders which may harm the market price of our common stock.

BECAUSE SENECA MIGHT RECEIVE 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.

If we terminate the management agreement without cause or because we decide to manage our company internally or if Seneca terminates the management in the event of a change of control, then we will have to pay a significant fee to Seneca. The amount of the fee depends on whether:

- we terminate the management agreement without cause in connection with a decision to manage our portfolio internally, in which case we will be obligated to pay to Seneca a fee equal to the highest amount of management fees incurred in a particular year during the then three most recent years; or

- our decision to terminate the management agreement without cause is for a reason other than our decision to manage our portfolio internally, in which case we will be obligated to pay Seneca an amount equal to two times the highest amount of management fees incurred in a particular year during the then three most recent years.

In each of the above cases, Seneca will also receive accelerated vesting of the equity component of its incentive compensation. The actual amount of such fee cannot be known at this time because it is based in part on the performance of our portfolio of mortgage-backed securities. Paying this fee would reduce significantly the cash available for distribution to our stockholders and might cause us to suffer a net operating loss. Consequently, terminating the management agreement might not be advisable even if we determine that it would be more efficient to operate with an internal management structure or if we are otherwise dissatisfied with Seneca's performance.

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.

Seneca may be entitled to substantial fees pursuant to the management agreement. Seneca's base management fee is calculated as a percentage of our average net worth. Seneca's incentive compensation is calculated as a tiered percentage of our taxable income (before deducting certain items) in excess of a threshold amount of taxable income and is indeterminable in advance of a particular period. Since future payments of base management fees, incentive compensation and expense reimbursements are determined at future dates based upon our then-applicable average net worth, results of operations and actual expenses incurred by Seneca, such fees and expense reimbursements cannot be estimated with mathematical certainty. Any base management fees, incentive compensation or expense reimbursements payable to Seneca may be materially greater or less than the historical amounts and we can provide no assurance at

this time as to the amount of any such base management fee, incentive compensation or expense reimbursements that may be payable to Seneca in the future.

SENECA MAY RENDER SERVICES TO OTHER MORTGAGE INVESTORS, WHICH COULD REDUCE THE AMOUNT OF TIME AND EFFORT THAT SENECA DEVOTES TO US.

Our management agreement with Seneca does not restrict the right of Seneca, any persons working on its behalf or any of its affiliates, to carry on their respective businesses, including the rendering of advice to others regarding the purchase of mortgage-backed securities that would meet our investment criteria. In addition, the management agreement does not specify a minimum time period that Seneca and its personnel must devote to managing our investments. The ability of Seneca to engage in these other business activities, and specifically to manage mortgage-related assets for third parties, could reduce the time and effort it spends managing our portfolio to the detriment of our investment returns.

SENECA'S LIABILITY IS LIMITED UNDER THE MANAGEMENT AGREEMENT, AND WE HAVE AGREED TO INDEMNIFY SENECA AGAINST CERTAIN LIABILITIES.

Seneca has not assumed any responsibility to us other than to render the services described in the management agreement, and will not be responsible for any action of our board of directors in declining to follow Seneca's advice or recommendations. Seneca and its directors, officers and employees will not be liable to us for acts performed by its officers, directors, or employees in accordance with and pursuant to the management agreement, except for acts constituting gross negligence, recklessness, willful misconduct or active fraud in connection with their duties under the management agreement. We have agreed to indemnify Seneca and its directors, officers and employees with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of Seneca not constituting gross negligence, recklessness, willful misconduct or active fraud.

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.

Qualification as a REIT involves the application of highly technical and complex U.S. federal income tax code provisions for which only a limited number of judicial or administrative interpretations exist. Accordingly, it is not certain we will be able to become and remain qualified as a REIT for U.S. federal income tax purposes. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress or the Internal Revenue Service, or IRS, might change tax laws or regulations and the courts might issue new rulings, in each case potentially having retroactive effect, that could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means that we would be unable to deduct distributions to stockholders in computing taxable income and we would be subject to U.S. federal income tax on our taxable income at regular corporate rates;

- any resulting tax liability could be substantial, would reduce the amount of cash available for distribution to stockholders, and could force us to liquidate assets at inopportune times, causing lower income or higher losses than would result if these assets were not liquidated; and

- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification and, thus, our cash available for distribution to our stockholders would be reduced for each of the years during which we did not qualify as a REIT.

Even if we remain qualified as a REIT, we might face other tax liabilities that reduce our cash flow. Further, we might be subject to federal, state and local taxes on our income and property. Any of these taxes would decrease cash available for distribution to our stockholders.

COMPLYING WITH REIT REQUIREMENTS MIGHT CAUSE US TO FOREGO OTHERWISE ATTRACTIVE OPPORTUNITIES.

In order to qualify as a REIT for U.S. federal income tax purposes, we must satisfy tests concerning, among other things, our sources of income, the nature and diversification of our mortgage-backed securities, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may cause us to forego opportunities we would otherwise pursue.

In addition, the REIT provisions of the Internal Revenue Code impose a 100%

tax on income from "prohibited transactions." Prohibited transactions generally include sales of assets that constitute inventory or other property held for sale in the ordinary course of a business, other than foreclosure property. This 100% tax could impact our desire to sell mortgage-backed securities at otherwise opportune times if we believe such sales could be considered a prohibited transaction.

COMPLYING WITH REIT REQUIREMENTS MAY LIMIT OUR ABILITY TO HEDGE EFFECTIVELY.

The existing REIT provisions of the Internal Revenue Code substantially limit our ability to hedge mortgage-backed securities and related borrowings. Under these provisions, our annual income from qualified hedges, together with any other income not generated from qualified REIT real estate assets, is limited to less than 25% of our gross income. In addition, we must limit our aggregate income from hedging and services from all sources, other than from qualified REIT real estate assets or qualified hedges, to less than 5% of our annual gross income. As a result, we might in the future have to limit our use of advantageous hedging techniques. This could leave us exposed to greater risks associated with changes in interest rates than we would otherwise want to bear. If we were to violate the 25% or 5% limitations, we might have to pay a penalty tax equal to the amount of our income in excess of those limitations, multiplied by a fraction intended to reflect our profitability. If we fail to satisfy the 25% or 5% limitations, unless our failure was due to reasonable cause and not due to willful neglect, we could lose our REIT status for federal income tax purposes.

COMPLYING WITH REIT REQUIREMENTS MAY FORCE US TO LIQUIDATE OTHERWISE ATTRACTIVE INVESTMENTS.

In order to qualify as a REIT, we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, generally, no more than 5% of the value of our assets can consist of the securities of any one issuer. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

COMPLYING WITH REIT REQUIREMENTS MAY FORCE US TO BORROW TO MAKE DISTRIBUTIONS TO OUR STOCKHOLDERS.

As a REIT, we must distribute 90% of our annual taxable income (subject to certain adjustments) to our stockholders. From time to time, we might generate taxable income greater than our net income for financial reporting purposes from, among other things, amortization of capitalized purchase premiums, or our taxable income might be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations, we might be unable to distribute 90% of our taxable income as required by the REIT rules. In that case, we would need to borrow funds, sell a portion of our mortgage-backed securities potentially at disadvantageous prices or find another alternative source of funds. These alternatives could increase our costs or reduce our equity and reduce amounts available to invest in mortgage-backed securities.

FAILURE TO MAINTAIN AN EXEMPTION FROM THE INVESTMENT COMPANY ACT WOULD HARM OUR RESULTS OF OPERATIONS.

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act of 1940, as amended. If we fail to qualify for this exemption, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as described in this prospectus.

The Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on, and interests in, real estate. Under the current interpretation of the SEC staff, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in these qualifying real estate interests. Mortgage-backed securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may be treated as separate from the underlying mortgage loans and, thus, may not qualify for purposes of the 55% requirement. Therefore, our ownership of these mortgage-backed securities is limited by the provisions of the Investment Company Act.

In satisfying the 55% requirement under the Investment Company Act, we treat as qualifying interests mortgage-backed securities issued with respect to an underlying pool as to which we hold all issued certificates. If the SEC or its staff adopts a contrary interpretation of such treatment, we could be required to sell a substantial amount of our mortgage-backed securities under potentially adverse market conditions. Further, in our attempts to ensure that we at all times qualify for the exemption under the Investment Company Act, we might be precluded from acquiring mortgage-backed securities if their yield is higher than the yield on mortgage-backed securities that could be purchased in a manner consistent with the exemption. These factors may lower or eliminate our net income.

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.

When purchasing mortgage-backed securities, we may rely on opinions of counsel for the issuer or sponsor of such securities, or statements made in related offering documents, for purposes of determining whether and to what extent those securities constitute REIT real estate assets for purposes of the REIT asset tests and produce income that qualifies under the REIT gross income tests. The inaccuracy of any such opinions or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

ONE-ACTION RULES MAY HARM THE VALUE OF THE UNDERLYING PROPERTY.

Several states have laws that prohibit more than one action to enforce a mortgage obligation, and some courts have construed the term "action" broadly. In such jurisdictions, if the judicial action is not conducted according to law, there may be no other recourse in enforcing a mortgage obligation, thereby decreasing the value of the underlying property.

WE MAY BE HARMED BY CHANGES IN VARIOUS LAWS AND REGULATIONS.

Changes in the laws or regulations governing Seneca or its affiliates may impair Seneca's or its affiliates' ability to perform services in accordance with the management agreement. Our business may be harmed by changes to the laws and regulations affecting our manager or us, including changes to securities laws and changes to the Internal Revenue Code applicable to the taxation of REITs. New legislation may be enacted into law or new interpretations, rulings or regulations could be adopted, any of which could harm us, our manager and our stockholders, potentially with retroactive effect.

Legislation was recently enacted that reduces the maximum tax rate of non-corporate taxpayers for capital gains (for taxable years ending on or after May 6, 2003 and before January 1, 2009) and for dividends (for taxable years beginning after December 31, 2002 and before January 1, 2009) to 15%. Generally, dividends paid by REITs are not eligible for the new 15% federal income tax rate, with certain

exceptions discussed at "United States Federal Income Tax Considerations -- Taxation of Taxable United States Stockholders -- Distributions Generally." Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable treatment of regular corporate dividends could cause investors who are individuals to consider stocks of other corporations that pay dividends as more attractive relative to stocks of REITs. It is not possible to predict whether this change in perceived relative value will occur, or what the effect will be on the market price of our common stock.

In addition, legislation was recently introduced in the United States House of Representatives and the United States Senate that would amend certain rules relating to REITs. Among other changes, the proposed legislation would provide the Internal Revenue Service with the ability to impose monetary penalties, rather than a loss of REIT status, for reasonable cause violations of certain tests relating to REIT qualification, and would change the formula for calculating the tax imposed for certain violations of the income tests discussed at "United States Federal Income Tax Considerations -- Requirements for Qualification as a REIT -- Income Tests." In general, the changes would apply to taxable years beginning after the date the legislation is enacted. As of the date hereof, it is not possible to predict with any certainty whether the proposed legislation will be enacted in its current form.

WE MAY INCUR EXCESS INCLUSION INCOME THAT WOULD INCREASE THE TAX LIABILITY OF OUR STOCKHOLDERS.

In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income as defined in Section 512 of the Internal Revenue Code. If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses. If the stockholder is a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Internal Revenue Code. If the stockholder is foreign, it would be subject to U.S. federal income tax withholding on this income without reduction pursuant to any otherwise applicable income-tax treaty.

Excess inclusion income could result if we held a residual interest in a real estate mortgage investment conduit, or REMIC. Excess inclusion income also would be generated if we were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage-backed securities securing those debt obligations. We generally structure our borrowing arrangements in a manner designed to avoid generating significant amounts of excess inclusion income. We do, however, enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgage securities if we default on our obligations. The IRS may determine that these borrowings give rise to excess inclusion income that should be allocated among stockholders. Furthermore, some types of tax-exempt entities, including voluntary employee benefit associations and entities that have borrowed funds to acquire their shares of our common stock, may be required to treat a portion of or all of the dividends they may receive from us as unrelated business taxable income. Finally, we may invest in equity securities of other REITs and it is possible that we might receive excess inclusion income from those investments.

RISKS RELATED TO THIS OFFERING

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.

We intend to make quarterly distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year, subject to certain adjustments. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum distribution payment level and our ability to make distributions might be harmed by the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will have the ability to make distributions to our stockholders in the future.

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OUR ABILITY TO PAY OUR DECLARED CASH DISTRIBUTION FOR THE FIRST QUARTER OF 2004 DEPENDS UPON OUR ACTUAL OPERATING RESULTS FOR THE QUARTER. IF OUR ACTUAL RESULTS ARE BELOW OUR EXPECTATIONS, WE WILL NEED TO SELL ASSETS OR BORROW FUNDS TO PAY THE DISTRIBUTION.

On March 9, 2004 our board of directors declared a cash distribution of $0.42 per share for the first quarter of 2004, payable on April 26, 2004 to stockholders of record on March 19, 2004. This offering will close after the distribution record date and, accordingly, purchasers of common stock in this offering will not receive the distribution.

This distribution declaration for the first quarter 2004 is irrevocable and is not contingent on our operating performance. If we do not generate sufficient cash flow from ongoing operations (including principal payments and interest payments on our mortgage-backed securities) to fund the distribution, we will need to sell mortgage-backed securities or borrow funds by entering into repurchase agreements or otherwise borrowing funds under our line of credit to pay the distribution. If we were to borrow funds on a regular basis to make distributions in excess of operating cash flow, it is likely that our results of operations and our stock price would be harmed.

RESTRICTIONS ON OWNERSHIP OF A CONTROLLING PERCENTAGE OF OUR CAPITAL STOCK MIGHT LIMIT YOUR OPPORTUNITY TO RECEIVE A PREMIUM ON OUR STOCK.

For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the outstanding shares of our preferred stock. The constructive ownership rules in our charter are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock, and thus be subject to the ownership limit in our charter. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of our board of directors shall be void, and will result in the shares being transferred by operation of law to a charitable trust. These provisions might inhibit market activity and the resulting opportunity for our stockholders to receive a premium for their shares that might otherwise exist if any person were to attempt to assemble a block of shares of our stock in excess of the number of shares permitted under our charter and which may be in the best interests of our stockholders.

CERTAIN PROVISIONS OF MARYLAND LAW AND OUR CHARTER AND BYLAWS COULD HINDER, DELAY OR PREVENT A CHANGE IN CONTROL OF OUR COMPANY.

Certain provisions of Maryland law, our charter and our bylaws have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control of our company. These provisions include the following:

- Classified Board of Directors. Our board of directors is divided into three classes with staggered terms of office of three years each. The classification and staggered terms of office of our directors make it more difficult for a third party to gain control of our board of directors. At least two annual meetings of stockholders, instead of one, generally would be required to effect a change in a majority of the board of directors.

- Removal of Directors. Under our charter, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed only for cause and only by the affirmative vote of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors.

- Number of Directors, Board Vacancies, Term of Office. We have elected to be subject to certain provisions of Maryland law which vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining

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directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. These provisions of Maryland law, which are applicable even if other provisions of Maryland law or the charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholders as would otherwise be the case, and until his or her successor is elected and qualifies.

- Limitation on Stockholder-Requested Special Meetings. Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders at such meeting.

- Advance Notice Provisions for Stockholder Nominations and Proposals. Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders. This bylaw provision limits the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

- Exclusive Authority of our Board to Amend the Bylaws. Our bylaws provide that our board of directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws. Thus, our stockholders may not effect any changes to our bylaws.

- Preferred Stock. Under our charter, our board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders.

- Duties of Directors with Respect to Unsolicited Takeovers. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (1) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (2) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders rights plan, (3) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (4) act or fail to act solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law the act of the directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

- Ownership Limit. In order to preserve our status as a REIT under the Internal Revenue Code, our charter generally permits any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% of our outstanding common or preferred stock unless our board of directors waives or modifies this ownership limit.

- Maryland Business Combination Act. The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, certain issuances of shares of stock and other specified transactions, with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Our board of directors has adopted a resolution exempting our company from this statute. However, our board of directors may repeal or modify

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this resolution in the future, in which case the provisions of the Maryland Business Combination Act will be applicable to business combinations between our company and other persons.

- Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a corporation acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. "Control shares" means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power.

A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. If voting rights of control shares acquired in a control share acquisition are not approved at a stockholders' meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. Our bylaws contain a provision exempting acquisitions of our shares from the Maryland Control Share Acquisition Act. However, our board of directors may amend our bylaws in the future to repeal or modify this exemption, in which case any control shares of our company acquired in a control share acquisition will be subject to the Maryland Control Share Acquisition Act.

FUTURE OFFERINGS OF DEBT SECURITIES, 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.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon the liquidation of our company, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us may dilute the holdings of our existing stockholders or reduce the value of our common stock, or both. Our preferred stock, if issued, would have a preference on distributions that could limit our ability to make distributions to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

THE MARKET PRICE AND TRADING VOLUME OF OUR COMMON STOCK MAY BE VOLATILE.

Even if an active trading market develops for our common stock after this offering, the market price of our common stock may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions;

- changes in our funds from operations or earnings estimates or publication of research reports about us or the real estate industry, although there can be no assurance that any research reports about us will be published;

- increases in market interest rates that lead purchasers of our shares to demand a higher yield;

- changes in market valuations of similar companies;

- adverse market reaction to any increased indebtedness we incur in the future;

- additions or departures of key management personnel;

- actions by institutional stockholders;

- speculation in the press or investment community; and

- general market and economic conditions.

BROAD MARKET FLUCTUATIONS COULD HARM THE MARKET PRICE OF OUR COMMON STOCK.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could harm the market price of our common stock.

SHARES OF OUR COMMON STOCK ELIGIBLE FOR FUTURE SALE MAY HARM OUR STOCK PRICE.

We cannot predict the effect, if any, of future sales of shares of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of these shares of common stock, or the perception that these sales could occur, may harm prevailing market prices for our common stock. As of March 17, 2004, there are:

- 24,841,146 shares of outstanding common stock;

- outstanding options to purchase 55,000 shares of our common stock at a weighted-average exercise price of $14.82 per share; and

- an additional 943,505 shares of our common stock available for future awards under our stock incentive plans.

A total of 943,505 shares of our common stock, or 1% of our current total authorized shares, are reserved for future awards and grants under our stock incentive plans. We recently filed a registration statement on Form S-8 under the Securities Act covering the 1.0 million shares of our common stock issued or reserved for issuance under our stock incentive plans and/or subject to outstanding options under our stock incentive plans. Shares of our common stock issued upon exercise of options under the Form S-8 will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates and subject to the contractual restrictions described above.

We recently issued 13,110,000 shares of common stock in our initial public offering. All of those shares are eligible for immediate resale by their holders. Additionally, we recently filed a registration statement covering the resale of up to 11,500,000 shares of our common stock by the selling stockholders named in the prospectus which is a part of such resale registration statement. All of the shares sold from time to time pursuant to our resale registration statement will be eligible for immediate resale by their holders.

If any or all of the above holders sell a large number of securities in the public market, the sale could reduce the market price of our common stock and could impede our ability to raise future capital through a sale of additional equity securities.

CHANGES IN YIELDS MAY HARM THE MARKET PRICE OF OUR STOCK.

Our earnings are derived primarily from the expected positive spread between the yield on our assets and the cost of our borrowings. This spread will not necessarily be larger in high interest rate environments than in low interest rate environments and may also be negative. In addition, during periods of high interest rates, our net income, and therefore the amount of any distributions on our common stock, might

be less attractive compared to alternative investments of equal or lower risk. Each of these factors could harm the market price of our common stock.

TERRORIST ATTACKS AND OTHER ACTS OF VIOLENCE OR WAR MAY AFFECT ANY MARKET FOR OUR COMMON STOCK, THE INDUSTRY IN WHICH WE OPERATE, OUR OPERATIONS AND OUR PROFITABILITY.

Terrorist attacks may harm our results of operations and your investment. We cannot assure you that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may impact the property underlying our mortgage-backed securities directly or indirectly, by undermining economic conditions in the United States. Losses resulting from terrorist events are generally uninsurable.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. Forward looking statements are those which are not historical in nature. They can often be identified by their inclusion of words such as "will," "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions. Any projection of revenues, earnings or losses, capital expenditures, distributions, capital structure or other financial terms is a forward-looking statement.

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 be materially different 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:

- our limited operating history and Seneca's limited experience in managing a REIT;

- your inability to review the assets that we will acquire with the net proceeds of this offering;

- interest rate mismatches between our mortgage-backed securities and our borrowings used to fund such purchases;

- changes in interest rates and mortgage prepayment rates;

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

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

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

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

- our board's ability to change our operating policies and strategies without notice to you or stockholder approval;

- Seneca's motivation to recommend riskier investments in an effort to maximize its incentive compensation under the management agreement;

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

- the other important factors described in this prospectus, including under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures about Market Risk."

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 events described by our forward-looking events might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. Please keep this cautionary note in mind as you read this prospectus.

This prospectus contains market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

USE OF PROCEEDS

We estimate that the net proceeds that we receive in this offering will be approximately $135.7 million, assuming a public offering price of $14.48 per share and after deducting the underwriting discount and estimated offering expenses of $9.1 million payable by us. If the underwriters' over-allotment option is exercised in full, we estimate that our net proceeds will be approximately $156.1 million.

We intend to use the net proceeds of this offering received by us to expand our portfolio of mortgage-related assets, primarily U.S. agency and other highly-rated, single-family, adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage-backed securities. We expect to pay market rates for brokerage fees and commissions when purchasing the 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.

Set forth below is a tabular presentation of the expected uses of the gross proceeds of this offering, assuming a public offering price of $14.48 per share. The information is presented assuming no exercise and full exercise, respectively, of the underwriters' over-allotment option to purchase additional shares. All amounts in the table are estimates.

	NO EXERCISE OF OVER-ALLOTMENT OPTION		FULL EXERCISE O OVER-ALLOTMENT OP	
	DOLLARS (IN MILLIONS)	PERCENT	DOLLARS (IN MILLIONS)	PE
Gross offering proceeds...........................	$144.8(1)	100.00%	$166.5(2)	1
Public offering proceeds				
Underwriting discount and commissions...........	8.7	6.00	10.0	
Paid to affiliate..............................	0.0	0.00	0.0	
Offering expenses..............................	0.4(3)	0.28	0.4(3)	
Net offering proceeds............................	$135.7	93.72%	$156.1	
Amount of net proceeds used for acquisition of mortgage-backed securities				
Net purchases of mortgage-backed securities......	$135.6	93.67%	$156.0	
Estimated commissions on purchases of mortgage-backed securities...........................	0.1(4)	0.05	0.1(4)	
Estimated commissions paid to lenders in connection with borrowings used for acquisitions................................	0.0	0.0	0.0	
Amount of net proceeds used to pay cash component of management fees.............................	0.0	0.0	0.0	
Amount of net proceeds used for general corporate or working capital purposes.....................	0.0	0.0	0.0	
Amount of net proceeds used to pay cash distribution payable on April 26, 2004..........	0.0(5)	0.0	0.0(5)	
Total net offering proceeds used..................	135.7	93.72	156.1	
Public offering expenses..........................	9.1	6.28	10.4	
Total application of gross offering proceeds.......	$144.8	100.00%	$166.5	1

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(1) Assumes the sale of 10,000,000 shares by us at a public offering price of $14.48 per share.

(2) Assumes the sale of 11,500,000 shares by us at a public offering price of $14.48 per share.

(3) Includes the SEC registration fee of $21,856, the NASD filing fee of $20,500, accounting fees and expenses of $30,000, legal fees and expenses of $200,000, printing fees and expenses of $50,000, and miscellaneous offering expenses of $77,644.

(4) Mortgage-backed securities do not trade with commissions. For purposes of this table, we have assumed an average commission on the purchase of mortgage-backed securities of approximately 0.05%.

(5) On March 9, 2004, our board of directors declared a cash distribution of $0.42 per share to stockholders of record on March 19, 2004, payable on April 26, 2004.

MARKET PRICE OF AND DISTRIBUTIONS ON OUR COMMON STOCK

MARKET INFORMATION

Prior to our IPO, our common stock was not listed or quoted on any national exchange or market system. However, certain of our stockholders privately sold shares of our common stock using the PORTAL system. Since December 19, 2003, our common stock has been listed on the NYSE under the symbol "LUM." The following table sets forth the high and low sale prices for our common stock as reported on the PORTAL Market of which we are aware (for dates prior to December 19, 2003) and as reported on the NYSE (for dates on or after December 19, 2003) for each quarterly period since June 11, 2003, the date of our private placement:

	COMMON STOCK	
	HIGH	LOW
2003		
Second Quarter (from June 11, 2003)........................	$15.35	$15.00
Third Quarter..	$15.60	$15.00
Fourth Quarter...	$15.00	$13.00
2004		
First Quarter (through March 17, 2004)......................	$15.35	$13.77

As of March 17, 2004, we had 24,841,146 shares of our common stock issued and outstanding which were held by 17 holders of record. The 17 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of hundreds of beneficial owners of our common stock. Our common stock was sold privately from time to time prior to our IPO, and certain of those trades were reported on the PORTAL Market; however, the information above regarding PORTAL Market prices may not be complete since we have access only to information regarding trades that were reported by our underwriters and not trades that may have been reported by other broker-dealers. Moreover, broker-dealers are not obligated to report all trades to PORTAL.

DISTRIBUTION POLICY

The following table sets forth, for the periods indicated, the cash distributions declared per share of our common stock since June 11, 2003, the date of our private placement:

	CASH DISTRIBUTIONS DECLARED PER SHARE
2003	
Second Quarter (from June 11, 2003)........................	$ --
Third Quarter..	$ 0.50
Fourth Quarter...	$ 0.45
2004	
First Quarter..	$ 0.42

Our distributions declared to date are not necessarily indicative of distributions that we will declare in the future. We expect that future distributions will be based on our REIT taxable net income in future periods, which we cannot predict with any certainty. All distribution declarations are made at the discretion of our board of directors.

On October 1, 2003, we declared a cash distribution of $0.50 per share to our stockholders of record on October 21, 2003. We paid the distribution on November 17, 2003. All of the distribution is a taxable dividend, and none of the distribution is a return of capital. The distribution was funded with cash flow from our ongoing operations, including principal payments and interest payments on our mortgage-backed securities.

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On November 24, 2003, our board of directors declared a cash distribution of $0.45 per share for the fourth quarter of 2003, which was paid on January 28, 2004 to stockholders of record on December 11, 2003. All of the distribution is a taxable dividend, and none of the distribution is a return of capital. As allowed by the Internal Revenue Code for a REIT's fourth quarter distribution, our January 28, 2004 distribution was deemed to be a dividend made by us on December 31, 2003 to the extent of our 2003 undistributed earnings and profits (as determined under the Internal Revenue Code), even though it was paid in 2004. The distribution was funded with cash flow from our ongoing operations, including principal and interest payments received on our mortgage-backed securities. We did not distribute $282 thousand of our REIT taxable net income for the period from April 26, 2003 through December 31, 2003. We intend to declare a spillback distribution in this amount during 2004.

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.

This distribution declaration is irrevocable and is not contingent on our operating performance. However, if and to the extent that we do not generate sufficient cash flow from ongoing operations (including principal payments and interest payments on our mortgage-backed securities) to fund the distribution, we will need to sell mortgage-backed securities or borrow funds by entering into repurchase agreements or otherwise borrowing funds under our line of credit to pay the distribution. We generally do not intend to declare distributions before our operating results for a period are better known. However, because this offering is scheduled to close late in the quarter, our board of directors determined that it would be inequitable to our current stockholders if new investors participated in the fourth quarter distribution and, accordingly, our board declared a distribution with a record date prior to this offering's anticipated closing date.

We intend to distribute all or substantially all of our REIT taxable net income (which does not ordinarily equate to net income as calculated in accordance with GAAP) to our stockholders in each year. We intend to make regular quarterly distributions to our stockholders to be paid out of funds readily available for such distributions. Our distribution policy is subject to revision at the discretion of our board of directors without notice to you or stockholder approval. We have not established a minimum distribution level and our ability to make distributions may be harmed for the reasons described under the caption "Risk Factors." All distributions will be made by us at the discretion of our board of directors and will depend on our earnings and financial condition, maintenance of REIT status, applicable provisions of the Maryland general corporation law, or MGCL, and such other factors as our board of directors deems relevant.

In order to avoid corporate income and excise tax and to maintain our qualification as a REIT under the Internal Revenue Code, we must make distributions to our stockholders each year in an amount at least equal to:

- 90% of our REIT taxable net income;

- plus 90% of the excess of net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code;

- minus any excess non-cash income.

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In general, our distributions will be applied toward these requirements only if paid in the taxable year to which they relate, or in the following taxable year if the distributions are declared before we timely file our tax return for that year, the distributions are paid on or before the first regular distribution payment following the declaration and we elect on our tax return to have a specified dollar amount of such distributions treated as if paid in the prior year. Distributions declared by us in October, November or December of one taxable year and payable to a stockholder of record on a specific date in such a month are treated as both paid by us and received by the stockholder during such taxable year, provided that the distribution is actually paid by us by January 31 of the following taxable year.

We anticipate that distributions generally will be taxable as ordinary income to our stockholders, although a portion of such distributions may be designated by us as capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital or capital gains.

We will seek to borrow between eight and 12 times the amount of our equity, and as of December 31, 2003 we had established 17 borrowing agreements with various investment banking firms and other lenders, 12 of which were in use on December 31, 2003.

In the future, our board of directors may elect to adopt a dividend stock purchase plan, which allows for the reinvestment of dividends.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2003:

- on an actual basis;

- on a pro forma basis to give effect to our cash distribution of $10.4 million declared on March 9, 2004, which is payable on April 26, 2004 to stockholders of record on March 19, 2004; and

- on an as adjusted basis to give effect to the above pro forma adjustments and to our sale of 10,000,000 shares of our common stock in this offering, assuming a public offering price of $14.48 per share, which was the March 17, 2004 closing price of our common stock on the NYSE, and after deducting the underwriters' discounts and commissions and estimated offering expenses payable by us.

	DECEMBER 31, 2003		
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
Stockholders' equity:			
Preferred stock, par value $0.001:			
10,000,000 shares authorized; no shares issued and outstanding actual, pro forma or pro forma as adjusted	--	--	--
Common stock, par value $0.001:			
100,000,000 shares authorized; 24,814,000 shares issued and outstanding actual and pro forma; 34,814,000 shares issued and outstanding pro forma as adjusted	$ 25	$ 25	$ 35
Additional paid in capital	317,339	317,339	453,041
Accumulated other comprehensive loss	(26,510)	(26,510)	(26,510)
Accumulated distributions in excess of accumulated earnings	(8,358)	(18,780)	(18,780)
Total stockholders' equity	$282,496	$272,074	$407,786

The table above excludes the following shares:

- a total of 55,000 shares of our common stock issuable upon exercise of options outstanding on December 31, 2003 with a weighted-average exercise price of $14.82 per share;

- a total of 945,000 shares of our common stock available for awards under our two stock incentive plans as of December 31, 2003;

- a currently indeterminate number of shares of common stock that might become issuable in connection with Seneca's incentive fee under the management agreement; and

- a currently indeterminate number of shares of common stock that might become issuable in connection with the incentive bonus under Mr. Zyda's employment agreement.

Subsequent to the date as of which information is presented in the table above:

- we issued 25,651 shares of our common stock to Seneca as the equity component of its management fee for the fourth quarter of 2003;

- we issued 1,283 shares of our common stock to Mr. Zyda under our 2003 stock incentive plan as the equity component of his contractual fourth quarter 2003 incentive bonus;

- we issued 212 shares of our common stock to our controller under our 2003 stock incentive plan as an incentive bonus; and

- we granted an option to the underwriters of this offering to purchase up to 1,500,000 shares of our common stock from us, solely to cover over-allotments.

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DILUTION

Our net tangible book value as of December 31, 2003 was approximately $282.5 million, or $11.38 per share of our common stock. If you invest in our common stock, your interest will be diluted to the extent of the difference between the price you pay per share of our common stock and the net tangible book value per share of our common stock at the time of your purchase. Net tangible book value per share is calculated by subtracting our total liabilities from our total tangible assets, which is total assets less intangible assets, and dividing this amount by the number of shares of our common stock issued and outstanding. After giving effect to the sale by us of 10,000,000 shares of our common stock in this offering, based on an assumed public offering price of $14.48 per share, which was the March 17, 2004 closing price of our common stock on the NYSE, and after deducting the underwriters' discounts and commissions and estimated offering expenses payable by us, our net tangible book value as of December 31, 2003 would have been $418.2 million, or $12.01 per share of our common stock. This represents an immediate increase in the net tangible book value of $0.63 per share to our existing stockholders and an immediate and substantial dilution in net tangible book value of $2.47 per share to new investors. The following table illustrates this per share dilution:

Assumed public offering price per share....................		$14.48
Net tangible book value per share as of December 31, 2003...	$11.38	
Increase per share attributable to new investors..........	0.63	
Net tangible book value per share..........................		12.01
Dilution per share to new investors........................		$ 2.47

The following table summarizes the total number of shares of our common stock purchased from us, the total consideration paid to us (gross proceeds) and the average price per share paid by existing stockholders and by new investors, in each case based on the number of shares of our common stock outstanding as of December 31, 2003, based on an assumed public offering price of $14.48 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE

Shares purchased in April 2003(1)	204,000	0.6%	$ 204	0.0%	$0.001
Other existing stockholders	24,610,000	70.7	342,502,097	70.3	13.92
New investors	10,000,000	28.7	144,800,000	29.7	14.48
Total/Weighted-average	34,814,000	100.0%	487,302,301	100.0%	$14.00

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(1) 161,160 of the shares purchased in April 2003 were purchased by affiliates of Seneca.

If the underwriters' over-allotment is exercised in full, the 24,814,000 shares of our common stock held by existing stockholders immediately after this offering would comprise 68.3% of the total number of shares of our common stock and the number of shares of our common stock held by new investors would increase to 11,500,000 shares, or 31.7% of the total number of shares of our common stock outstanding immediately after this offering.

The foregoing discussion and table are based upon 24,814,000 shares actually issued and outstanding as of December 31, 2003. As of that date, there were also 55,000 options outstanding at a weighted-average exercise price of $14.82 per share and there were a total of 945,000 shares available for future awards under our stock incentive plans. Subsequent to December 31, 2003 we issued the following shares and options:

- we issued 25,651 shares of our common stock issued to Seneca as the equity component of its management fee for the fourth quarter of 2003;

- we issued 1,283 shares of our common stock issued to Mr. Zyda under our 2003 stock incentive plan as the equity component of his contractual fourth quarter 2003 incentive bonus; and

- we issued 212 shares of our common stock to our controller under our 2003 stock incentive plan as an incentive bonus.

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BUSINESS

THE COMPANY

BACKGROUND

We were formed 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 IPO of our common stock, raising approximately $157.0 million in net proceeds. 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 are externally managed and advised by Seneca pursuant to a management agreement.

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.

ASSETS

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. See Note 3 to the financial statements for further discussion.

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 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 of this offering will be agency-backed or have AAA credit ratings.

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.

We have financed our acquisition of mortgage-backed securities 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.

BORROWINGS

We have established 17 borrowing arrangements with various investment banking firms and other lenders, 12 of which were in use on December 31, 2003. These borrowing arrangements facilitated our purchase of our initial portfolio of securities and provided us with sufficient borrowing capacity to fully leverage the net proceeds of our initial public offering. The repurchase agreements were secured by mortgage-backed securities. We intend to seek to renew repurchase agreements as they mature under the then-applicable borrowing terms of the counterparties to our repurchase agreements. See Note 4 to the financial statements for further discussion.

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-backed securities in order to manage our liquidity and interest rate related risks.

HEDGING

We may also choose to engage in various hedging activities designed to match more closely the terms of our assets and liabilities. Currently, we are engaged in short sales of Eurodollar futures contracts as a means of mitigating our interest rate risk on forecasted interest expense associated with the benchmark rate on forecasted rollover/reissuance of repurchase agreements. 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. See Note 12 to the financial statements for further discussion.

DISTRIBUTIONS

On November 17, 2003, we paid a cash distribution of $0.50 per share to our stockholders of record on October 21, 2003. On January 28, 2004, we paid a cash distribution of $0.45 per share to our stockholders of record on December 11, 2003. Both of these distributions are taxable dividends, and neither of these distributions are considered return of capital. The distributions were funded with cash flow from our ongoing operations, including principal payments and interest payments on our mortgage-backed securities.

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. To the extent that our cash flow from our ongoing operations might be insufficient, we will fund the distribution with sales of mortgage-backed securities and/or borrowings under repurchase agreements or our credit lines.

BUSINESS STRATEGY

OUR OPERATING POLICIES AND PROGRAMS

Our board of directors has established the following four primary operating policies to implement our business strategies:

- asset acquisition policy;

- capital/liquidity and leverage policies;

- credit risk management policy; and

- asset/liability management policy.

ASSET ACQUISITION POLICY

Our asset acquisition policy provides guidelines for acquiring investments in order to maintain compliance with our overall investment strategy. In particular, we acquire a portfolio of investments that can be grouped into specific categories. Each category and our respective investment guidelines are as follows:

- Category I -- At least 75% of our total assets will generally be residential mortgage-related securities and short-term investments. Assets in this category are rated within one of the two highest rating categories by at least one nationally-recognized statistical rating organization, or will be obligations guaranteed by federal agencies or federally chartered agencies, such as Fannie Mae, Freddie Mac or Ginnie Mae.

- Category II -- At least 90% of our total assets will consist of Category I investments plus mortgage-related securities that are rated at least investment grade by at least one nationally-recognized statistical rating organization.

- Category III -- No more than 10% of our total assets may be of a type not meeting any of the above criteria. Among the types of assets generally assigned to this category are mortgage-related securities rated below investment grade and leveraged mortgage derivative securities, or shares of other REITs, or other investments.

We expect to acquire only those mortgage-related assets which we believe our manager has the necessary expertise to evaluate and manage, which we can readily finance, and which are consistent with our overall investment strategy and our asset acquisition policy. Generally, we expect to hold our mortgage-backed securities until maturity. Therefore, we generally do not seek to acquire assets with investment returns that are attractive only in a limited range of scenarios. Future interest rates and mortgage prepayment rates are very difficult to predict and, as a result, we seek to acquire mortgage-backed securities which we believe provide acceptable returns over a broad range of interest rate and prepayment scenarios.

We expect most of our acquisitions to consist of adjustable-rate mortgage-backed securities, hybrid adjustable-rate mortgage-backed securities and fixed-rate mortgage-backed securities. We anticipate that our investments in fixed-rate mortgage-backed securities will be focused in shorter-term mortgages, including balloon mortgages. We may, however, purchase longer-term fixed-rate mortgage-backed securities if we view the potential net returns as attractive or if the acquisition of such assets serves to reduce or diversify the overall risk profile of our portfolio.

CAPITAL/LIQUIDITY AND LEVERAGE POLICIES

We employ a leverage strategy to increase our investment assets by borrowing against existing mortgage-backed securities and using the proceeds to acquire additional mortgage-backed securities. We generally seek to borrow between eight to 12 times the amount of our equity, although our borrowings may vary from time to time depending on market conditions and other factors deemed relevant by our manager and our board of directors. We believe that this leaves an adequate capital base to protect against interest rate environments in which our borrowing costs might exceed our interest income from mortgage-backed securities.

Depending on the different cost of borrowing funds at different maturities, we expect to vary the maturities of our borrowed funds to attempt to produce lower borrowing costs. In general, our borrowings are short-term. We actively manage, on an aggregate basis, both the interest-rate indices and interest-rate adjustment periods of our borrowings against the interest-rate indices and interest-rate adjustment periods related to our mortgage-backed securities.

We expect to continue to finance our mortgage-backed securities primarily at short-term borrowing rates through repurchase agreements and, to a lesser extent, our equity capital. We anticipate that, upon repayment of each borrowing under a repurchase agreement, we will use the collateral immediately for borrowing under a new repurchase agreement. In the future we may also employ borrowings under lines of credit, term loans and other collateralized financings that we may establish with approved institutional lenders and we may employ long-term borrowings.

We have established 17 borrowing arrangements with various investment banking firms and other lenders. A repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which we effectively pledge our mortgage-backed securities as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the repurchase agreement, we are required to repay the loan and correspondingly receive back our collateral. While used as collateral, the mortgage-backed securities continue to pay principal and interest to us. In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the U.S. Federal Bankruptcy Code, the effect of which, among other things, would be to allow the creditor under the agreement to avoid the automatic stay provisions of the U.S. Federal Bankruptcy Code and to foreclose on the collateral agreement without delay. In the event of the insolvency or bankruptcy of the lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur. As a result, we expect to enter into collateralized borrowings only with institutions that we believe are financially sound and which are rated investment grade by at least one nationally-recognized statistical rating organization.

Substantially all of our borrowing agreements require us to deposit additional collateral in the event the market value of existing collateral declines, which may require us to sell assets to reduce our borrowings. We have designed our liquidity management policy to maintain an adequate capital base sufficient to provide required liquidity to respond to the effects under our borrowing arrangements of interest rate movements and changes in the market value of our mortgage-backed securities, as described above. However, a major disruption in the repurchase or other market that we rely on for short-term borrowings would harm our results of operations unless we were able to arrange alternative sources of financing on comparable terms.

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CREDIT RISK MANAGEMENT POLICY

We review credit risk associated with each of our potential investments. In addition, we may diversify our portfolio of mortgage-backed securities to avoid undue geographic, insurer, industry and certain other types of concentration risk. We may reduce risk from sellers and servicers by obtaining representations and warranties. Our manager monitors the overall portfolio risk in order to determine appropriate levels of provision for losses we may experience.

We generally determine, at the time of purchase, whether or not a mortgage-related asset complies with our credit risk management policy guidelines, based upon the most recent information utilized by us. Such compliance is not expected to be affected by events subsequent to such purchase, such as changes in characterization, value or rating of any specific mortgage-related assets or economic conditions or events generally affecting any mortgage-related assets of the type held by us.

ASSET/LIABILITY MANAGEMENT POLICY

Interest Rate Risk Management. To the extent consistent with our election to qualify as a REIT, we follow an interest rate risk management program intended to protect our portfolio of mortgage-backed securities and related debt against the effects of major interest rate changes. Specifically, our interest rate management program is formulated with the intent to offset, to some extent, the potential adverse effects resulting from rate adjustment limitations on our mortgage-backed securities and the differences between interest rate adjustment indices and interest rate adjustment periods of our adjustable-rate mortgage-backed securities and related borrowings.

Our interest rate risk management program encompasses a number of procedures, including the following:

- monitoring and adjusting, if necessary, the interest rate sensitivity of our mortgage-backed securities compared with the interest rate sensitivities of our borrowings;

- attempting to structure our borrowing agreements to have a range of different maturities and interest rate adjustment periods (although substantially all will be less than one year); and

- actively managing, on an aggregate basis, the interest rate indices, interest rate adjustment periods, and gross reset margins of the mortgages underlying our mortgage-backed securities compared to the interest rate indices and adjustment periods of our borrowings.

As a result, we expect to be able to adjust the average maturity/adjustment period of our borrowings on an ongoing basis by changing the mix of maturities and interest rate adjustment periods as borrowings mature or are renewed. Through the use of these procedures, we attempt to reduce the risk of differences between interest rate adjustment periods of the mortgages underlying our adjustable-rate mortgage-backed securities and our related borrowings.

It is generally our intention to manage the assets in our portfolio with regard to risk characteristics such as duration, in order to carefully limit the overall interest rate risk of the portfolio. On occasion, we may alter the overall duration in order to better protect the portfolio in order to protect shareholder value. Similarly, it is our intention to manage the duration of our liabilities. Generally, we will seek to reduce the gap between the duration of our assets and our liabilities to a level which is consistent with protection of the portfolio during volatile interest rate environments. The means by which we will accomplish this objective will vary over time, and may include the use of hedging instruments and the alteration of the duration of the asset and/or the liability side of our balance sheet through asset purchases or sales and through the assumption or the retirement of repurchase agreements of varying maturities or the structuring of other financing arrangements.

Depending on market conditions and the cost of the transactions, we may conduct hedging activities in connection with our portfolio management. When we engage in hedging activities, we intend to do so in a manner consistent with our election to qualify as a REIT. The goal of any hedging strategy we adopt will be to lessen the effects of interest rate changes and to enable us to earn net interest income in periods of

generally rising, as well as declining or static, interest rates. Specifically, if we implement a hedging program, it would likely be formulated with the intent to offset some of the potential adverse effects of changes in interest rate levels relative to the interest rates on the mortgage-backed securities held in our investment portfolio, as well as differences between the interest rate adjustment indices and maturity or reset periods related to our mortgage-backed securities and our borrowings.

Under the REIT rules of the Internal Revenue Code, some hedging activities produce income which is not qualifying income for purposes of the REIT gross income tests or create assets which are not qualifying assets for purposes of the REIT assets test. As a result, we may have to terminate certain hedging activities before the benefits of such activities are realized. In the case of excess hedging income, we would be required to pay a penalty tax for failure to satisfy certain REIT income tests under the Internal Revenue Code if the excess is due to reasonable cause and not willful neglect. In the case of having excess value in relation to mortgage-related assets, the penalty would result in our disqualification as a REIT. In addition, asset/liability management involves transaction costs that increase dramatically as the period covered by hedging protection increases and that may increase during periods of fluctuating interest rates.

Prepayment Risk Management. We also seek to lessen the effects of prepayment of mortgage loans underlying our securities at a faster or slower rate than anticipated. We expect to accomplish this by using a variety of techniques which include, without limitation, structuring a diversified portfolio with a variety of prepayment characteristics, investing in mortgage-backed securities based on mortgage loans with prepayment prohibitions and penalties, investing in certain mortgage security structures that have prepayment protections, and purchasing mortgage-backed securities at a premium and at a discount. We intend to monitor prepayment risk through the periodic review of the impact of a variety of prepayment scenarios on our revenues, net earnings, distributions, cash flow and net balance sheet market value.

We believe that we have developed cost-effective asset/liability management policies to mitigate interest rate and prepayment risks. We continually monitor our risk management strategies as market conditions change. However, no strategy can completely insulate us from interest rate and prepayment risks. Further, as noted above, certain of the U.S. federal income tax requirements that we must satisfy to qualify as a REIT limit our ability to fully hedge our interest rate and prepayment risks. Therefore, we could be prevented from effectively hedging our interest rate and prepayment risks.

DESCRIPTION OF MORTGAGE-RELATED ASSETS

MORTGAGE-BACKED SECURITIES

Pass-Through Certificates. We expect principally to invest in pass-through certificates, which are securities representing interests in pools of mortgage loans secured by residential real property in which payments of both interest and principal on the securities are generally made monthly. In effect, these securities pass through the monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer or guarantor of the securities. Pass-through certificates can be divided into various categories based on the characteristics of the underlying mortgages, such as the term or whether the interest rate is fixed or variable.

A key feature of most mortgage loans is the ability of the borrower to repay principal earlier than scheduled. This is called a prepayment. Prepayments can arise due to sale of the underlying property, refinancing, foreclosure, or other events. Prepayments result in a return of principal to pass-through certificate holders. This may result in a lower or higher rate of return upon reinvestment of principal. This is generally referred to as prepayment uncertainty. If a security purchased at a premium pre-pays at a higher than expected rate, then the value of the premium would be eroded at a faster than expected rate. Similarly, if a discount mortgage pre-pays at a lower than expected rate, the amortization towards par would be accumulated at a slower than expected rate. The possibility of these undesirable effects is sometimes referred to as "prepayment risk."

In general, but not always, declining interest rates tend to increase prepayments, and rising interest rates tend to slow prepayments. Like other fixed-income securities, when interest rates rise, the value of mortgage-backed securities generally decline. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage-backed securities and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of purchase. If interest rates rise, our holdings of mortgage-backed securities may experience reduced returns if the borrowers of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as extension risk.

Payment of limited amounts of principal and interest on some mortgage pass-through securities, although not the market value of the securities themselves, may be guaranteed by the full faith and credit of the federal government, including securities backed by Ginnie Mae, or by agencies or instrumentalities of the federal government, including Fannie Mae or Freddie Mac. Mortgage-backed securities created by non-governmental issuers, including commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, which may be issued by governmental entities, private insurers or the mortgage poolers.

The mortgage loans underlying pass-through certificates can generally be classified in the following four categories:

- Adjustable-Rate Mortgages. Adjustable-rate mortgages, or ARMs, are those for which the borrower pays an interest rate that varies over the term of the loan. The interest rate usually resets based on market interest rates, although the adjustment of such an interest rate may be subject to certain limitations. Traditionally, interest rate resets occur at regular set intervals (for example, once per year). We will refer to such ARMs as "traditional" ARMs. Because the interest rates on ARMs fluctuate based on market conditions, ARMs tend to have interest rates that do not deviate from current market rates by a large amount. This in turn can mean that ARMs have less price sensitivity to interest rates. This may be attractive to some mortgage investors.

- Fixed-Rate Mortgages. Fixed-rate mortgages are those where the borrower pays an interest rate that is constant throughout the term of the loan. Traditionally, most fixed-rate mortgages have an original term of 30 years. However, shorter terms (also referred to as final maturity dates) have become common in recent years. Because the interest rate on the loan never changes, even when market interest rates change, over time there can be a divergence between the interest rate on the loan and current market interest rates. This in turn can make a fixed-rate mortgage's price sensitive to market fluctuations in interest rates. In general, the longer the remaining term on the mortgage loan, the greater the price sensitivity. One way to attempt to lower the price sensitivity of a portfolio of fixed-rate mortgages is to buy those with shorter remaining terms or maturities.

- Hybrid Adjustable-Rate Mortgages. A recent development in the mortgage market has been the popularity of ARMs that do not reset at regular intervals. Many of these ARMs have a fixed-rate for the first few years of the loan -- typically three, five, seven or 10 years -- and thereafter reset periodically like a traditional ARM. Effectively such mortgages are hybrids, combining the features of a pure fixed-rate mortgage and a "traditional" ARM. Hybrid ARMs have a price sensitivity to interest rates similar to that of a fixed-rate mortgage during the period when the interest rate is fixed and similar to that of an ARM when the interest rate is in its periodic reset stage. However, because many hybrid ARMs are structured with a relatively short initial time span during which the interest rate is fixed, even during that segment of its existence, the price sensitivity may be low. The ability of hybrid ARMs to exhibit low price sensitivity to interest rates can be attractive to some mortgage investors.

- Balloon Maturity Mortgages. Balloon maturity mortgages are a type of fixed-rate mortgage. Thus, they have a static interest rate for the life of the loan. However the term of the loan is usually quite short and is less than the amortization schedule of the loan. Typically, this term or maturity is less than seven years. When the mortgage matures, the investor receives all of his principal back. This

is effectively a price reset of the invested principal to par. As the balloon maturity mortgage approaches its maturity date, the price sensitivity of the mortgage declines. In fact, the price sensitivity for an agency balloon mortgage with a set maturity is actually lower than that for an agency hybrid ARM with the same time to interest rate reset. The ability of a balloon mortgage to have low price sensitivity to interest rates can be attractive for some mortgage investors.

Collateralized Mortgage Obligations. Collateralized mortgage obligations, or CMOs, are a type of mortgage-backed security. Interest and principal on a CMO are paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. CMOs are structured into multiple classes, or tranches, with each class bearing a different stated maturity. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class; investors holding the longer maturity classes receive principal only after the first class has been retired.

Generally, fixed-rate mortgages are used to collateralize CMOs. However, the CMO tranches need not all have fixed-rate coupons. Some CMO tranches have floating rate coupons that adjust based on market interest rates, subject to some limitations. Such tranches, often called "CMO floaters," can have relatively low price sensitivity. As is the case with traditional ARMs, hybrid ARMs and balloons, this low price sensitivity may be attractive to some mortgage investors.

Mortgage Derivative Securities. Although we do not have any intention to do so in the near term, we may acquire mortgage derivative securities in an amount not to exceed 10% of our total assets. Mortgage derivative securities allow the holder to receive interest only, principal only, or interest and principal in amounts that are disproportionate to those payable on the underlying mortgage loans. Payments on mortgage derivative securities can be highly sensitive to the rate of prepayments on the underlying mortgage loans. In the event of faster or slower than anticipated prepayments on these mortgage loans, the rates of return on interests in mortgage derivative securities representing the right to receive interest only or a disproportionately large amount of interest, or interest only derivatives, would be likely to decline or increase, respectively. Conversely, the rates of return on mortgage derivative securities representing the right to receive principal only or a disproportionate amount of principal, or principal only derivatives, would be likely to increase or decrease in the event of faster or slower prepayment speeds, respectively.

We may also invest in inverse floaters, a class of CMOs with a coupon rate that resets in the opposite direction from the market rate of interest to which it is indexed, including LIBOR or the 11th District Cost of Funds Index, or COFI. Any rise in the index rate, which can be caused by an increase in interest rates, causes a drop in the coupon rate of an inverse floater while any drop in the index rate causes an increase in the coupon of an inverse floater. An inverse floater may behave like a leveraged security since its interest rate usually varies by a magnitude much greater than the magnitude of the index rate of interest. The leverage-like characteristics inherent in inverse floaters are associated with greater volatility in their market prices.

We may also invest in other mortgage derivative securities that may be developed in the future.

Subordinated Interests. We may also acquire subordinated interests, which are classes of mortgage-backed securities that are junior to other classes of the same series of mortgage-backed securities in the right to receive payments from the underlying mortgage loans. The subordination may be for all payment failures on the mortgage loans securing or underlying such series of mortgage securities. The subordination will not be limited to those resulting from particular types of risks, including those resulting from war, earthquake or flood, or the bankruptcy of a borrower. The subordination may be for the entire amount of the series of mortgage-related securities or may be limited in amount.

MORTGAGE LOANS

We may acquire and accumulate mortgage loans (i.e., fixed-rate, ARMs, hybrid and balloon mortgage loans) as part of our investment strategy until a sufficient quantity has been accumulated for securitization

into high-quality mortgage-backed securities in order to enhance their value and liquidity. Pursuant to our asset acquisition policies, the aggregate amount of any mortgage loans that we acquire and do not immediately securitize, together with our investments in other mortgage-related assets that are not Category I or Category II assets, will not constitute more than 10% of our total assets at any time. All mortgage loans, if any, will be acquired with the intention of securitizing them into high-credit quality mortgage securities. Despite our intentions, however, we may not be successful in securitizing these mortgage loans. To meet our investment criteria, mortgage loans acquired by us will generally conform to the underwriting guidelines established by Fannie Mae, Freddie Mac, Ginnie Mae or other credit insurers. Applicable banking laws generally require that an appraisal be obtained in connection with the original issuance of mortgage loans by the lending institution. We do not intend to obtain additional appraisals at the time of acquiring any mortgage loans.

Mortgage loans may be originated by or purchased from various suppliers of mortgage-related assets throughout the United States, including savings and loans associations, banks, mortgage bankers and other mortgage lenders. We may acquire mortgage loans directly from originators and from entities holding mortgage loans originated by others. Our board of directors has not established any limits upon the geographic concentration of mortgage loans that we may acquire. However, our asset acquisition policy will limit the amount and/or type of mortgage loans we may acquire.

OTHER INVESTMENTS

We may acquire other investments that include equity and debt securities issued primarily by other mortgage-related finance companies, interests in mortgage-related collateralized bond obligations, other subordinated interests in pools of mortgage-related assets, commercial mortgage loans and securities, and residential mortgage loans other than high-credit quality mortgage loans. These investments are generally considered Category III investments under our asset acquisition policy and shall be limited to 10% of our total assets.

We also intend to operate in a manner that will not subject us to regulation under the Investment Company Act. Our board of directors has the authority to modify or waive our current operating policies and our strategies without prior notice to you and without stockholder approval.

INVESTMENT STRATEGY

Our strategy is to invest primarily in U.S. agency and other highly-rated single-family adjustable-rate and fixed-rate mortgage-backed securities. We acquire these investments in the secondary market and seek to acquire assets that will produce competitive returns after considering the amount and nature of the 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. We do not construct our overall investment portfolio in order to express a directional expectation for interest rates or mortgage prepayment rates. Future interest rates and mortgage prepayment rates are very difficult to predict and, as a result, we seek to acquire mortgage-backed securities which we believe provide acceptable returns over a broad range of interest rate and prepayment scenarios. When evaluating the purchase of mortgage-backed securities, we analyze whether the purchase will permit us to continue to satisfy the minimum 55% portfolio whole-pool requirement, with which we must comply to maintain our REIT status. We also assess the relative value of the mortgage-backed security and how well it would fit into our existing portfolio of mortgage-backed securities. Many aspects of a mortgage-backed security, and the dynamic interaction of its characteristics with those of our portfolio, can influence our perception of what that security is worth and the amount of premium we would be willing to pay to own the specific security.

The characteristics of each potential investment we analyze generally include, but are not limited to, the following:

- origination year -- the underwriting year for the mortgages comprising the mortgage-backed security. This characteristic helps to determine how "seasoned" the mortgage-backed security is and

can influence our expectations for the investment's future cash flows. In the current low interest rate environment, mortgages that were originated several years ago (when interest rates were higher) tend to have been refinanced. Those borrowers who did not refinance their homes during the period of lower interest rates may be relatively less likely (than more recent borrowers) to refinance during the remaining life of their mortgages. Therefore, the expected cash flows from a potential investment with an earlier origination year could exhibit less sensitivity to changes in interest rates.

- originator -- the financial services entity that underwrites the mortgages comprising the mortgage-backed security. Originators do not have homogeneous underwriting standards. The particular underwriting standards utilized by an originator tend to influence the characteristics of the borrowers in its mortgage loan pools which, in turn, can influence the pool's prepayment rates and other cash flows. When analyzing a pool of mortgages, it can be useful to review the historical cash flows exhibited by the originator's prior mortgage loan pools. For example, we may limit the premium we would be willing to pay for a security if the originator has a history of early refinancings. The quality of the originator's underwriting standards and the terms it offers borrowers can also be important to our purchase decisions. These variables potentially include the originator's required loan documentation, FICO scores, loan-to-value ratios, prepayment penalties, cap rates, and assumability terms. Any of these variables might influence our expectations regarding the timing of cash flows from an originator's mortgage-backed securities and, thus, their attractiveness for our portfolio.

- coupon -- the weighted-average mortgage coupon of the mortgage-backed security. Higher coupons are initially attractive because they can generate more interest income for us than lower-coupon mortgage-backed securities. However, the sustainability of cash flows from higher-coupon pools is less predictable because, all else being equal, higher-coupon mortgages have a greater probability of being refinanced than lower-coupon mortgages. We generally analyze a mortgage-backed security's coupon in comparison to current market rates to form an expectation regarding how sustainable the interest income from the investment will be.

- margin -- the spread between an adjustable-rate mortgage's market index and the interest rate that the borrower must pay to service the mortgage. Similar to higher coupons, higher margins are attractive because they can generate more interest income for us than lower-margin mortgage-backed securities. However, higher-margin mortgage pools may be more prone to experience faster refinancing rates because high-margin borrowers are relatively more likely to find opportunities to refinance into mortgages with lower spreads to the index. As a result, the sustainability of the yield from an investment in a high-margin mortgage pool is less certain and the premium we would be willing to pay on such an investment, all else being equal, is less.

- periodic cap -- the amount by which the interest rate on an adjustable-rate mortgage can adjust during a specified period, usually six or 12 months. In rapidly rising interest rate environments, higher periodic caps are more attractive because they reduce the risk of the adjustable-rate mortgage coupon not being able to reset fully upwards to the current market rate. Conversely, in rapidly falling interest rate environments, lower periodic caps increase the probability that the mortgage's coupon will reset to a level that remains above the current market rate.

- lifetime cap -- the maximum interest rate that a specific adjustable-rate mortgage can have during its lifetime. The lifetime cap of a mortgage is often correlated with market interest rates at the time of origination. An adjustable-rate mortgage originated in a low interest rate environment frequently will have a lower lifetime cap than a comparably structured mortgage originated in a high interest rate environment. If interest rates rise sufficiently, an adjustable-rate mortgage with a lifetime cap can effectively behave like a fixed-rate mortgage because the coupon of the adjustable-rate mortgage cannot adjust above the lifetime cap, and will thus remain effectively fixed at that level until rates fall. Higher lifetime caps tend to make particularly structured hybrid or adjustable-rate mortgage pools more attractive investment candidates.

- time-to-reset -- the number of months before the current coupon of the hybrid or adjustable-rate mortgage will reset. Time-to-reset is an important consideration as we structure the timing of interest rate adjustments on the mortgage-backed securities in our portfolio relative to changes in our borrowing costs.

- loan-to-value -- the ratio between the original loan amount and the value of the collateral securing the mortgage loan. We consider this factor less important in a decision to purchase agency-backed mortgage securities but it can be an important factor when purchasing non-agency securities. This factor also influences the subordination levels required by the national rating agencies to receive AAA-rated status.

- geographic dispersion -- the degree to which the properties underlying the pooled mortgage loans are geographically dispersed. We prefer greater geographic dispersion because we wish to limit our exposure to specific states or regions (which might be experiencing relatively greater economic difficulties) to create a more stable portfolio.

- price and prepayment expectations -- the expected yield of the mortgage-backed security under various assumptions about future economic conditions. A mortgage-backed security's ultimate yield is determined by its price and its actual prepayment levels. We generally form expectations, based on the above factors, regarding how the mortgage pool's prepayment levels will change over time, including in response to possible changes in prevailing interest rates and other economic conditions, so as to determine whether its offered price creates a yield that is attractive and fits well with the expected structure of our portfolio and our borrowing costs under those scenarios.

We generally consider these factors when evaluating an investment's relative value and the impact it would likely have on our overall portfolio. We do not assign a particular weight to any factor because the relative importance of the various factors varies, depending upon the characteristics we seek for our portfolio and our borrowing cost structure.

We do not currently originate mortgage loans or provide other types of financing to the owners of real estate and we do not service any mortgage loans. However, in the future, we may elect to originate mortgage loans or other types of financing, and we may elect to service mortgage loans and other types of financing.

FINANCING STRATEGY

We expect to finance the acquisition of our mortgage-backed securities with short-term borrowings and term loans with a term of less than one year and, to a lesser extent, equity capital. After analyzing the then-applicable interest rate yield curves, we may finance with long-term borrowings from time to time. The amount of borrowing we employ depends on, among other factors, the amount of our equity capital. We expect to use leverage to attempt to increase potential returns to our stockholders. Pursuant to our capital and leverage policy, we seek to strike a balance between the under-utilization of leverage, which reduces potential returns to our stockholders, and the over-utilization of leverage, which increases risk by reducing our ability to meet our obligations to creditors during adverse market conditions.

We expect to borrow at short-term rates using repurchase agreements. Repurchase agreements are generally short-term in nature. We intend to 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-backed securities in order to limit our liquidity and interest rate related risks. We generally seek to diversify our exposure by entering into repurchase agreements with multiple lenders. In addition, we expect to enter into repurchase agreements only with institutions we believe are financially sound and which meet credit standards approved by our board of directors.

INDUSTRY TRENDS

We believe fundamental changes are occurring in the U.S. mortgage market, resulting in the shifting of investment capital and mortgage-related assets out of traditional lending and savings institutions and

into new forms of mortgage banking and mortgage investment firms, including those that qualify as REITs under the Internal Revenue Code. We believe that traditional mortgage investment companies, such as banks, thrifts and insurance companies, provide less attractive investment structures for investing in mortgage-related assets because of the costs associated with regulation, infrastructure and corporate level taxation. As a REIT, we can generally pass through earnings to our stockholders without incurring an entity-level federal income tax, thereby allowing us to make higher distributions than institutions with similar investments that are subject to federal income tax on their earnings. Additionally, with the development of highly competitive national mortgage markets (which we believe is partly due to the expansion of government sponsored enterprises such as Fannie Mae, Freddie Mac and Ginnie Mae), local and regional mortgage originators have lost market share to more efficient mortgage originators who compete nationally. The growth of the secondary mortgage market, including new securitization techniques, has also resulted in financing structures that can be utilized efficiently to fund leveraged mortgage portfolios and better manage interest rate risk.

The U.S. residential mortgage market has experienced considerable growth over the past 11 years, with total outstanding U.S. residential mortgage debt growing from approximately $3.0 trillion in 1992 to approximately $7.3 trillion as of December 31, 2003, according to the Federal Reserve. According to the same source, the total amount of U.S. residential mortgage debt securitized into mortgage-backed securities has grown from approximately $1.4 trillion in 1992 to approximately $4.2 trillion as of December 31, 2003, 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 was held by REITs.

COMPETITION

When we invest in mortgage-backed securities and other investment assets, we compete with a variety of institutional investors, including other REITs, insurance companies, mutual funds, hedge funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets. Many of these investors have greater financial resources and access to lower costs of capital than we do. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of mortgage-backed securities, resulting in higher prices and lower yields on assets.

WEBSITE ACCESS TO OUR PERIODIC SEC REPORTS

The Internet address of our corporate website is www.luminentcapital.com. We make our periodic SEC reports (on Forms 10-K and 10-Q) and current reports (on Form 8-K), as well as the beneficial ownership reports filed by our directors, officers and 10% stockholders (on Forms 3, 4 and 5) available free of charge through our website as soon as reasonably practicable after they are filed electronically with the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. The information on our website is not a part of this prospectus.

Materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at www.sec.gov that will contain our reports, proxy and information statements, and other information regarding our company that we will file electronically with the SEC.

EMPLOYEES

Our day-to-day operations are externally managed and advised by our manager, Seneca Capital Management LLC. At December 31, 2003 we had two full-time employees. We employ a full-time chief financial officer, Christopher J. Zyda, whose primary responsibilities include monitoring Seneca's performance under our management agreement, as well as a full-time controller.

We do not employ any of our officers other than Mr. Zyda. Our other executive officers are employees and/or officers of Seneca and are compensated by Seneca.

FACILITIES

Our principal offices are located at 909 Montgomery Street, Suite 500, San Francisco, California 94133. We utilize approximately 1,500 square feet of space provided by Seneca.

LEGAL PROCEEDINGS

At December 31, 2003, there were no pending legal proceedings to which we were party or of which any of our properties were subject.

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SELECTED 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.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE PERIOD APRIL 26, 2003 THROUGH DECEMBER 31, 2003
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
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

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DECEMBER 31, 2003

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	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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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes to those statements included elsewhere in this prospectus. This discussion may contain forward-looking statements that involve risks and uncertainties. The words "believe," "expect," "anticipate," "estimate," "may," "will," or "could" and similar expressions or the negatives of these words or phrases are intended to identify forward-looking statements. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this prospectus, our actual results may differ materially from those anticipated in such forward-looking statements.

GENERAL

Luminent Mortgage Capital, Inc. is a REIT headquartered in San Francisco, California. 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. Substantive operations began mid-June 2003, after completing a private placement of our common stock. 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 have acquired and will seek to acquire additional assets that will pro