LUMINENT MORTGAGE CAPITAL INC
Form DEF 14A
April 20, 2005

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

Luminent Mortgage Capital, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid: _____
(2) Form, Schedule or Registration Statement No.: _____
(3) Filing Party: _____
(4) Date Filed: _____

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April 19, 2005

Dear Stockholder:

On behalf of the board of directors and management of Luminent Mortgage Capital, Inc., I cordially invite you to attend our 2005 annual meeting of stockholders. Our meeting will be held at 10:00 a.m., local time, on May 25, 2005 at our main offices, located at 909 Montgomery Street, Suite 500, San Francisco, California 94133.

At our meeting, stockholders will be asked to elect three Class II directors, to approve the two proposals to amend our 2003 Stock Incentive Plan and our 2003 Outside Advisors Stock Incentive Plan and to act upon any other matter that properly comes before our meeting or any adjournment or postponement of our meeting.

Your vote is important. Whether or not you plan to attend our annual meeting, I hope you will read the enclosed proxy statement and then complete, sign and date the enclosed proxy card and return it in the envelope provided. Please note that you may vote in person at the meeting even if you have previously returned the card.

Thank you for you attention to this important matter. I look forward to seeing those of you who can attend our annual meeting on May 25, 2005.

Sincerely,

/s/ GAIL P. SENECA

Gail P. Seneca
Chairman of the Board and
Chief Executive Officer

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LUMINENT MORTGAGE CAPITAL, INC.

909 MONTGOMERY STREET, SUITE 500
SAN FRANCISCO, CA 94133
(415) 486-2110

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 25, 2005

Notice is hereby given that the annual meeting of stockholders of Luminent Mortgage Capital, Inc. will be held at our main offices, located at 909 Montgomery Street, Suite 500, San Francisco, California, 94133, on Wednesday, May 25, 2005, at 10:00 a.m., local time.

A proxy card, a proxy statement for our annual meeting and our Annual Report on Form 10-K for the year ended December 31, 2004 are enclosed.

The purposes of our annual meeting are:

1. to elect three Class II directors who will serve until our 2008 annual meeting of stockholders or until their successors are elected;

2. to approve a proposal to amend our 2003 Stock Incentive Plan to set the share limits for issuing shares of our common stock that may be granted under the Plan at 1,850,000 shares;

3. to approve a proposal to amend our 2003 Outside Advisors Stock Incentive Plan to set the share limits for issuing shares of our common stock that may be granted under the Plan at 150,000 shares; and

4. to act upon any other matter that properly comes before our annual meeting or any adjournment or postponement of the meeting.

Stockholders of record at the close of business on March 28, 2005 are entitled to vote at our annual meeting and any adjournment or postponement thereof. A list of stockholders entitled to vote at our annual meeting will be available for examination by any stockholder for any purpose germane to our annual meeting at our main office during the 10 days prior to the meeting, as well as at the meeting.

You are requested to complete, sign and date the enclosed proxy card, which is solicited on behalf of our board of directors, and to mail it promptly in the envelope provided. The proxy will not be used if you attend our annual meeting and wish to vote in person.

By Order of the Board of Directors,

/s/ CHRISTOPHER J. ZYDA

Christopher J. Zyda
Secretary

San Francisco, California
April 19, 2005

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE US THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT THE MEETING. A PRE-ADDRESSED

POSTAGE-PAID ENVELOPE IS PROVIDED FOR YOUR CONVENIENCE.

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LUMINENT MORTGAGE CAPITAL, INC.

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 25, 2005

This proxy statement is being furnished in connection with our solicitation of proxies by and on behalf of the board of directors of Luminent Mortgage Capital, Inc., a Maryland corporation, for use at our 2005 annual meeting of stockholders to be held at 909 Montgomery Street, Suite 500, San Francisco, California 94133, on Wednesday, May 25, 2005 at 10:00 a.m., local time, and any adjournment or postponement thereof.

Stockholders are requested to complete, date and sign the enclosed proxy card, or proxy, and return it in the envelope provided. Valid proxies will be voted as specified thereon at our annual meeting. Any notice of revocation sent to us must include the stockholder s name and must be received prior to our annual meeting to be effective.

We are mailing this proxy statement and the enclosed proxy to our stockholders commencing on or about April 20, 2005. Our principal executive offices are located at 909 Montgomery Street, Suite 500, San Francisco, California, 94133.

QUESTIONS AND ANSWERS ABOUT OUR MEETING AND VOTING

What is the purpose of our annual meeting?

At our annual meeting, stockholders will be asked to elect three Class II directors, and to approve amendments to our 2003 Stock Incentive Plan and our 2003 Outside Advisors Stock Incentive Plan. In addition, our management will report on our performance during 2004 and respond to appropriate questions from stockholders.

Will stockholders be asked to vote on any other matters?

As far as our board of directors and management know, stockholders at the meeting will vote only on the matters described in this proxy statement. However, if any other matters properly come before the meeting, the persons named as proxies for stockholders will vote on those matters in the manner they consider appropriate.

Who is entitled to vote at our annual meeting?

Holders of record of our common stock as of the close of business on March 28, 2005, which is the record date, are entitled to vote. As of March 28, 2005, we had 38,228,817 shares of common stock outstanding. Stockholders are entitled to cast one vote per share on each matter presented for consideration at our meeting. If our meeting is adjourned or postponed, your common stock may be voted by the proxies on the new meeting date as well, unless you have revoked your proxy.

What is a quorum for our annual meeting?

The presence, in person or by proxy, of stockholders entitled to cast at least a majority of the votes entitled to be cast by all stockholders will constitute a quorum for the transaction of business at our annual meeting. Votes cast by

proxy or in person at our annual meeting will be tabulated by our inspectors of election appointed for the meeting who will determine whether a quorum is present. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares present at our annual meeting.

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How do I vote?

If you hold your shares in your own name as a holder of record, you may vote your shares of common stock in person at our annual meeting or by proxy by returning to us your the proxy card in the envelope that we have provided to you. If your common stock is held by a broker, bank or other nominee, you will receive instructions from them that you must follow in order to vote your shares.

Can I change my vote?

Yes. If you are a stockholder of record, you can revoke your signed proxy card at any time before it is voted. To revoke a proxy, a stockholder may send a written notice of revocation to our corporate secretary, Christopher J. Zyda, 909 Montgomery Street, Suite 500, San Francisco, California 94133. A stockholder may also revoke his or her proxy by submitting another signed proxy with a later date or by voting in person at our annual meeting.

If you are a beneficial owner of your shares, you may submit new instructions to your broker, bank, or other nominee.

What are our board s recommendations on how to vote my shares?

Our board of directors recommends you vote FOR the election of each of the nominees to serve as Class II directors, FOR the proposal to amend our 2003 Stock Incentive Plan and FOR the proposal to amend our 2003 Outside Advisors Stock Incentive Plan.

What vote is required to approve each item?

Election of Class II Directors. The three persons receiving the highest number of FOR votes cast by our stockholders at our annual meeting will be elected. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although the proxy will be counted for purposes of determining whether a quorum is present. We do not permit cumulative voting in the election of directors.

Other Matters. The affirmative vote of a majority of the votes cast by our stockholders whose shares are represented in person or by proxy at our annual meeting is required to approve the amendment to our 2003 Stock Incentive Plan, the amendment to our 2003 Outside Advisors Stock Incentive Plan and any other matter that properly comes before our annual meeting. As of April 20, 2005, we do not anticipate that any other matter will be properly brought before our annual meeting. Abstentions and shares held by brokers or nominees as to which voting instructions have not been received from the beneficial owner of, or person otherwise entitled to vote, the shares and as to which the broker or nominee does not have discretionary voting power, i.e., broker non-votes, are considered shares of stock outstanding and entitled to vote and are counted in determining the number of votes necessary for a majority. An abstention or broker non-vote will therefore have the practical effect of voting against approval of the proposal to amend our 2003 Stock Incentive Plan, the proposal to amend our 2003 Outside Advisors Stock Incentive Plan and any other matter that properly comes before our annual meeting because each abstention and broker non-vote will not represent a vote for approval of the proposal.

If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of our board of directors, i.e., for the election of our nominees for Class II director, for the proposal to amend our 2003 Stock Incentive Plan and for the proposal to amend our 2003 Outside Advisors Stock Incentive Plan. If other matters are properly brought before our annual meeting, the vote required will be determined by

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applicable law, the rules of the New York Stock Exchange, or NYSE, and our charter and bylaws, as applicable.

Who will count the vote?

Representatives of Mellon Investor Services LLC, our independent inspector of elections, will count the votes.

STOCK OWNERSHIP

How much stock do our directors and executive officers beneficially own?

The following table sets forth as of March 31, 2005 the amount and percentage of our common stock beneficially owned by each of our directors, each of the executive officers named in the Summary Compensation Table in this proxy statement, and all of our current directors and executive officers as a group.

Except as otherwise noted, the beneficial owners named in the following table have sole voting and investment power with respect to all shares of our common stock shown throughout as beneficially owned by them, subject to community property laws, where applicable.

	Shares of Common Stock Beneficially Owned	Percent
Name of Individual or Identity of Group(1)		
Gail P. Seneca, Ph.D.	107,527	*
Leonard Auerbach, Ph.D.	10,500	*
Robert B. Goldstein	37,921	*
John McMahan	4,200	*
Bruce A. Miller, CPA	2,000	*
Donald H. Putnam	25,000	*
Joseph E. Whitters, CPA	50,000	*
S. Trezevant Moore, Jr.	125,000	*
Christopher J. Zyda	34,916	*
All directors and executive officers as a group (9 persons)	397,064	0.1%

(1) The address of each of our officers and directors is c/o Luminent Mortgage Capital, Inc., 909 Montgomery Street, Suite 500, San Francisco, California 94133.

Does any stockholder own 5% or more of our common stock?

The table below shows each stockholder known to us to own beneficially five percent or more of our common stock.

	Shares of Common Stock Beneficially Owned(1)	Percent
Name of Beneficial Owner(1)		
DePrince, Race & Zollo, Inc.	2,166,200	5.67%
Kensington Investment Group, Inc.	3,522,800	9.22%

(1) As reported in a Schedule 13G filed with the Securities and Exchange Commission (the SEC).

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our directors are divided into three classes serving staggered three-year terms. As a result, every year one class, including approximately one-third of our total number of directors, will stand for election (or re-election) by our stockholders. Directors hold office until their successors are elected or they resign or are removed. All officers serve at the discretion of our board of directors.

At our annual meeting, our stockholders will vote to elect three Class II directors, whose terms will expire at our annual meeting of stockholders in 2008, subject to their earlier death, resignation or removal.

The persons named in the enclosed proxy will vote to elect Gail P. Seneca, Leonard Auerbach and Robert B. Goldstein as Class II directors, unless you withhold the authority of these persons to vote for the election of one or more of the nominees by marking your proxy to that effect. Each nominee is currently a director.

Nominees for Election as Class II Directors

Gail P. Seneca, Ph.D., age 52, has been our chairman of our board and chief executive officer since our formation in 2003. Ms. Seneca is also the chief investment officer and managing partner of Seneca Capital Management LLC. Prior to founding Seneca Capital Management LLC in 1989, Ms. Seneca served from 1987 to 1989 as senior vice president of the Asset Management Division of Wells Fargo Bank where she managed assets in excess of $10 billion. Before Wells Fargo, Ms. Seneca was a chief investment strategist and head of fixed income for Chase Lincoln First Bank from 1983 to 1987. She began her career in investments in the savings and loan industry. Ms. Seneca attended New York University where she earned B.A., M.A. and Ph.D. degrees.

Leonard Auerbach, Ph.D., age 58, has been one of our independent director since his appointment to fill a vacancy resulting from an increase in the size of our board in March 2005. Dr. Auerbach is currently President of L, B, A & C, a consulting and investment company. Dr. Auerbach was founding president and chief executive officer of AIG-Centre Capital, a mortgage conduit, from 1999 to 2002 and was general partner of Tuttle & Company, a leading industry consultant on mortgage hedging and analytics, from 1989 to 1997. Dr. Auerbach was a director of Headlands Mortgage before its sale to Greenpoint. Dr. Auerbach also has served as a trustee of the RS and Robertson Stephens Investment Funds, a series of publicly traded mutual funds, since 1987, and since 2001 has served as a director of Sequoia National Bank in San Francisco. Dr. Auerbach served on the faculty of the Haas School of Business at the University of California, Berkeley for ten years, and was a founding faculty member and full professor at the Executive and Graduate MBA programs at St. Mary s College of California. He has written and lectured extensively on mortgage finance. Dr. Auerbach earned a B.A. degree in Mathematics from the University of Wisconsin and a Ph.D. degree in Management Science from the University of California, Berkeley.

Robert B. Goldstein, age 64, has been one of our independent directors since 2003. Mr. Goldstein is chairman of the board of directors of Bay View Capital Corporation. Mr. Goldstein has served as a director of Bay View Capital Corporation since 2001, and served as its president and chief executive officer from 2001 to 2003. Mr. Goldstein has been a member of the board of directors of Sunrise Services, Inc. since May 2004 and a member of the board of directors, audit committee, investor relations committee, and executive committee of F.N.B. Corporation, as well as the chairman of its compensation committee since July 2003. Mr. Goldstein served as president of the Jefferson Division of Hudson United Bank in Philadelphia from 2000 to 2001, when Hudson United acquired Jeff Banks Inc., and was president of Jeff Banks Inc. from 1998 to 2000. Mr. Goldstein was chairman and chief executive officer of Regent Bancshares Corp.

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and Regent National Bank, Philadelphia, Pennsylvania, from 1997 to 1998, and from 1993 to 1996 he served as president and chief executive officer of Lafayette American Bank in Connecticut. Mr. Goldstein holds a B.B.A. degree from Texas Christian University, from which he graduated magna cum laude, and also served for seven years on the faculty of Southern Methodist University s Graduate School of Banking.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE ABOVE-NAMED NOMINEES. PROXIES RECEIVED WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXY.

BOARD OF DIRECTORS AND COMMITTEES

Our Directors

The seven current members of our board of directors are as follows:

Name	Age	Position	Class	Current Term Expires
Inside Directors				
Gail P. Seneca, Ph.D.	52	Chairman of the Board and Chief Executive Officer	II	2005
Independent Directors				
Bruce A. Miller, CPA	62	Lead Independent Director(1)(2)	III	2006
Leonard Auerbach, Ph.D.	58	Independent Director	II	2005
Robert B. Goldstein	64	Independent Director(1)(2)(3)	II	2005
John McMahan	67	Independent Director(2)(3)	I	2007
Donald H. Putnam	53	Independent Director(2)(3)	III	2006
Joseph E. Whitters, CPA	46	Independent Director(1)	I	2007

(1) Audit Committee Member

(2) Compensation Committee Member

(3) Governance and Nominating Committee Member

We currently have a seven-member board of directors. Under our bylaws, the number of directors may be increased or decreased by our board, but may not be fewer than one nor more than 15. Any vacancy on our board of directors, whether resulting from the resignation, removal or death of a director or from an increase in the size of our board, may be filled only by a vote of our directors; alternately, a vacancy resulting from removal of a director may be filled by a vote of our stockholders. One of our directors is affiliated with Seneca Capital Management LLC, or Seneca, and six of our directors are independent, as defined in our bylaws.

As defined in our bylaws, the term independent director refers to a director who is neither:

one of our officers or employees; nor

an officer, director, employee, partner, trustee or 10% or greater owner of Seneca or of any person controlling, controlled by or under common control with Seneca.

Our bylaws require that a majority of the members of our board of directors must at all times be independent directors, unless independent directors comprise less than a majority as a result of a board vacancy. Our bylaws also provide that all of the members of our audit committee, our compensation committee and our governance and nominating committee must be independent directors.

As required by the rules of the New York Stock Exchange, or NYSE, our board considered the independence of each of our directors under the NYSE s standard of independence. Our board

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affirmatively determined that Messrs. Miller, Auerbach, Goldstein, McMahan, Putnam and Whitters have no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) and are thus independent under the NYSE s standard, as well as under our bylaws similar standard.

Class I Directors Continuing in Office After Our Annual Meeting

The following information is furnished regarding our Class I Directors whose term of office continues until our 2007 annual meeting of stockholders and the election of their successors.

John McMahan, age 67, has been one of our independent directors since 2003. Mr. McMahan is also a member of the board of directors of BRE Properties, Inc., a large multi-family REIT, where he served as Chairman from 1995 to 2004. Mr. McMahan is currently President of McMahan Real Estate Service LLC and The McMahan Group, Inc., a real estate consulting firm founded in 1996. He is also executive director for The Center for Real Estate Enterprise Management, a management training firm for real estate managers. Previously, Mr. McMahan was founder and chief executive officer of McMahan Real Estate Advisors from 1980 through 1990. In 1990, Mr. McMahan s firm merged with a subsidiary of Mellon Bank to form Mellon/ McMahan Real Estate Advisors Inc., which, by 1993, was the 16th largest real estate pension fund advisor in the U.S. Mr. McMahan taught real estate at the Stanford Graduate School of Business for 17 years and at the Haas School of Business, University of California, Berkeley for five years. Mr. McMahan holds a B.A. degree from the University of Southern California and an M.B.A. degree from Harvard University.

Joseph E. Whitters, CPA, age 46, has been one of our independent directors since August 2003. Mr. Whitters has served on the board of Omnicell, a public medication-dispensing technology company since 2003 and is the chairman of its audit committee and has served as a director of Mentor Corp., a medical product company, since 2004, where he is chairman of the board and a member of the audit committee. Mr. Whitters was with First Health Group Corp., a managed health care company, where he most recently served as an executive vice president from March 2004 until the company was sold in January 2005. He joined First Health Group Corp. as its controller in October 1986, served as its vice president, finance from August 1987 to March 2004 and its chief financial officer from March 1988 to March 2004. From 1984 through 1986, he served as controller of United HealthCare Corp. (which subsequently changed its name to United Health Group, Inc.), a diversified medical services company. From 1983 to 1984, he served as manager of accounting and taxation for Overland Express, a publicly traded trucking company. From 1980 to 1983, he was a senior accountant for tax matters at Peat Marwick, a public accounting firm. Mr. Whitters holds a B.A. degree in accounting from Luther College in Decorah, Iowa.

Class III Directors Continuing in Office After Our Annual Meeting

The following information is furnished regarding our Class III Directors whose term of office continues until our 2006 annual meeting of stockholders and the election of their successors.

Bruce A. Miller, CPA, age 62, has been our lead independent director since 2003. Mr. Miller is a retired managing partner of the E&Y Kenneth Leventhal Real Estate Group, San Francisco, where he served from 1980 to 1999. Mr. Miller is a certified public accountant and affiliated with the American Institute of Certified Public Accountants. Mr. Miller is the chairman of the board of LumenIQ, Inc., president of the board of The San Francisco Food Bank and is a director of AMB Institutional Alliance REIT I, Inc., Great Circle Water (Technologies), Inc., California Center for Land Recycling, and Whitney Cressman Limited. Mr. Miller has acted as an advisor to David J. Brown Real Estate Investor since early 2003. Mr. Miller earned a B.A. degree from Drexel University and an M.B.A. degree from New York University.

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Donald H. Putnam, age 53, has been one of our independent directors since August 2003. Since 2005, Mr. Putnam has been the founder and Managing Partner of Grail Partners LLC, a merchant banking firm providing advice and capital to the investment management business worldwide. Through 2004, he was chief executive officer of Putnam Lovell NBF Securities Inc. Putnam Lovell is a global investment banking firm founded in 1987 by Mr. Putnam and sold in 2002 to National Bank Financial, the broker/ dealer subsidiary of National Bank of Canada. From 1980 to 1986, Mr. Putnam held various senior positions at SEI Investments Inc. a public investment advisory firm. From 1978 to 1980, Mr. Putnam was a senior consultant at Catallatics Corporation, a financial services company, where he devised new products and strategies for banking clients. From 1973 to 1978, Mr. Putnam held various positions in the trust and investment group of Bankers Trust Company. Mr. Putnam s education includes undergraduate work at New York University and Franklin Pierce College.

2004 Meetings

During the fiscal year ended December 31, 2004, our board of directors held four meetings and acted by unanimous written consent twenty times.

In 2004, each member of our board of directors attended or participated in 75% or more of the meetings held by the board and the committees on which he then served.

We have a policy that actively encourages, but does not obligate [our directors] to attend our annual stockholders meetings because we believe this policy provides our stockholders with an opportunity to communicate with the members of our board of directors. All of our directors attended our 2004 annual meeting of stockholders.

Committees of our Board of Directors

Our board established an audit committee, a compensation committee and a governance and nominating committee in 2003. Other committees may be established by our board of directors from time to time.

Audit Committee

Our audit committee is currently composed of three directors: Bruce A. Miller, CPA (chairman), Robert B. Goldstein and Joseph E. Whitters, CPA. Our board of directors has determined that all members of the audit committee satisfy the independence requirements of the NYSE. Our board has also determined that:

all members of our audit committee qualify as an audit committee financial expert, as defined by the SEC, and

all members of our audit committee are financially literate, within the meaning of the NYSE rules, and independent, under the strict audit committee independence standards of Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Our audit committee operates pursuant to a written charter adopted by our board. Among other things, the audit committee charter calls upon our audit committee to:

oversee our accounting and financial reporting processes and compliance with legal and regulatory requirements on behalf of our board of directors and report the results of its activities to our board;

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be directly and solely responsible for the appointment, retention, compensation, oversight, evaluation and, when appropriate, the termination and replacement of our independent registered public accounting firm;

review the annual engagement proposal and qualifications of our independent registered public accounting firm;

prepare an annual report as required by applicable SEC disclosure rules;

review the integrity, adequacy and effectiveness of our internal controls and financial disclosure process;

review and approve all related party transactions, including all transactions with Seneca; and

manage our relationship with Seneca under the management agreement.

In 2004, our audit committee held six meetings.

Compensation Committee

The members of our compensation committee are Robert B. Goldstein (chairman), John McMahan, Bruce A. Miller, CPA and Donald H. Putnam. Our board of directors has determined that all of our compensation committee members qualify as:

independent directors under the NYSE independence standards;

non-employee directors under Exchange Act rule 16b-3; and

outside directors under Internal Revenue Code, or the Code, section 162(m).

Our compensation committee has been delegated the authority by our board of directors to administer all of our equity incentive plans, to determine the chief executive officer s salary and bonus, if any, and to make salary and bonus recommendations to our board regarding all other employees, including our president and chief operating officer and our chief financial officer. Our compensation committee operates pursuant to a written charter adopted by our board. Among other things, the compensation committee charter calls upon our compensation committee to:

develop the overall compensation policies and the corporate goals and objectives, if any, relevant to our chief executive officer s compensation from us;

evaluate our chief executive officer s performance in light of those goals and objectives, if any;

be directly and solely responsible for establishing our chief executive officer s compensation level, if any, based on this evaluation; and

make recommendations to our board regarding the compensation of our officers junior to our chief executive officer, incentive compensation plans and equity-based plans.

Because we do not currently compensate any of our officers other than our president and chief operating officer and our chief financial officer, and because each of their base and bonus compensation levels are largely established by their employment agreements (as described below) which have been approved by our compensation committee, we do not expect our compensation committee to be very active in the foreseeable future. In 2004, our compensation committee held three meetings and acted by written consent twice.

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Governance and Nominating Committee

Our governance and nominating committee has been formed to establish and implement our corporate governance practices and to nominate individuals for election to our board of directors. The members of our governance and nominating committee are Robert B. Goldstein (chairman), John McMahan and Donald H. Putnam. Our governance and nominating committee is composed entirely of independent directors as required by NYSE rules.

Our governance and nominating committee operates pursuant to a written charter adopted by our board. Among other things, the committee charter calls upon our governance and nominating committee to:

develop criteria for selecting new directors and identify individuals qualified to become board members and members of the various committees of our board;

select, or recommend that our board select, the director nominees for each annual meeting of our stockholders and the committee nominees; and

develop and recommend to our board a set of corporate governance principles applicable to us.

In 2004, our governance and nominating committee acted by written consent twice.

Policy on Nominations by Stockholders

Our governance and nominating committee will consider nominees recommended by stockholders. Any nominations should be submitted in writing to the chairman of our governance and nominating committee at our principal business address. The submission should include:

the nominator s name, address and phone number and a statement of the number of shares of our capital stock beneficially owned by the nominator during the year preceding the date of nomination;

the nominee s name, address and phone number; and

a statement of the nominee s qualifications for board membership.

The written materials must be submitted within the time permitted for submission of a stockholder proposal for inclusion in our proxy statement for our annual meeting. Our governance and nominating committee intends to evaluate prospective nominees suggested by stockholders in the same manner and utilizing the same criteria as any other prospective nominee identified by any other source. In general, the criteria and process that our governance and nominating committee uses are described below. In connection with this year s annual meeting of stockholders, we did not receive any director nominations from stockholders beneficially owning 5% or more of our common stock.

Criteria for Evaluating Potential Nominees to our Board

Our governance and nominating committee use the following criteria for evaluating potential nominees to our board of directors.

Minimum Criteria. Any prospective board candidate should meet the following minimum criteria:

reputation of integrity, strong moral character and adherence to high ethical standards;

holds or has held a generally recognized position of leadership in community and/or chosen field of endeavor, and has demonstrated high levels of accomplishment;

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demonstrated business acumen and experience, and ability to exercise sound business judgment and common sense in matters that relate to our current and long-term objectives;

ability to read and understand basic financial statements and other financial information pertaining to us;

commitment to understand our business, industry and strategic objectives;

commitment and ability to regularly attend and participate in meetings of our board of directors, board committees and stockholders;

ability generally to fulfill all responsibilities as one of our directors in light of the candidate s other obligations, including obligations to the other boards on which the candidate serves;

willingness to represent and act in the interests of all of our stockholders rather than the interests of a particular group;

good health and ability to serve;

for prospective non-employee directors, independence under SEC and NYSE rules, and the absence of any material conflict of interest (whether due to a business or personal relationship) or legal impediment to, or restriction on, the nominee serving as a director; and

willingness to accept a nomination to serve as one of our directors.

Other Factors. Our governance and nominating committee also considers the following factors in connection with its evaluation of each prospective nominee:

whether the prospective nominee will foster a diversity of skills and experiences;

whether the nominee possesses the requisite education, training and experience to qualify as financially literate or as an audit committee financial expert under applicable SEC and NYSE rules;

for incumbent directors, standing for re-election, the governance and nominating committee assesses the incumbent director s performance during his or her term, including the number of meetings attended, level of participation, and overall contribution to us; and

composition of our board and whether the prospective nominee will add to or complement our board s existing strengths.

Process for Selecting Nominees to our Board

Our governance and nominating committee use the following process for selecting nominees to recommend to our board of directors.

The committee initiates the process by preparing a slate of potential candidates who, based on their biographical information and other information available to the committee, appear to meet the criteria specified above and/or who have specific qualities, skills or experience being sought by the committee (which may be based on informal input from our full board, management and/or stockholders). Potential nominees may come to the committee s attention from the following sources, among others:

Outside Advisors. The committee may engage a third-party search firm or other advisors to assist in identifying prospective nominees.

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Stockholder Suggestions. As described above, the committee will consider nominees suggested by our stockholders.

Incumbent Directors. The committee will consider whether an incumbent director whose term is expiring should be nominated for re-election. Re-nomination of incumbent directors should not be viewed as automatic, but will be based on continuing qualification under the criteria set forth above. However, incumbent directors may have an advantage if they have demonstrated, during their term, a keen understanding of mortgage REITs and specialty finance companies and an ability to function well with our full board and management. When an incumbent director is willing to stand for re-election, the committee will assess the incumbent director s performance during his or her term, including the number of meetings attended, his or her level of participation and overall contribution to us; the number of other boards on which the individual serves; the individual s effect on the composition of our board; and any changed circumstances affecting the individual director that may bear on his or her ability to continue to serve on our board.

Key Members of Management. Our governance and nominating committee believes it is important that no more than three members of management participate on our board. In any event, the number of our officers serving on our board at any time should be limited such that, at all times, a majority of our directors is independent under applicable SEC and NYSE rules.

After reviewing appropriate biographical information and qualifications, the best qualified first-time candidates will be interviewed by the chairman of our governance and nominating committee and at least one other member of the committee and by our chairman of the board. Upon completion of the above procedures, our governance and nominating committee will select the potential candidates to be recommended to the full board for nomination for election at our annual meeting. Our board of directors is expected, but not required, to select nominees only from candidates recommended by our governance and nominating committee.

Corporate Governance

Corporate Governance Guidelines

On the recommendation of our governance and nominating committee, our board of directors adopted corporate governance guidelines. The guidelines address matters such as frequency of board meetings, director tenure, director compensation, executive sessions of our independent directors, communication with and among our directors and continuing education.

Lead Independent Director and Executive Sessions

On the recommendation of our governance and nominating committee and in accordance with NYSE rules, our independent directors meet in regularly scheduled executive sessions without management. Our board of directors has established the position of lead independent director and our independent directors have elected Mr. Miller to serve in that position. In his role as lead independent director, Mr. Miller s responsibilities include:

scheduling and chairing meetings of our independent directors, and setting their agendas;

facilitating communications between our independent directors and management; and

acting as a point of contact for persons who wish to communicate with our independent directors.

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Communications with our Board and Independent Directors

Anyone wishing to communicate with our full board or to our independent directors separately may write to Mr. Miller through our independent outside counsel, Frederick W. Dreher, Esq., at Duane Morris LLP, 4200 One Liberty Place, Philadelphia, Pennsylvania 19103.

Code of Business Conduct and Ethics

Our board of directors has established a code of business conduct and ethics. Among other matters, the code of business conduct and ethics is designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the code to appropriate persons identified in the code; and

accountability for adherence to the code.

Waivers to the code of business conduct and ethics may be granted only by the governance and nominating committee of our board. In the event that the committee grants any waivers of the elements listed above to any of our officers, we expect to announce the waiver within five business days on the corporate governance section of our corporate website at *www.luminentcapital.com*. The information on that website is not a part of this proxy statement.

Public Availability of Corporate Governance Documents

Our key corporate governance documents, including our corporate governance guidelines, our code of business conduct and the charters of our audit committee, compensation committee and governance and nominating committee:

are posted on our website;

are available in print to any stockholder who requests them from our corporate secretary; and

were filed as exhibits to our registration statements on Form S-11 (Registration Nos. 333-107984 and 333-113493) which became effective under the Securities Act of 1933, as amended, or the Securities Act, on December 18, 2003 and March 29, 2004, respectively.

Compensation of Directors

In 2004, we paid each of our non-officer directors an annual fee of $30,000 for service on our board (pro-rated for partial periods), plus a meeting fee of $1,000 for each formally called board or committee meeting the non-officer directors attended at which a quorum was present. We reimburse all of our directors for the expenses they incur in connection with attending board and committee meetings. We may, from time to time, at the discretion of the compensation committee of our board of directors, grant options to purchase shares of our common stock to our directors under our stock incentive plans described below.

Effective January 1, 2005, we pay each of our non-officer directors an annual fee of $50,000 for service on our board (pro-rated for partial periods), pay the lead independent director an additional annual fee of $20,000 and pay the

chairperson of each committee of our board an

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additional annual fee of $10,000. Meeting fees of $2,500 are paid for each formally called regular or special board meeting the non-officer directors attend at which a quorum is present and a meeting fee of $1,500 for each meeting attended telephonically at which a quorum is present. We also pay committee meeting fees of $1,000 for each meeting of a committee of our board of directors that the director attends. We continue to reimburse all of our directors for the expenses they incur in connection with attending board and committee meetings. We may, from time to time, at the discretion of the compensation committee of our board of directors, grant options to purchase shares of our common stock to our directors under our stock incentive plans described below. We do not currently compensate our officer-directors for their service as directors (or for their service as officers).

MANAGEMENT OF THE COMPANY

Our Executive Officers

All of our officers serve at the discretion of our board of directors. The following table provides information regarding our executive officers as of April 20, 2005:

Name	Age	Position
Gail P. Seneca, Ph.D.	52	Chairman of the Board and Chief Executive Officer
S. Trezevant Moore, Jr.	52	President and Chief Operating Officer
Christopher J. Zyda	42	Senior Vice President and Chief Financial Officer

Employee and Non-Employee Officers

We employ a full-time president and chief operating officer, S. Trezevant Moore, Jr. and a full-time chief financial officer, Christopher J. Zyda.

Our other executive officer Ms. Seneca is an employee and officer of Seneca and is compensated by Seneca. In her capacity as one of our executive officers, she performs only ministerial functions, such as executing contracts and filing reports with regulatory agencies. In her capacity as an officer and employee of Seneca, she is expected to fulfill Seneca s duties to us under the management agreement. However, we have limited control over which persons Seneca assigns to our account. In her capacity as an officer and employee of Seneca, Ms. Seneca does not have fiduciary obligations to us or our stockholders.

Business Experience of our Executive Officers

Set forth below is a brief account of the business experience and education of our executive officers other than Gail P. Seneca. Ms. Seneca s business experience and education information is set forth above under Board of Directors Our Directors.

S. Trezevant Moore, Jr. is our president and chief operating officer. Prior to joining us in March 2005, Mr. Moore was the executive vice president of capital markets for Radian Guaranty in Philadelphia from February 2000 to February 2005. Prior to his service at Radian, Mr. Moore held several senior level appointments in the mortgage industry, including positions at First Union National Bank from 1997 to 2000, Nationsbanc Capital Markets from 1994 to 1997, Citicorp Securities from 1989 to 1994 and First Boston from 1984 to 1989. Mr. Moore earned both his B.A. and M.B.A. degrees from the University of Pennsylvania.

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Christopher J. Zyda is our senior vice president and chief financial officer. Prior to joining us in August 2003, Mr. Zyda was employed at eBay, Inc. from 2001 to 2003, where he served as vice president, financial planning and analysis. Prior to eBay, Mr. Zyda was employed at Amazon.com, Inc. from 1998 to 2001, where he held the positions of assistant treasurer, then treasurer, and eventually vice president and chief financial officer international. Prior to Amazon.com, Mr. Zyda was employed at The Walt Disney Company from 1989 to 1998, where he held several positions within the corporate treasury group, culminating as director, investments with responsibility for over $4 billion of investment assets. Mr. Zyda earned a B.A. degree in English Literature from the University of California Los Angeles, and an M.B.A. degree from the Anderson School at UCLA.

EXECUTIVE COMPENSATION

At December 31, 2004, we had a full-time chief financial officer, Christopher J. Zyda, who is employed by us. All of our other executive officers as of that date were employed and compensated by Seneca. We do not separately compensate our current executive officers, other than Mr. Moore and Mr. Zyda, for their service as officers, nor do we reimburse Seneca for any portion of our officers compensation from Seneca, other than through the management fees we pay to Seneca under the management agreement (which is described under the caption Certain Relationships and Related Transactions). In the future, our board of directors or our compensation committee may decide to pay annual compensation or bonuses and/or long-term compensation awards to one or more of our non-employee officers for their services as officers. We may from time to time, in the discretion of the compensation committee of our board of directors, grant options to purchase shares of our common stock to one or more of our other officers pursuant to our non-employee incentive plans.

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The following table summarizes the compensation we have awarded or paid to our chief executive officer and to our four other most highly compensated executive officers whose compensation exceeded $100,000 in 2004. As mentioned above, we currently do not separately compensate our current executive officers other than Mr. Moore and Mr. Zyda. We refer to the persons identified in the following table as our named executive officers at December 31, 2004.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation(2)		
Name and Position	Year	Salary	Bonus(1)	Other	Restricted Stock Awards(1)	Option Awards(1)	Dividend Equivalent Rights(1)
Gail P. Seneca, Chairman of the Board and Chief Executive Officer	2004						
	2003						
Albert J. Gutierrez, President(2)	2004						
	2003						
Christopher J. Zyda, Senior Vice President and Chief Financial Officer	2004	$200,000(3)	$317,140(4)(5)		$288,920(4)(5)	(6)	$16,323(7)
	2003	$ 82,192(3)	$ 15,155(4)		$ 15,155(4)	50,000(6)	(7)
Andrew S. Chow, Senior Vice President(2)	2004						
	2003						
Troy A. Grande, Senior Vice President(2)	2004						
	2003						

(1) Amounts presented as bonus awards, stock awards, stock option awards and dividend equivalent right, or DER, awards for 2004 and 2003 are amounts actually awarded by our compensation committee. Our compensation committee has the right to issue additional stock awards, stock options and DERs to our officers at any time.

(2) As of the date of this proxy statement, Messrs. Gutierrez, Chow and Grande are no longer serving as our executive officers. Messrs. Gutierrez and Chow continue to be employed and compensated by Seneca.

(3) Mr. Zyda s employment by us commenced on August 4, 2003. In 2004 and 2003, we paid Mr. Zyda the salary shown above. Mr. Zyda s salary rate resets on the first day of each calendar month based upon our net worth on the final day of the preceding month as described under Employment Agreements below. Mr. Zyda s salary rate has been $16.7 thousand per month (this rate is equivalent to an annualized rate of $200 thousand per year, but is subject to reset each month).

(4) Mr. Zyda is entitled to a quarterly incentive bonus in the amount of 5% of the incentive compensation payable to Seneca for such quarter. One-half of each incentive bonus to Mr. Zyda is payable in cash and one-half is payable in stock, as a restricted stock award under our 2003 stock incentive plan. See Employment Agreements below. Included in amounts shown in the table above as bonus and restricted stock awards for 2004 and 2003 together comprise Mr. Zyda s incentive bonus for the year ended December 31, 2004 and the fourth quarter of 2003, respectively. The total dollar amount of Mr. Zyda s 2004 incentive bonus was $334.2 thousand, for which we paid to Mr. Zyda $167.1 thousand in cash and issued to Mr. Zyda 16,633 shares of restricted stock. The total dollar amount of Mr. Zyda s fourth quarter 2003 incentive bonus was $30.3 thousand, for which we paid to Mr. Zyda $15.2 thousand in cash and issued to Mr. Zyda 1,283 shares of restricted stock. Subject to Mr. Zyda s continued employment, the 2003 shares granted will vest in three equal installments between

February 4, 2005 and February 4, 2007. The 2004 shares were granted at various points throughout the year and will vest between April 26, 2005 and February 4, 2008.

(5) On December 28, 2004 Mr. Zyda was awarded an additional performance bonus of $150.0 thousand in cash and

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10,000 shares of restricted stock, valued at $121.8 thousand, based on the closing price of our common stock on the NYSE on the date of the grant.

(6) On August 4, 2003, we granted Mr. Zyda options to purchase 50,000 shares of our common stock at an exercise price of $15.00 per share. These options vest in three equal annual installments beginning on the first anniversary of the date of grant and expire 10 years after the date of grant. There were no stock option grants to Mr. Zyda in 2004.

(7) Mr. Zyda is entitled to quarterly dividend equivalent rights related to the unvested restricted stock awards outstanding on the record date of each quarterly dividend.

Option Grants

The following table describes the stock options we have granted to our named executive officers through 2004. The table also includes the potential realizable value of these grants over the 10-year term of the options, based on assumed rates of stock-price appreciation of 5% and 10%, compounded annually, from the stated exercise price. These assumed rates of stock-price appreciation have been selected in accordance with the rules of the SEC and do not represent an estimate of our future stock price. We face the risk that our actual stock price will not appreciate over the option terms at the assumed rates of 5% and 10%, or at all. Unless the market price of the shares underlying each option increases above the exercise price over the option term, the named executive officer will not realize any value from the option grant. None of our named executive officers has exercised any options to purchase our common stock.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted to date 2004	Percent of Total Options Granted to Date	Exercise Price	Expiration Date	5%	10%
Christopher J. Zyda	50,000	91%	$15.00	Aug. 4, 2013	$155,080	$600,146

Employment Agreements

We are externally managed and advised by Seneca, which, at December 31, 2004, employed and compensated our executive officers other than our chief financial officer, Mr. Zyda. We employ Mr. Zyda as our senior vice president and chief financial officer pursuant to his employment agreement, which has been approved by our compensation committee. On March 14, 2005, we announced certain changes to our executive officers, including the appointment of S. Trezevant Moore, Jr. as president and chief operating officer to succeed Albert J. Gutierrez. We employ Mr. Moore as our president and chief operating officer pursuant to his letter agreement that has been approved by our compensation committee.

Mr. Moore

Base Salary. Mr. Moore s base salary is $300 thousand per year.

Incentive Bonus. Mr. Moore is entitled to a first year bonus of $300 thousand, paid at an annualized rate, payable on or before December 31, 2005.

Restricted Stock Grant. We granted 125,000 restricted shares of Luminent common stock at a grant price of $11.37, which will vest ratably over the next four years provided Mr. Moore remains employed by us during the

four-year period.

Performance Bonus and Stock Grant. Mr. Moore is eligible to earn an incentive stock grant, in the form of restricted shares, of 50,000 shares of our common stock upon achieving a Performance Trigger (Trigger). The Trigger is achieved when the closing market price per share of our common stock exceeds 135% of our most recent month-end GAAP book value per share for a period of 30

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calendar days. Once the Trigger is achieved, one thirty-sixth of the grant will vest each month in which the month-end closing market price per share of our common stock exceeds 135% of our month-end GAAP book value per share. This incentive stock grant will expire on the seventh anniversary of Mr. Moore s start date.

Termination. Our letter agreement with Mr. Moore provides that his employment is at-will, meaning that either we or Mr. Moore may terminate his employment by us at any time for any reason, with or without cause.

Non-Competition and Anti-Solicitation. The employment letter provides that Mr. Moore may not aid any of our competitors during the employment period and may not solicit any of our managerial employees or business contacts or those of Seneca while he is employed by us and for two years thereafter.

Mr. Zyda

Base Salary. Mr. Zyda s base salary rate resets on the first day of each month based upon our net worth on the final day of the preceding month. For purposes of Mr. Zyda s employment agreement, our net worth is calculated in the same manner as under our management agreement with Seneca. As of December 31, 2004, our net worth was approximately $405.5 million. Mr. Zyda s base salary is calculated as follows:

if our net worth is less than $500 million at the end of any calendar month, Mr. Zyda s base salary for the following month is 1/12th of $200 thousand;

if our net worth is equal to or greater than $500 million, but less than $1.0 billion, at the end of any calendar month, Mr. Zyda s base salary for the following month is 1/12th of $250 thousand;

if our net worth is equal to or greater than $1.0 billion, but less than $1.5 billion, at the end of any calendar month, Mr. Zyda s base salary for the following month is 1/12th of $300 thousand; and

if our net worth is equal to or greater than $1.5 billion at the end of any calendar month, Mr. Zyda s base salary for the following month is 1/12th of $500 thousand.

Incentive Bonus. Mr. Zyda is entitled to quarterly incentive bonus payments under his employment agreement in an amount equal to 5% of Seneca s incentive compensation from us for the quarter. Incentive bonuses are payable to Mr. Zyda whenever Seneca or any successor manager receives (and has an unqualified right to retain) any incentive compensation under the management agreement. Seneca s right to incentive compensation is described under the caption Certain Relationships and Related Transactions below. The incentive bonus payable by us to Mr. Zyda is in addition to the incentive compensation payable by us to Seneca.

One-half of each incentive bonus is payable to Mr. Zyda in cash and one-half is payable in stock, in the form of a restricted stock award under our 2003 stock incentive plan. One-third of each such restricted stock award will vest on each of the first three anniversaries of the date of issuance, subject to Mr. Zyda s continued employment with us. Mr. Zyda will not be entitled to any incentive bonus that becomes payable after the termination of his employment. Mr. Zyda is not entitled to any incentive bonus in connection with any termination fee payable to Seneca.

Stock Options. On August 4, 2003, we granted Mr. Zyda options to purchase 50,000 shares of our common stock under our 2003 stock incentive plan at an exercise price of $15.00 per share. These options vest in three equal annual installments beginning on the first anniversary of the date of grant and expire ten years after the date of grant.

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Termination. Mr. Zyda s employment period is for one year, with automatic one-year renewals unless terminated earlier pursuant to the employment agreement. Mr. Zyda may resign for any reason upon 30 days prior written notice. We may terminate Mr. Zyda s employment at any time. However, if we terminate his employment prior to the end of the employment period without good cause, or if Mr. Zyda resigns with good reason, we are required to pay him a severance benefit equal to his annualized base salary in effect immediately prior to the termination, payable within 60 days following the date of termination.

Non-Competition and Anti-Solicitation. The employment agreement provides that Mr. Zyda may not aid any of our competitors during the employment period and may not solicit any of our managerial employees or business contacts or those of Seneca during the employment period and for two years afterwards.

Binding Arbitration. Any dispute arising under the employment agreement is subject to binding arbitration.

Equity Compensation Plan Information

Plan Category	(a)Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b)Weighted-average exercise price of outstanding options, warrants and rights	(c)Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders	55,000	$14.82	919,878
Equity compensation plans not approved by security holders			
Total	55,000	$14.82	919,878(1)

(1) At December 31, 2004, the maximum number of shares of common stock that may be delivered pursuant to awards granted under both plans is 919,878 shares of our common stock.

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COMPENSATION COMMITTEE REPORT

The following Report of the Compensation Committee and the performance graph included elsewhere in this proxy statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any filing by us under the Securities Act of 1933, or the Securities Act, and the Exchange Act, except to the extent that we specifically incorporate this Report or the performance graph by reference.

The charter of the Compensation Committee of our board of directors, as adopted on June 4, 2003, specifies that the purpose of the Compensation Committee is to assist our board of directors in:

- developing the overall compensation policies and the corporate goals and objectives, if any, relevant to the compensation of our chief executive officer;
- evaluating our chief executive officer s performance in light of those goals and objectives, if any;
- establishing the compensation of our chief executive officer, if any, based on this evaluation; and
- recommending to our board of directors the compensation of our other officers, incentive compensation plans and equity-based plans

The full text of the Compensation Committee s charter is available on our website (www.luminentcapital.com). The Compensation Committee reviews its charter on an annual basis.

We are managed by Seneca Capital Management LLC, or Seneca, pursuant to a management agreement which is described elsewhere in this proxy statement. Under the management agreement, Seneca employs and compensates all of our executive officers with the exception of S. Trezevant Moore, Jr., our president and chief operating officer and Christopher J. Zyda, our Senior Vice President and Chief Financial Officer, whom we employ. Mr. Moore s compensation is governed by a letter agreement, described elsewhere in this proxy statement which the Compensation Committee approved in 2005. Mr. Zyda s base and bonus compensation is governed by an employment agreement, described elsewhere in this proxy statement, between him and us, which the Compensation Committee approved in 2003. The Compensation Committee does not set any compensation policies for our other officers, all of whom are compensated by Seneca. In addition, we do not reimburse Seneca for the compensation it pays to our officers who are its employees, and the compensation of our officers, other than Mr. Moore and Mr. Zyda, is derived from the revenues of Seneca which includes the management fees we pay Seneca pursuant to the management agreement.

For the reasons described above, the primary activity of the Compensation Committee during 2004 was the administration of our stock incentive plans for employees and outside advisors. The policy behind our stock incentive plans is to provide an incentive for our long-term success and to increase stockholder value. Our stock incentive plans provide an incentive for the creation of stockholder value because the full benefit of the incentive can only be realized if the price of our common stock appreciates over time.

MEMBERS OF THE COMPENSATION COMMITTEE

Robert B. Goldstein (Chairman)
John McMahan
Bruce A. Miller, CPA
Donald H. Putnam

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Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is a current or former officer or employee of our company. During 2004, none of our executive officers served as members of the board of directors or compensation committee of any entity that has one or more executive officers who served on our board of directors or compensation committee. As a result, there are no compensation committee interlocks and no insider participation in compensation decisions that are required to be reported under the rules and regulations of the Exchange Act.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Management Agreement

We entered into a management agreement with Seneca Capital Management LLC, or the Manager, as of June 11, 2003. Our chairman of the board and chief executive officer is affiliated with the Manager. Under the Management Agreement, among other things, we pay to the Manager, base and incentive compensation fees in exchange for investment management and certain administrative services, certain compensation and reimbursements. On March 26, 2005, our board of directors of Luminent approved an Amended and Restated Management Agreement, or the New Agreement, with the Manager. The following is a summary of the material changes made by the New Agreement:

Our ability to deploy assets in mortgage-related lines of business outside our spread arbitrage portfolio without having to pay fees to the Manager;

Our ability to terminate the New Agreement without having to pay a termination fee if specified key persons leave the Manager and are not replaced with a person reasonably acceptable to us;

The introduction of a minimum annual management fee of $3,400,000 for the year ending February 28, 2006; $2,850,000 for the year ending February 28, 2007; $2,250,000 for the year ending February 28, 2008, with no minimum annual management fee thereafter;

The deletion of a fixed amount termination fee and provision for a termination fee that declines ratably over the 36 months succeeding March 2005, so that it would be zero beginning in March 2008; and

The adoption of a more economic fee structure for the Manager s management of our spread arbitrage business.

The most significant changes made by the New Agreement are related to the calculation and payment of base management compensation and incentive management compensation earned by the Manager. The calculations described below are in accordance with the New Agreement, which became effective as of March 1, 2005:

base management compensation equal to a percentage of applicable average net worth, as defined in the New Agreement, paid quarterly in arrears, calculated at the following rates per annum (0.90% of the first $750 million plus 0.70% of the next $750 million plus 0.50% of the amount in excess of $15.0 billion);

incentive management compensation equal to a percentage of applicable average net worth, as defined in the New Agreement, paid annually, calculated at the following rates per annum: (1) 0.35% for the first $750 million of Applicable Average Net Worth; (2) 0.20% for the next $750 million of Applicable Average Net Worth; and (3) 0.15% for the Applicable Average Net Worth in excess of $1.5 billion) if the Return on Assets, as defined in the New Agreement, for any such fiscal year exceeds the Threshold Return, defined as the average of the weekly values for any period of the sum of (i) the Ten-Year U.S. Treasury Rate for such period plus (ii) two percent (2%); and

out-of-pocket expenses and certain other costs incurred by the Manager and related directly to us.

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We are entitled to terminate the New Agreement without cause provided that we give the Manager 60 days prior written notice and pay a termination fee and other unpaid costs and expenses reimbursable to the Manager. If we terminate the New Agreement without cause, we are required to pay the Manager a termination fee equal to two times the amount of the highest annual base management compensation and the highest annual incentive management compensation, for a particular year, earned by the Manager during any of the three years (or on an annualized basis if a lesser period) preceding the effective date of the termination, multiplied by a fraction, where the numerator is the positive difference (if any) resulting from thirty-six (36) minus the number of months (rounded to the nearest whole month) between the effective date of the New Agreement and the termination date, and the denominator is thirty-six (36).

We are also entitled to terminate the New Agreement for cause, in which case we are only obligated to reimburse unpaid costs and expenses. In addition, the Manager will forfeit any then-unvested stock of the Company pursuant to the terms of the restricted stock award agreements issued at the time of the stock grants.

The New Agreement contains certain provisions requiring us to indemnify the Manager for costs (e.g., legal costs) the Manager could potentially incur in fulfilling its duties prescribed in the agreement or in other agreements related to our activities. The indemnification provisions do not apply under all circumstances (e.g., if the Manager is grossly negligent, acted with reckless disregard or engaged in willful misconduct or active fraud). The provisions contain no limitation on maximum future payments. We have evaluated the impact of these guarantees on its financial statements and determined that it is immaterial.

Base management compensation for the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003 was $4.1 million and $0.9 million, respectively.

For the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003, incentive management compensation was earned by the Manager when REIT taxable net income (before deducting incentive management compensation, net operating losses and certain other items) relative to the average net invested assets for the period, as defined in the original management agreement, exceeds the threshold return taxable income that would have produced an annualized return on equity equal to the sum of the 10-year U.S. Treasury rate plus 2.0% for the same period. REIT taxable net income (before deducting incentive compensation, net operating losses and certain other items) for the year ended December 31, 2004 was $62.6 million and was greater than the threshold return taxable income of $27.8 million for the same period. Incentive management compensation earned by the Manager for the year ended December 31, 2004 was $6.7 million, of which the cash portion was $3.3 million. REIT taxable net income (before deducting incentive management compensation, net operating losses and certain other items) for the period from April 26, 2003 through December 31, 2003 was $11.7 million and was greater than the threshold return taxable income of $5.6 million for the same period. Incentive compensation earned by the Manager for the period from April 26, 2003 through December 31, 2003 was $1.2 million, of which $613 thousand was waived by the Manager for the quarter ended September 30, 2003. Incentive management compensation in 2004 and 2003 was paid by us one-half in cash and one-half in restricted stock.

For the quarter ended December 31, 2003, total incentive management compensation for the Manager was $606 thousand, one-half payable in cash and one-half payable in the form of our common stock as described above. The cash portion of the incentive fee of $303 thousand for the quarter ended December 31, 2003 was expensed in that period. In accordance with Statement of Financial Accounting Standards (SFAS) No. 123, and related interpretations, and Emerging Issues Task Force (EITF) 96-18, 15.2% of the restricted stock portion of the incentive fees, or $46 thousand, was expensed in the quarter ended December 31, 2003. Included in other assets at

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December 31, 2003 is $257 thousand of deferred compensation which will be reclassified to stockholders equity after the restricted stock is issued and will be expensed over the three-year vesting period of the restricted stock.

In 2004, pursuant to the provisions of the original management agreement, we issued 273,889 shares of our restricted common stock to the Manager. The Manager subsequently assigned the restricted stock to employees of the Manager, including, among others, our former executive officers, Albert J. Gutierrez, Andrew S. Chow and Troy A. Grande.

Cost-Sharing Agreement

We have entered into a cost-sharing agreement with the Manager regarding overhead items such as space, utilities and other administrative services. Pursuant to the cost-sharing agreement, the Manager has agreed to provide, and we have agreed to reimburse the Manager for the costs of, the use of up to 1,500 square feet of space at the Manager s principal offices and utilities, furniture, furnishings and equipment (including computer equipment), telephone, telegraph and fax services, mail services, and other administrative services utilized by our officers and employees that are not affiliated with the Manager. We are obligated to pay the actual costs attributable to our use of the services rendered by the Manager under the cost-sharing agreement, which shall be determined by the Manager and which determination is subject to the reasonable approval of a majority of our independent directors. Our independent directors may approve a set of guidelines for the determination and reimbursement of costs to the Manager under the cost-sharing agreement in order to permit such determination and reimbursement to occur without prior approval by our independent directors in each instance. The cost-sharing agreement will terminate upon the termination of the management agreement in accordance with its terms. Expenses of $24 thousand and $6 thousand were paid to the Manager under the cost-sharing agreement for the year ended December 31, 2004 and for the period from April 26, 2003 through December 31, 2003, respectively.

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Share Price Performance Graph

The following graph compares the total cumulative stockholder return from a $100 investment in our common stock and in the stocks making up two comparative stock indices on December 19, 2003 (the date our common stock was listed on the NYSE) through December 31, 2004, on a quarterly basis. The graph reflects stock price appreciation and the value of dividends paid on our common stock and for each of the comparative indices.

	12/19/2003	12/31/2003	3/31/2004	6/30/2004	9/30/2004	12/31/2004
LUMINENT MTG CAP INC	100	104	107	91	100	100
S&P 500 Index	100	102	104	106	104	113
BBG REIT Mortgage Index	100	102	121	108	119	130

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PROPOSAL NO. 2

AMENDMENT TO OUR 2003 STOCK INCENTIVE PLAN

General

Our board of directors adopted our 2003 Stock Incentive Plan in June 2003. The purpose of our 2003 Stock Incentive Plan is to promote our success and to increase stockholder value by providing an additional means through the grant of awards for us to attract, motivate, retain and reward selected employees and other eligible persons and to attract, motivate and retain experienced and knowledgeable independent directors.

Our 2003 Stock Incentive Plan permits the granting of awards, including stock options, stock appreciation rights and other awards, including stock bonuses, restricted stock, performance stock, stock units, phantom stock, dividend equivalents or similar rights to purchase or acquire shares. The capital stock that may be delivered under this Plan are shares of authorized and unissued common stock and any shares of common stock held as treasury shares, to our officers and key employees who are in positions in which their decisions, actions and counsel significantly impact upon our profitability and success. Our 2003 Stock Incentive Plan does not affect our right to terminate the employment of an employee.

Our 2003 Stock Incentive Plan as currently in effect provides that the maximum number of shares of common stock that may be delivered pursuant to awards granted to eligible persons under this Plan is equal to (a) 1,000,000 shares, minus (b) the number of shares of common stock issued under (and not reacquired pursuant to) our 2003 Outside Advisors Stock Incentive Plan. See Proposal No. 3 Amendment to our 2003 Outside Advisors Stock Incentive Plan. The maximum number of shares of common stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 1,000,000 shares.

Approximately five persons are currently eligible to participate in our 2003 Stock Incentive Plan, including our executive officers.

Our 2003 Stock Incentive Plan is administered by the compensation committee of our board of directors, each member of which is a non-employee director within the meaning of Rule 16b-3 under the Exchange Act (the administrator). Subject to the express provisions of this Plan and compliance with applicable provisions of the Maryland General Corporation Law, the administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan, including, without limitation, the authority to: (i) interpret the provisions of our 2003 Stock Incentive Plan and decide all questions of fact arising in its application; (ii) determine eligibility and determine the timing, type, amount, size and terms of each grant to eligible persons and (iii) make all other determinations necessary or advisable for the administration of our 2003 Stock Incentive Plan.

See Executive Compensation Option Grant for information regarding options granted under our 2003 Stock Incentive Plan.

Amendment to Our 2003 Stock Compensation Plan

Our 2003 Stock Incentive Plan currently authorizes the grant of shares of common stock equal to (a) 1,000,000 shares, minus (b) the number of shares of common stock issued under (and not reacquired pursuant to) our 2003 Outside Advisors Stock Incentive Plan. The amendment to our 2003 Stock Incentive Plan increases the total number of shares of common stock available for awards under our 2003 Stock Incentive Plan to 1,850,000 shares

(including all shares heretofore issued under the 2003 Stock Incentive Plan).

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The share limitation is subject to adjustment upon the occurrence of certain events, including stock dividends, stock splits, mergers, consolidations, recapitalizations and other capital adjustments.

The full text of our 2003 Stock Incentive Plan, as amended to reflect the increased number of shares, is included as Appendix A to this proxy statement.

Federal Income Tax Consequences of Issuance and Exercise of Stock Options

Based on the advice of counsel, we believe that the normal operation of our plans should generally have, under the Code and the regulations thereunder, all as in effect on the date of this proxy statement, the principal federal income tax consequences with respect to the issuance and exercise of stock options (Options) described below. The tax treatment described below does not take into account any changes in the Code or the regulations thereunder that may occur after the date of this proxy statement. The following discussion is only a summary; it is not intended to be all-inclusive or to constitute tax advice, and, among other things, does not cover possible state or local tax consequences. This description may differ from the actual tax consequences of participation in plans.

An employee receiving an Option (an Optionee) will not recognize taxable income upon the grant of the Option, nor will we be entitled to any deduction on account of such grant.

Non-Qualified Stock Options

In the case of Non-Qualified Stock Options, the Optionee will recognize ordinary income upon the exercise of the Non-Qualified Stock Option in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise. An Optionee exercising a Non-Qualified Stock Option is subject to federal income tax withholding on the income recognized as a result of the exercise of the Non-Qualified Stock Option. Such income will include any income attributable to any shares issuable upon exercise that are surrendered, if permitted under the applicable stock option agreement, in order to satisfy the federal income tax withholding requirements.

Subject to the exceptions described herein, the basis of the shares received by the Optionee upon the exercise of a Non-Qualified Stock Option will be the fair market value of the shares on the date of exercise. The Optionee s holding period will begin on the day after the date on which the Optionee recognizes income with respect to the transfer of such shares, i.e., generally the day after the exercise date. When the Optionee disposes of the shares acquired upon exercise of a Non-Qualified Stock Option, the Optionee will generally recognize capital gain or loss under the Code rules that govern stock dispositions, assuming the shares are held as capital assets, equal to the difference between (i) the selling price of the shares and (ii) the sum of the option price and the amount included in his income when the Non-Qualified Stock Option was exercised. Any net capital gain will be taxed at a capital gains rate that depends on how long the shares were held and the Optionee s tax bracket. Any net capital loss may be used only to offset up to $3,000 per year of ordinary income (reduced to $1,500 in the case of a married individual filing separately) or carried forward to a subsequent year. The use of shares to pay the exercise price of a Non-Qualified Stock Option, if permitted under the applicable stock option agreement, will be treated as a like-kind exchange under Section 1036 of the Code to the extent that the number of shares received on the exercise does not exceed the number of shares surrendered. The Optionee will therefore recognize no gain or loss with respect to the surrendered shares and will have the same basis and holding period with respect to the newly acquired shares (up to the number of shares surrendered) as with respect to the surrendered shares. To the extent the number of shares received exceeds the number surrendered, the fair market value of such excess shares on the date of exercise, reduced by any cash paid by the Optionee upon such exercise, will be includible in the gross income of the

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Optionee. The Optionee s basis in such excess shares will equal the fair market value of such shares on the date of exercise, and the Optionee s holding period with respect to such excess shares will begin on the day following the date of exercise.

Incentive Stock Options

Incentive Stock Options are intended to qualify as incentive stock options under Section 422 of the Code. A purchase of shares upon exercise of an Incentive Stock Option will not result in recognition of income at that time, provided the Optionee was our employee or certain related corporations described in Section 422(a)(2) of the Code during the entire period from the date of grant of the Incentive Stock Option until three months before the date of exercise (increased to 12 months if employment ceased due to total and permanent disability). The employment requirement is waived in the event of the Optionee s death. Of course, in all of these situations, the Incentive Stock Option itself may provide a shorter exercise period after employment ceases than the allowable period under the Code. However, the excess of the fair market value of the shares purchased over the exercise price will constitute an item of tax preference. This tax preference will be included in the Optionee s computation of the Optionee s alternative minimum tax. The basis of the shares received by the Optionee upon exercise of an Incentive Stock Option is the exercise price. The Optionee s holding period for such shares begins on the date of exercise.

If the Optionee does not dispose of the shares issued to the Optionee upon the exercise of an Incentive Stock Option within one year after such issuance or within two years after the date of the grant of such Incentive Stock Option, whichever is later, then any gain or loss realized by the Optionee on a later sale or exchange of such shares generally will be a long-term capital gain or a long-term capital loss equal to the difference between the amount realized upon the disposition and the exercise price, if such shares are otherwise a capital asset in the hands of the Optionee. Any net capital gain will be taxed at a capital gains rate that depends on how long the shares were held and the Optionee s tax bracket. Any net capital loss may be used only to offset up to $3,000 per year of ordinary income (reduced to $1,500 in the case of a married individual filing separately) or carried forward to a subsequent year. If the Optionee sells the shares during such period (i.e., within two years after the date of grant of the Incentive Stock Option or within one year after the transfer of the shares to the Optionee), the sale will be deemed a disqualifying disposition. In that event, the Optionee will recognize ordinary income for the year in which the disqualifying disposition occurs equal to the amount, if any, by which the lesser of the fair market value of such shares on the date of exercise of such Incentive Stock Option or the amount realized from the sale exceeded the amount the Optionee paid for such shares. In the case of disqualifying dispositions resulting from certain transactions, such as gift or related party transactions, the Optionee will realize ordinary income equal to the fair market value of the shares on the date of exercise minus the exercise price. The basis of the shares with respect to which a disqualifying disposition occurs will be increased by the amount included in the Optionee s ordinary income. Disqualifying dispositions of shares may also, depending upon the sales price, result in capital gain or loss under the Code rules that govern other stock dispositions, assuming that the shares are held as a capital asset. The tax treatment of such capital gain or loss is summarized herein.

Subject to the exceptions described herein, the use of shares of common stock already owned by the Optionee to pay the purchase price of an Incentive Stock Option will be treated as a like-kind exchange under Section 1036 of the Code to the extent that the number of shares received on the exercise does not exceed the number of shares surrendered. The Optionee will therefore recognize no gain or loss with respect to the surrendered shares and will have the same basis and holding period with respect to the newly acquired shares (up to the number of shares surrendered) as with respect to the surrendered shares. To the extent that the number of shares received exceeds the number surrendered, the Optionee s basis in such excess shares will equal the amount of cash

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paid by the Optionee upon the exercise of the Incentive Stock Option, if any, and the Optionee s holding period with respect to such excess shares will begin on the date such shares are transferred to the Optionee. However, if payment of the purchase price upon exercise of an Incentive Stock Option is made with shares acquired upon exercise of an Incentive Stock Option before the shares used for payment have been held for the two-year or one-year period described herein, use of such shares as payment will be deemed a disqualifying disposition of the shares used for payment subject to the rules described above.

Other Information

Under current law, any gain realized by an Optionee, other than long-term capital gain, is taxable at a maximum federal income tax rate of 35%. Under current law, long-term capital gain is taxable at a maximum federal income tax rate of 15%.

We will be entitled to a tax deduction in connection with an Option under our plans in an amount equal to the ordinary income realized by the Optionee at the time such Optionee recognizes such income, including any ordinary income realized by the Optionee upon a disqualifying disposition of an Incentive Stock Option as described herein.

The foregoing discussion is only a summary of certain of the federal income tax consequences relating to our plans as in effect on the date of this proxy statement. No consideration has been given to the effects of federal estate, state, local and other tax laws upon our plans or upon the Optionee or us, which laws will vary depending upon the particular jurisdiction or jurisdictions involved.

Board of Directors Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO AMEND OUR 2003 STOCK INCENTIVE PLAN. PROXIES RECEIVED WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THE PROXY.

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PROPOSAL NO. 3

AMENDMENT TO 2003 OUTSIDE ADVISORS STOCK INCENTIVE PLAN

General

Our board of directors adopted our 2003 Outside Advisors Stock Incentive Plan in June 2003. The purpose of our 2003 Outside Advisors Stock Incentive Plan is to provide an additional means to compensate our Manager and to provide an additional incentive for our Manager and certain of its directors, employees and other eligible persons to enhance the value of our common stock and to help further align their interests with those of our stockholders.

Our 2003 Outside Advisors Stock Incentive Plan permits the granting of awards, including stock options, stock appreciation rights and other awards, including stock bonuses, restricted stock, performance stock, stock units, phantom stock, dividend equivalents or similar rights to purchase or acquire shares. The capital stock that may be delivered under this Plan are shares of authorized and unissued common stock and any shares of common stock held as treasury shares, to our Manager and its key employees who are in positions in which their decisions, actions and counsel significantly impact upon our profitability and success. The Administrator shall establish the effect of a termination of employment or service on the rights and benefits under each award under this Plan.

Our 2003 Outside Advisors Stock Incentive Plan as currently in effect provides that the maximum number of shares of common stock that may be delivered pursuant to awards granted to Eligible Persons under this Plan is equal to (a) 1,000,000 shares, minus (b) the number of shares of common stock issued under (and not reacquired pursuant to) our 2003 Stock Incentive Plan. (See Proposal No. 2 Amendment to our 2003 Stock Incentive Plan).

Persons eligible to participate in our 2003 Outside Advisors Stock Incentive Plan will vary over time.

Our 2003 Outside Advisors Stock Incentive Plan is administered by the Administrator. Subject to the express provisions of this Plan and applicable provisions of the Maryland General Corporation Law, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan, including, without limitation, the authority to: (i) interpret the provisions of our 2003 Outside Advisors Stock Incentive Plan and decide all questions of fact arising in its application; (ii) determine eligibility and determine the timing, type, amount, size and terms of each grant to eligible persons and (iii) make all other determinations necessary or advisable for the administration of our 2003 Outside Advisors Stock Incentive Plan.

Amendment to Our 2003 Outside Advisors Stock Incentive Plan

Our 2003 Outside Advisors Stock Incentive Plan currently authorizes the grant of shares of common stock equal to (a) 1,000,000 shares, minus (b) the number of shares of common stock issued under (and not reacquired pursuant to) our 2003 Stock Incentive Plan. The amendment to our 2003 Outside Advisors Stock Incentive Plan establishes the total number of shares of common stock available for awards under our 2003 Outside Advisors Stock Incentive Plan to 150,000 shares (including all shares heretofore issued under the 2003 Outside Advisors Stock Incentive Plan).

The share limitation is subject to adjustment upon the occurrence of certain events, including stock dividends, stock splits, mergers, consolidations, recapitalizations and other capital adjustments.

The full text of our 2003 Outside Advisors Stock Incentive Plan, as amended to reflect the change in the number of shares authorized, is included as Appendix B to this proxy statement.

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Federal Income Tax Consequences of Grant and Exercise of Options

See Proposal No. 2 Amendment to Our 2003 Stock Incentive Plan Federal Income Tax Consequences of Grant and Exercise of Options Non-Qualified Options.

Board of Directors Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO AMEND OUR 2003 OUTSIDE ADVISORS STOCK INCENTIVE PLAN. PROXIES RECEIVED WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THE PROXY.

DELOITTE & TOUCHE LLP FEES FOR 2004

For the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003, professional services were performed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, which we refer to collectively as Deloitte & Touche.

Audit and audit-related fees aggregated $467,138 and $412,138 for the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003, respectively, and were composed of the following:

Audit Fees

The aggregate fees billed by Deloitte & Touche to us for audit services rendered for the year ended December 31, 2004 and for the period from April 26, 2003 through December 31, 2003 were $451,533 and $328,428, respectively. These fees relate to (i) the audit of our financial statements for the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003, (ii) the audit of our internal controls over financial reporting, (iii) the audit of our financial statements for the period from April 26, 2003 through June 30, 2003, (iv) the review of our quarterly financial statements, (v) the review of and required procedures related to the financial data included in our private placement memorandum related to our private placement of common stock and (vi) the review of and the required procedures related to the quarterly financial statements and other financial data included in our two registration statements on Form S-11 and universal shelf registration statement on Form S-3.

Audit-Related Fees

The aggregate fees billed by Deloitte & Touche to us for audit-related services for the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003 were $15,605 and $83,710, respectively. These fees relate to services provided on accounting and documentation for interest rate derivatives and hedging activities subject to Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

Tax Fees

The aggregate fees billed by Deloitte & Touche to us for tax services for the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003 were $17,680 and $19,000. These fees relate to tax compliance and tax return preparation. These services include income tax compliance and related tax services.

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All Other Fees

Deloitte & Touche did not bill us for any other fees for services other than those included above for the year ended December 31, 2004 and the period from April 26, 2003 through December 31, 2003.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee is responsible for the appointment, compensation, and oversight of the work of our independent registered public accounting firm. As part of this responsibility, our audit committee is required to pre-approve the audit and non-audit services performed by Deloitte & Touche in order to assure that these services do not impair the independent registered public accounting firm s independence from us. Accordingly, our audit committee has adopted an audit and non-audit services pre-approval policy, which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent registered public accounting firm may be pre-approved. Our audit committee believes that the combination of a general pre-approval approach and specific pre-approval approach will result in an effective and efficient procedure to pre-approve services provided by the independent registered public accounting firm. Unless a type of service has received general pre-approval, it will require specific pre-approval by our audit committee if it is to be provided by the independent registered public accounting firm. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee.

The services to be provided by our independent registered public accounting firm and pre-approved by our audit committee include audit, audit-related, tax and all other services. The term of any general pre-approval is 12 months from the date of the pre-approval, unless our audit committee considers a different period and states otherwise. Our audit committee will annually review and pre-approve the services that may be provided by the independent registered public accounting firm on a general pre-approval basis. Our audit committee will add or subtract to the list of general pre-approved services from time to time, based on subsequent determinations.

Our audit committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decision to our audit committee at its next scheduled meeting.

Pre-approval fee levels or budgeted amounts for all services to be provided by Deloitte & Touche will be established annually by our audit committee. Any proposed services exceeding these levels or amounts will require specific pre-approval by our audit committee. Our management and the independent registered public accounting firm will report to our audit committee at each regularly scheduled meeting on the status of fees incurred fiscal year-to-date for each category of service as well as any changes to expected fee levels for such services.

All of the services described in items 9(e)(2) through 9(e)(4) of schedule 14a were approved by our audit committee pursuant to paragraph c(7)(i)(c) of Rule 2-01 of Regulation S-X.

AUDIT COMMITTEE REPORT

The following Report of our audit committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other filing by us under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate this Report by reference therein.

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The charter of the audit committee of our board of directors, as adopted on June 4, 2003, specifies that the purpose of our audit committee is to assist our board of directors in:

- the oversight of our accounting and financial reporting processes and the audits of our financial statements;
- the preparation of the annual report of our audit committee required by the disclosure rules of the SEC;
- the oversight of the integrity of our financial statements;
- our compliance with legal and regulatory requirements;
- the qualifications and independence of our independent registered public accountants;
- the retention of our independent registered public accountants;
- the adequacy of our system of internal controls; and
- the performance of our independent registered public accountants and of our internal audit function.

The full text of our audit committee s charter is available on our website (www.luminentcapital.com). Our audit committee reviews its charter on an annual basis.

In carrying out these responsibilities, our audit committee, among other things:

- monitors preparation of quarterly and annual financial reports by our management;
- supervises the relationship between us and our independent registered public accountants, including having direct responsibility for their appointment, compensation and retention; reviewing the scope of their audit services; approving audit and non-audit services and confirming the independence of the independent registered public accountants; and
- oversees management s implementation and maintenance of effective systems of internal and disclosure controls, including review of our policies relating to legal and regulatory compliance, ethics and conflicts of interest and review of our internal audit program.

Our audit committee met six times during 2004. Our audit committee schedules its meetings in order to have sufficient time to devote appropriate attention to all of its tasks. When it deems it appropriate, our audit committee holds meetings with our independent registered public accountants and with our internal auditors in executive sessions at which our management is not present.

As part of its oversight of our financial reporting process, our audit committee reviews all annual and quarterly financial statements and discusses them with our independent registered public accountants and with management prior to the issuance of the statements. During 2004, management and our independent registered public accountants advised our audit committee that each of our financial statements had been prepared in accordance with generally accepted accounting principles, and they reviewed significant accounting and disclosure issues with our audit committee. These reviews included discussion with our independent registered public accountants as to the matters required to be discussed pursuant to Statement of Auditing Standards No. 61 (Communication with Audit Committees), including the accounting principles we employ, the reasonableness of significant judgments made by management and the transparency of our financial statements. Our audit committee discussed with Deloitte & Touche LLP matters relating to its independence, including a review of audit and non-audit fees and the written disclosures and letter from Deloitte & Touche LLP to our audit committee pursuant to Independence Standards Board Standard

No. 1 (Independence Discussions with Audit Committee).

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Our audit committee also reviewed methods of enhancing the effectiveness of our internal and disclosure control system. Our audit committee, as part of this process, analyzed steps taken to implement recommended improvements in our internal control procedures.

Based on our audit committee s reviews and discussions as described above, the members of our audit committee recommended to our board of directors that our board of directors approve the inclusion of our audited financial statements in our annual report on Form 10-K for the year ended December 31, 2004 for filing with the SEC.

MEMBERS OF THE AUDIT COMMITTEE

Bruce A. Miller, CPA (Chairman)
Robert B. Goldstein
Joseph E. Whitters, CPA

OTHER MATTERS

Other Proposals

Our board of directors knows of no other matters that will be presented for consideration at our annual meeting. If any other matters are properly brought before our annual meeting, the proxies will be voted in accordance with the judgment of the person or persons voting such proxies.

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Exchange Act, our directors, officers and persons holding 10% or more of our common stock are required to file forms reporting their beneficial ownership of our common stock and subsequent changes in that ownership with the SEC. Such persons are also required to furnish us copies of the forms so filed. Based solely upon a review of copies of such forms filed with us, we believe that during 2004, our officers and directors and our stockholders owning 10% or more of our common stock, complied with the Section 16(a) filing requirements on a timely basis.

Annual Report

This proxy statement is accompanied by a copy of our annual report to stockholders for the year ended December 31, 2004, including financial statements audited by Deloitte & Touche, our independent registered public accounting firm for 2004, which includes the independent registered public accounting firm s report dated March 10, 2005.

Stockholder Proposals for 2006 Annual Meeting

Proposals of stockholders for consideration at our 2006 annual meeting of stockholders must be received by us no later than the close of business on December 21, 2005 (which is 120 calendar days before the anniversary of the date of this proxy statement) in order to be included in our proxy statement relating to that meeting. If the date of next year s annual meeting is moved more than 30 days before or after the anniversary date of this year s annual meeting, the deadline for inclusion of proposals in our proxy statement is instead a reasonable time before we begin to print and mail our proxy materials. Such proposals will also need to comply with SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Pursuant to our bylaws, a stockholder wishing to make a proposal or a nomination for director that is not to be included in our proxy statement for our 2006 annual meeting of stockholders must provide specified information to us between January 25, 2006 and February 24, 2006 (which are

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120 days and 90 days, respectively, before the anniversary of this year s annual meeting). Stockholders are also advised to review our bylaws, which contain several additional requirements with respect to advance notice of stockholder proposals and director nominations.

April 19, 2005

By Order of the Board of Directors

/s/ CHRISTOPHER J. ZYDA

Christopher J. Zyda
Secretary

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APPENDIX A

LUMINENT MORTGAGE CAPITAL, INC.

2003 STOCK INCENTIVE PLAN, AS AMENDED

1. PURPOSE OF PLAN

The purpose of the Luminent Mortgage Capital, Inc. 2003 Stock Incentive Plan (this **Plan**) is to promote the success of the Corporation and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons of the Company and to attract, motivate and retain experienced and knowledgeable independent directors. As used herein, **Corporation** means Luminent Mortgage Capital, Inc., a Maryland corporation; **Subsidiary** means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation; and **Company** means the Corporation and its Subsidiaries, collectively.

2. ELIGIBILITY

2.1 ***Eligible Persons.*** The Administrator (as such term is defined in Section 3.1) may grant awards under this Plan only to those persons that the Administrator determines to be Eligible Persons. An **Eligible Person** is any person who is either: (a) an officer (whether or not a director) or employee of the Company; (b) a director of the Company; or (c) an individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Company in a capital-raising transaction or as a market maker or promoter of the Company s securities) to the Company and who is selected to participate in this Plan by the Administrator; provided, however, that a person who is otherwise an Eligible Person under clause (c) above may participate in this Plan only if such participation would not adversely affect either the Corporation s eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the **Securities Act**), the offering of shares issuable under this Plan by the Company or the Corporation s compliance with any other applicable laws. An Eligible Person who has been granted an award (a participant) may, if otherwise eligible, be granted additional awards if the Administrator shall so determine.

2.2 ***Ownership Limit.*** Notwithstanding anything else contained herein or in any award hereunder to the contrary, no Person may receive Common Stock upon the grant, exercise or payment of an award to the extent that it will cause such Person to Beneficially Own or Constructively Own Capital Stock in excess of the Ownership Limit. If a Person would be entitled to receive or acquire shares of Common Stock but for the limitation of the preceding sentence, the Corporation shall have the right to deliver to the Person, in lieu of Common Stock, a check or cash in the amount equal to the value of the Common Stock otherwise deliverable, subject to any applicable tax withholding or other authorized deductions. For purposes of this limitation, the terms Person, Beneficially Own, Constructively Own, Capital Stock, and Ownership Lir are used as defined in the Corporation s Articles of Incorporation.

3. PLAN ADMINISTRATION