

LUMINENT MORTGAGE CAPITAL INC

Form SC 13D

August 21, 2007

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 13D**

**(Rule 13d-101)**

**INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO**

**RULE 13d-2(a)**

**LUMINENT MORTGAGE CAPITAL, INC.**

(Name of Issuer)

**Common Stock, par value \$0.001 per share**

(Title of Class of Securities)

**550278303**

(CUSIP Number)

**Juan C. Bou**

**Arco Capital Corporation Ltd.**

**c/o Arco Capital Management LLC**

**City View Plaza Suite 800**

**Road 165 Km. 1.2**

**Guaynabo, PR 00968**

**(787) 993-9659**

(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

**August 10, 2007**

(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box. o

*Note:* Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. *See* Rule 13d-7 for other parties to whom copies are to be sent.

(Continued on following pages)

(Page 1 of 14 Pages)

<sup>1</sup> The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, *see the Notes*).

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

ARCO CAPITAL CORPORATION LTD.

**1**

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

98-0529366

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

WC, OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO  
ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

Cayman Islands

SOLE VOTING POWER

**7**

NUMBER OF 38,988,052

SHARES SHARED VOTING POWER  
BENEFICIALLY **8**

OWNED BY 2,616,795

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER 38,988,052
WITH	<b>10</b>	SHARED DISPOSITIVE POWER 2,616,795

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
CO

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

ARCO CAPITAL MANAGEMENT LLC

**1**

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

66-069-2732

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

N/A

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

Puerto Rico

SOLE VOTING POWER

**7**

NUMBER OF 0

SHARES SHARED VOTING POWER  
BENEFICIALLY **8**

OWNED BY 38,988,052

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER	0
WITH	<b>10</b>	SHARED DISPOSITIVE POWER	38,988,052

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
IA

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

WESTERN GAILES CAPITAL MANAGEMENT LLC

**1**

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

20-2310198

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

WC, OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO  
ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

Connecticut

SOLE VOTING POWER

**7**

NUMBER OF 150,000

SHARES SHARED VOTING POWER  
BENEFICIALLY **8**

OWNED BY 41,454,847

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER 150,000
WITH	<b>10</b>	SHARED DISPOSITIVE POWER 41,454,847

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
OO

[ADD ADDITIONAL PAGES AS NECESSARY]



**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

1 ISTAN LLC

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

20-3808508

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

2 (a)   
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

WC, OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

NUMBER OF 250,000

8 SHARES BENEFICIALLY OWNED BY SHARED VOTING POWER

41,354,847

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER 250,000
WITH	<b>10</b>	SHARED DISPOSITIVE POWER 41,354,847

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
OO

[ADD ADDITIONAL PAGES AS NECESSARY]

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

INTERINVESTCO LLC

**1**

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

20-3027922

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

WC, OO

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

Delaware

SOLE VOTING POWER

**7**

NUMBER OF 2,216,795

SHARES SHARED VOTING POWER

BENEFICIALLY **8**

OWNED BY 39,388,052

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER 2,216,795
WITH	<b>10</b>	SHARED DISPOSITIVE POWER 39,388,052

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
OO

[ADD ADDITIONAL PAGES AS NECESSARY]

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

ROBERT KOENIGSBERGER

**1**

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

N/A

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

USA

SOLE VOTING POWER

**7**

NUMBER OF 0

SHARES SHARED VOTING POWER  
BENEFICIALLY **8**

OWNED BY 2,216,795

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER	0
WITH	<b>10</b>	SHARED DISPOSITIVE POWER	2,216,795

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
IN

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

DILEK KOENIGSBERGER

**1**

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

N/A

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO  
ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

USA

SOLE VOTING POWER

**7**

NUMBER OF

0

SHARES  
BENEFICIALLY **8**

SHARED VOTING POWER

OWNED BY

250,000

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER
		0
WITH	<b>10</b>	SHARED DISPOSITIVE POWER
		250,000

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

49%

**14** TYPE OF REPORTING PERSON

IN

[ADD ADDITIONAL PAGES AS NECESSARY]



**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

JAY JOHNSTON

**1**

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

**2**

(a)

(b)

SEC USE ONLY

**3**

SOURCE OF FUNDS

**4**

N/A

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

**5**

CITIZENSHIP OR PLACE OF ORGANIZATION

**6**

USA

SOLE VOTING POWER

**7**

NUMBER OF 0

SHARED VOTING POWER

SHARES BENEFICIALLY OWNED BY **8**

2,366,795

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER	0
WITH	<b>10</b>	SHARED DISPOSITIVE POWER	2,366,795

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
IN

[ADD ADDITIONAL PAGES AS NECESSARY]

**Table of Contents**

CUSIP No. 550278303

NAME OF REPORTING PERSON

1 AILSA CRAIG CAPITAL MANAGEMENT LP

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

20-6441715

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

2 (a)

(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

N/A

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Colorado

7 SOLE VOTING POWER

NUMBER OF 0

8 SHARES BENEFICIALLY OWNED BY 150,000

SHARED VOTING POWER

150,000

EACH REPORTING PERSON	<b>9</b>	SOLE DISPOSITIVE POWER	0
WITH	<b>10</b>	SHARED DISPOSITIVE POWER	150,000

**11** AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
41,604,847

**12** CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

**13** PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
49%

**14** TYPE OF REPORTING PERSON  
PN

[ADD ADDITIONAL PAGES AS NECESSARY]

**TABLE OF CONTENTS**

Item 1. Security and Issuer

Item 2. Identity and Background

Item 3. Source and Amount of Funds or Other Consideration

Item 4. Purpose of Transaction

Item 5. Interest in Securities of the Issuer

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer

Item 7. Material to be Filed as Exhibits

SIGNATURE

EXHIBIT INDEX

EX-99.1: JOINT FILING AGREEMENT

EX-99.2: CAPITAL STOCK WARRANT AGREEMENT

EX-99.3: LETTER OF INTENT

---

**Table of Contents**

**SCHEDULE 13D**

**Item 1. Security and Issuer.**

This statement on Schedule 13D relates to the common stock, par value \$0.001 per share (the Common Shares ), of Luminent Mortgage Capital, Inc., a Maryland corporation (the Issuer ). The address of the Issuer's principal executive office is 101 California Street, San Francisco, California 94111.

**Item 2. Identity and Background.**

This statement is being filed jointly by the following persons (collectively, the Reporting Persons ), and each Reporting Person other than ARW disclaims beneficial ownership of the Common Shares that are issuable upon exercise of the Warrants described below:

(a) (c) Arco Capital Corporation Ltd. (ARCO ), an exempted company organized under the laws of the Cayman Islands engaged in lending and acquisition activities;

Arco Capital Management LLC (ACM ), an investment adviser based in San Juan, Puerto Rico;

Western Gales Capital Management LLC (WGC ), a Connecticut limited liability company engaged in investing activity;

ISTAN LLC (Istan ), a Delaware limited liability company engaged in investing activity;

Interinvestco LLC (Interinvestco ), a Delaware limited liability company engaged in investing activity;

Dilek Koenigsberger, an individual private investor and the sole member of Istan;

Robert Koenigsberger, an individual whose principal business occupation is the management of ACM, and the husband of Dilek Koenigsberger;

Jay Johnston (Johnston ), an individual whose principal business occupation is the management of ACM; and

Ailsa Craig Capital Management LP (Ailsa Craig ), a Colorado limited partnership engaged in investing activity of which Johnston is the general partner.

The business address for WGC and Interinvestco is 20 Dayton Avenue, Greenwich, CT 06830. The business address for Istan is 1 Devereux Court, Rye, New York 10580. The business address for each other Reporting Person is c/o ACM, City View Plaza Suite 800, Road 165 Km. 1.2, Guaynabo, PR 00968.

Each of the Reporting Persons disclaims beneficial ownership of any outstanding Common Shares that are not directly owned by that Reporting Person or by an entity that is controlled by that Reporting Person and each Reporting Person other than ARCO disclaims beneficial ownership of the Common Shares that are issuable upon exercise of the warrants described below. The Reporting Persons nonetheless are filing jointly because their business and other relationships may cause them to be deemed to share beneficial ownership of Common Shares directly owned by the Reporting Persons.

ACM is an investment adviser and the name and present principal occupation or employment of each director and executive officer of ACM is incorporated herein by reference to ACM's Form ADV (CRD No. 143157) as filed with the Securities and Exchange Commission on January 24, 2007.

(d), (e) During the last five years, none of the Reporting Persons and none of the managers, directors or executive officers of any Reporting Persons have been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a



**Table of Contents**

judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) Each director and executive officer of ARCO is a citizen of the United States except Evgeni Ivanov, a director, who is a citizen of Bulgaria, and Carlos Iturralde, a director, who is a citizen of Bolivia.

**Item 3. Source and Amount of Funds or Other Consideration.**

The funds used by the Reporting Persons in acquiring beneficial ownership of the Common Shares covered by this statement came from the working capital and funds on hand of the Reporting Persons.

**Item 4. Purpose of Transaction.**

The Reporting Persons acquired the Common Shares beneficially owned by them for investment purposes. The Reporting Persons expect to continually monitor and re-evaluate their investments in the Common Shares.

The Reporting Persons believe that the Issuer's business has been adversely affected by the liquidity and related issues that recently have affected many of the participants in the U.S. residential mortgage markets. The Reporting Persons believe that the Issuer's business as operated before the recent credit and liquidity squeeze was fundamentally sound and that, assuming these adverse market conditions prove to be relatively short-lived, an investment in the Issuer at the present time may offer attractive returns.

The Reporting Persons' beneficial ownership of Common Shares has two components:

Common Shares acquired in open market purchases (details of these purchases are provided in the response to Item 5(c) below); and

Common Shares issuable upon the exercise of warrants (the Warrants) that have been granted to ARCO pursuant to the Capital Stock Warrant Agreement, dated August 17, 2007 (the Warrant Agreement), in consideration of ARCO's providing certain funding to the Issuer.

A copy of the Warrant Agreement is attached hereto as Exhibit 2 and incorporated herein by this reference. A copy of a letter of intent between ARCO and the Issuer relating to the provision and/or arrangement of funding by ARCO is attached hereto as Exhibits 3 and is incorporated herein by this reference. Pursuant to the letter of intent, the Issuer's Board of Directors must vote unanimously to approve the election of four members satisfactory to ARCO and four existing members of the Issuer's Board of Directors must submit resignations to take effect upon the newly elected directors assuming positions on the Issuer's Board of Directors.

In the future, the Reporting Persons may undertake various actions or initiatives from time to time with respect to the Issuer. Subject to applicable law and regulation and depending upon various factors, including, the financial performance of the Issuer, the availability and price of Common Shares, and other general market and investment conditions, those actions may include:

acquiring additional Common Shares, through open market purchases or otherwise;

selling, trading, engaging in short selling of, hedging or entering into any similar transactions with respect to the Common Shares, through open market transactions or otherwise;

seeking additional representation on the Issuer's Board of Directors;

engaging in transactions for the purpose of providing funding for the Issuer, including by purchasing assets of the Issuer and by extending credit on a secured basis;



**Table of Contents**

proposing or seeking to facilitate various extraordinary transactions including mergers, acquisitions, dispositions, changes in dividend policy or capital structure; or

taking any other actions, including engaging or participating in transactions, that could have the purpose or effect of directly or indirectly changing or influencing control of the Issuer.

Such transactions may take place at any time and without prior notice.

**Item 5. Interest in Securities of the Issuer.**

(a), (b) Based on information provided by the Issuer, there were 43,303,004 Common Shares issued and outstanding as of August 17, 2007. As to each Reporting Person, Items (7)-(11) and (13) of the applicable cover page are incorporated herein by reference.

Pursuant to the Warrant Agreement, ARCO has the right to purchase, at a price of \$0.18 per share, at any time until the fifth anniversary of the date of the Warrant Agreement, a combination of Common Shares and shares of a newly-created class of non-voting preferred stock of the Issuer that in the aggregate represent 51% of the equity of the Issuer. So long as the Issuer's 8.125% Convertible Senior Notes due 2027 (the Convertible Notes) are outstanding and the holders of the Convertible Notes have the right to cause their Convertible Notes to be redeemed following a change in control of the Issuer, the maximum number of Common Shares that may be issued to ARCO upon the exercise of the Warrants granted under the Warrant Agreement is the number that, together with all other Common Shares beneficially owned by ARCO, would result in ARCO owning 49% of the issued and outstanding Common Shares. Based upon 43,303,004 Common Shares outstanding, if ARCO were deemed to be the beneficial owner of the 2,616,795 Common Shares reported in this statement as beneficially owned by other Reporting Persons, the maximum number of Common Shares that ARCO could acquire upon exercise of the Warrants would be 38,988,052 (representing approximately 47.4% of the Common Shares that would be outstanding following the exercise). ACM does not directly own any Common Shares or the right to acquire any Common Shares, however ACM acts as ARCO's investment adviser and accordingly may be deemed to share beneficial ownership of the Common Shares issuable on exercise of the Warrants.

WGC directly owns 150,000 Common Shares (representing approximately 0.35% of the Common Shares outstanding). WGC is wholly owned by Ailsa Craig, which therefore may be deemed to share beneficial ownership of those Common Shares. Jay Johnston, as the general partner of Ailsa Craig, also may be deemed to share beneficial ownership of those Common Shares. Interinvestco owns 2,216,795 Common Shares (representing approximately 5.1% of the Common Shares outstanding). Interinvestco is owned by two trusts whose settlors are Jay Johnston and Robert Koenigsberger.

Istan owns 250,000 Common Shares (representing approximately 0.58% of the Common Shares outstanding). Istan is wholly owned by Dilek Koenigsberger, who therefore may be deemed to share beneficial ownership of those Common Shares.

(c) The trading dates, number of Common Shares purchased or sold and the price per share for all transactions by the Reporting Persons in the Common Shares within the last 60 days, which were all brokered transactions, are set forth below:

Reporting Person	Date	Number of Shares Purchased / (Sold)	Price Per Share
Western Gailes Capital Management LLC	August 3, 2007	53,000	\$6.5344
Western Gailes Capital Management LLC	August 6, 2007	25,000	\$4.8564
	August 7, 2007	60,000	\$0.518

Western Gailes  
Capital Management  
LLC

Western Gailes  
Capital Management  
LLC

ISTAN LLC

Interinvestco LLC

Interinvestco LLC

Interinvestco LLC

Interinvestco LLC

August 8, 2007

August 7, 207

August 9, 2007

August 9, 2007

August 10, 2007

August 10, 2007

12,000

250,000

599,316

44,467

1,570,382

2,630

\$1.045

\$0.9015

\$0.806318

\$0.875

\$1.1438

\$0.805

(d) No person other than the Reporting Persons has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the Common Shares reported herein.

(e) Not applicable.

**Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.**

The response to Item 4 is incorporated herein by reference. Furthermore, effective as of August 14, 2007, ARCO arranged for a purchaser to enter into reverse master repurchase agreements with each of the following subsidiaries of the Issuer: Mercury Mortgage Finance Statutory Trust (Mercury ), Saturn Portfolio Management, Inc. (Saturn ) and Minerva Mortgage Finance Corporation (Minerva ). Pursuant to these agreements, Mercury, Saturn and Minerva sold mortgage backed securities to the purchaser for an aggregate purchase price of \$64,927,627.45. Each of Mercury, Saturn and Minerva is required to repurchase the assets upon demand, upon satisfaction of certain notice requirements, at an amount equal to the purchase price plus interest accrued thereon at a rate of Libor plus 4.00%. The Warrants were issued to ARCO by the Issuer as partial consideration for ARCO's role in arranging the repurchase agreements. Except for the matters described herein, no Reporting Person has any contract, arrangement, understanding or relationship with any person with respect to any securities of the Issuer.

**Table of Contents**

**Item 7. Material to be Filed as Exhibits.**

EXHIBIT	DOCUMENT
1	Joint Filing Agreement by and among the Reporting Persons, dated August 21, 2007.
2	Capital Stock Warrant Agreement dated August 17, 2007.
3	Letter of Intent, dated August 16, 2007, by and between ARCO and the Issuer.

**Table of Contents**

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: August 21, 2007

Arco Capital Corporation Ltd.

By: */s/ Francesco N. Piovanetti*

Name: Francesco N. Piovanetti

Title: President and Chief Operating  
Officer

Arco Capital Management LLC

By: */s/ Francesco N. Piovanetti*

Name: Francesco N. Piovanetti

Title: President

Western Gailes Capital Management LLC

By: */s/ Jay Johnston*

Name: Jay Johnston

Title: Sole Manager

ISTAN LLC

By: */s/ Dilek Koenigsberger*

Name: Dilek Koenigsberger

Title: Sole Manager

15

---

**Table of Contents**

Interinvestco LLC

By: */s/ Jay Johnston*

Name: Jay Johnston

Title: Manager

Dilek Koenigsberger

Robert Koenigsberger

Jay Johnston

Ailsa Craig Capital Management LP

By: */s/ Jay Johnston*

Name: Jay Johnston

Title: General Partner

16

---

**Table of Contents**

**EXHIBIT INDEX**

EXHIBIT	DOCUMENT
1	Joint Filing Agreement by and among the Reporting Persons, dated August 21, 2007.
2	Capital Stock Warrant Agreement, dated August 17, 2007.
3	Letter of Intent, dated August 16, 2007, by and between ARCO and the Issuer.