As filed with the Securities and Exchange Commission on November 3, 2009

Registration No. 333-160562

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

Pre-Effective Amendment No. 3
to
Form S-11
**FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933
OF CERTAIN REAL ESTATE COMPANIES**

Ellington Financial LLC
(Exact name of registrant as specified in its governing instruments)

**53 Forest Avenue
Old Greenwich, Connecticut 06870
(203) 698-1200**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Laurence Penn
Chief Executive Officer
53 Forest Avenue
Old Greenwich, Connecticut 06870
(203) 698-1200**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ☐

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED NOVEMBER 3, 2009

Shares

Ellington Financial

Ellington Financial LLC

Common Shares Representing Limited Liability Company Interests

This is the initial public offering of common shares of Ellington Financial LLC. We are selling common shares representing limited liability company interests, which we refer to as common shares.

The selling shareholders named in this prospectus are offering 1,130,000 common shares. We will not receive any proceeds from the sale of the common shares in this offering by the selling shareholders named in this prospectus.

Ellington Financial LLC is a specialty finance company that specializes in acquiring and managing mortgage-related assets, including residential mortgage-backed securities backed by prime jumbo, Alt-A and subprime residential mortgage loans, residential mortgage-backed securities for which the principal and interest payments are guaranteed by a U.S. Government agency or a U.S. Government-sponsored entity and mortgage-related derivatives, as well as corporate debt and equity securities and derivatives. We are externally managed and advised by Ellington Financial Management LLC, or our Manager, an affiliate of Ellington Management Group, L.L.C.

Prior to this offering, there has been no public market for our common shares. The initial public offering price of the common shares is expected to be between $ and $ per share. Our common shares have been approved for listing on the New York Stock Exchange under the symbol "EFC."

Concurrent with the closing of this offering, we will sell to EMG Holdings, L.P., an affiliate of our Manager, in a separate private placement, approximately common shares at a price per share equal to the initial public offering price per share. EMG Holdings, L.P. has committed to purchase in the concurrent private placement no less than the greater of (i) common shares and (ii) the lesser of common shares and the number of shares sufficient for our Manager and certain of its affiliates to own, in aggregate, % of our outstanding common shares immediately after completion of this offering and the concurrent private placement, excluding any shares sold pursuant to the underwriters' exercise of their over-allotment option.

The underwriters have an option to purchase a maximum of additional shares to cover over-allotments of shares.

Investing in our common shares involves risks. See "Risk Factors" on page 23.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Issuer	Proceeds to Selling Shareholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the common shares will be made on or about , 2009.

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

Credit Suisse **Deutsche Bank Securities**

FBR Capital Markets **Keefe, Bruyette & Woods**

Cantor Fitzgerald & Co. **Fox-Pitt Kelton Cochran Caronia Waller**

The date of this prospectus is , 2009

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You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of the date of this document.

Dealer Prospectus Delivery Obligation

Until , all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

SUMMARY

This summary highlights information contained elsewhere in this prospectus. It is not complete and may not contain all of the information that you should consider before making an investment in our common shares. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. Except where the context suggests otherwise, "EFC," "we," "us" and "our" refer to Ellington Financial LLC and its subsidiaries, our "Manager" refers to Ellington Financial Management LLC, our external manager, "Manager Group" refers collectively to our Manager, EMG Holdings, L.P., VC Investments L.L.C. and a trust for which Michael Vranos is settlor, and "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager. In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time. Unless indicated otherwise, the information in this prospectus assumes (i) the common shares to be sold in this offering will be sold at $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus, (ii) the concurrent private placement to EMG Holdings, L.P., an affiliate of our Manager, of common shares at $ per share and (iii) no exercise of the underwriters' over-allotment option described on the cover page of this prospectus.

Our Company

Ellington Financial LLC is a specialty finance company formed in August 2007 that specializes in acquiring and managing mortgaged-related assets. Our primary objective is to generate attractive, risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by utilizing an opportunistic strategy. Our targeted assets currently include:

- residential mortgage-backed securities, or RMBS, backed by prime jumbo, Alternative A-paper, or Alt-A, and subprime residential mortgage loans, or non-Agency RMBS;
- RMBS for which the principal and interest payments are guaranteed by a U.S. Government agency or a U.S. Government-sponsored entity, or Agency RMBS;
- mortgage-related derivatives; and
- derivatives on corporate debt and equity securities.

We also may opportunistically acquire and manage other types of mortgage-related assets and financial assets, such as residential whole mortgage loans, commercial mortgage-backed securities, or CMBS, and commercial mortgages or other commercial real estate debt, asset-backed securities, or ABS, backed by consumer and commercial assets and non-mortgage-related derivatives. As of June 30, 2009, we had an aggregate portfolio of RMBS with a net value of approximately $460.0 million, derivatives contracts with a net value of approximately $117.6 million and total shareholders' equity of approximately $284.1 million.

The members of our management team are Michael Vranos, founder and Chief Executive Officer of Ellington, who serves as our Co-Chief Investment Officer, Laurence Penn, Vice Chairman of Ellington, who serves as our Chief Executive Officer and President, Mark Tecotzky, a Managing Director of Ellington, who serves as our Co-Chief Investment Officer, Lisa Mumford, who serves as our dedicated Chief Financial Officer, Paul Saltzman, General Counsel of Ellington, who serves as our Secretary, and Eric Bothwell, a Managing Director of Ellington, who serves as our Chief Operating Officer. Each of these individuals is an officer of our Manager. We currently do not have any employees.

Our Manager and Ellington

We are externally managed and advised by our Manager, an affiliate of Ellington, pursuant to a management agreement. Our Manager was formed solely to serve as our manager and does not have any other clients. In addition, our Manager currently does not have any employees and instead relies on the employees of Ellington to perform its obligations to us. Ellington is a private investment management firm and registered investment advisor with a 14-year history of investing in a broad spectrum of mortgage-backed securities, or MBS, and related derivatives.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. See "Certain Relationships and Related Party Transactions—Services Agreement" for a description of the terms of the services agreement between our Manager and Ellington. Ellington has established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington's highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database and operational expertise. Ellington's analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS collateral and MBS market transactions. Ellington analyzes this data to identify possible trends and develops financial models used to support the investment and risk management process. In addition, throughout Ellington's 14-year history of investing in MBS and related derivatives, it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. In addition, our Manager provides us with access to a wide variety of asset acquisition and disposition opportunities and information that assist us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington's finance, accounting, operational, legal, compliance and administrative functions.

As of June 30, 2009, Ellington employed over 100 employees and, including our company, various hedge funds, and various private accounts, had net assets under management of approximately $2.2 billion, in addition to approximately $578.0 million of net assets under management in certain hedge funds that have not been actively making new investments but rather have been returning capital to investors. In addition, Ellington, through its affiliates, manages collateralized debt obligations, or CDOs, collateralized by MBS or ABS and a traditional managed account.

Our Manager has an investment and risk management committee that advises and consults with our senior management team with respect to, among other things, our investment policies, portfolio holdings, financing and hedging strategies and investment guidelines. The members of the investment and risk management committee include Messrs. Vranos, Penn, Tecotzky and Bothwell.

Our Strategy

We utilize an opportunistic strategy to seek to provide investors with attractive, risk-adjusted total returns by:

- taking advantage of opportunities in the residential mortgage market by purchasing investment grade and non-investment grade non-Agency RMBS, including senior and subordinated securities;
- acquiring Agency RMBS on a more leveraged basis in order to take advantage of opportunities in that market sector and assist us in maintaining our exclusion from regulation as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act;
- opportunistically entering into and managing a portfolio of mortgage-related derivatives;

- opportunistically acquiring and managing other mortgage-related and financial assets, such as residential whole mortgage loans, CMBS, commercial mortgages or other commercial real estate debt, ABS backed by consumer and commercial assets and non-mortgage-related derivatives; and
- opportunistically mitigating our credit and interest rate risk by using a variety of hedging instruments.

Our strategy is adaptable to changing market environments, subject to compliance with the income and other tests that will allow us to continue to be treated as a partnership for U.S. federal income tax purposes and to maintain our exclusion from regulation as an investment company under the Investment Company Act. As a result, although we focus on the assets described above, our acquisition and management decisions depend on prevailing market conditions and our targeted asset classes may vary over time in response to market conditions. To effect our strategy, we may engage in a high degree of trading volume. Our Manager is authorized to follow very broad investment guidelines and, as a result, we cannot predict our portfolio composition. We may change our strategy and policies without a vote of our shareholders. Moreover, although our independent directors periodically review our investment guidelines and our portfolio, they generally do not review our proposed asset acquisitions or asset management decisions.

Ellington's investment philosophy revolves around the pursuit of value across various types of MBS and related assets. Ellington seeks investments across a wide range of MBS sectors without any restriction as to ratings, structure or position in the capital structure. Over time and through market cycles, opportunities will present themselves in varying sectors and in varying forms. In current markets, for example, the liquidation of portfolios of MBS from structured vehicles and from distressed financial institutions have been significant sources of asset acquisition opportunities. By rotating between sectors of the MBS markets and adjusting the extent to which it hedges, Ellington believes that it is able to capitalize on the disparities between these sectors as well as on overall trends in the marketplace, and therefore provide better and more consistent returns for its investors. Disparities between MBS sectors vary from time to time and are driven by a combination of factors. For example, as various MBS sectors fall in and out of favor, the relative yields that the market demands for those sectors may vary. In addition, Ellington's performance projections for certain sectors may differ from those of other market participants and such disparities will naturally cause us, from time to time, to gravitate towards certain sectors and away from others. Disparities between MBS sectors may also be driven by differences in collateral performance (for example, seasoned subprime collateral may perform better than more recent subprime collateral) and in the structure of particular investments (for example, in the timing of cash flow or the level of credit enhancement), and our Manager may believe that other market participants are overestimating or underestimating the value of these differences. Furthermore, we believe that risk management, including opportunistic portfolio hedging and prudent financing and liquidity management, is essential for consistent generation of attractive, risk-adjusted total returns across market cycles.

Ellington's continued emphasis on and development of proprietary MBS credit, interest rate and prepayment models, as well as other proprietary research and analytics, underscores the importance it places on a disciplined and often analytical approach to fixed income investing, especially in MBS. Our Manager uses Ellington's proprietary models to identify attractive assets, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our credit and interest rate risk. We leverage these skills and resources to seek to meet our objectives.

We believe that our Manager is uniquely qualified to implement our strategy. Our strategy is consistent with Ellington's investment approach, which is based on its distinctive strengths in sourcing, analyzing, trading and hedging complex MBS. Furthermore, we believe that Ellington's extensive experience in buying, selling, analyzing and structuring fixed income securities, coupled with its broad access to market information and trading flows, provides us with a steady flow of opportunities to acquire assets with favorable trade executions.

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Our Targeted Asset Classes

Our targeted asset classes currently include:

Asset Class	Principal Assets
Non-Agency RMBS	• RMBS backed by prime jumbo[1], Alt-A[2] and subprime mortgages[3] • RMBS backed by fixed rate mortgages, adjustable rate mortgages, or ARMs, Option-ARMs, Negative amortization ARMs, or Neg-Am ARMs, and Hybrid ARMs • RMBS backed by first lien and second lien mortgages • Investment grade and non-investment grade securities • Senior and subordinated securities • Interest only securities, or IOs, principal only securities, or POs, inverse interest only securities, or IIOs, and inverse floaters
Agency RMBS	• Whole pool pass-through certificates • To-Be-Announced, or TBA, mortgage pass-through certificates
Mortgage-Related Derivatives	• Credit default swaps on individual RMBS, on the ABX and CMBX indices and on other mortgage-related indices • Other mortgage-related derivatives
Corporate Debt and Equity Securities and Derivatives	• Credit default swaps on corporations or on corporate indices • Corporate debt or equity securities • Options or total return swaps on corporate equity or on corporate equity indices
Other	• Residential whole mortgage loans • CMBS • Commercial mortgages and other commercial real estate debt • ABS • Other non-mortgage-related derivatives

(1) Prime jumbo mortgage loans are mortgage loans that have principal amounts that are greater than the conforming loan limits for the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Company, or Freddie Mac, but are otherwise within typical Fannie Mae and Freddie Mac guidelines.

(2) Alt-A mortgage loans generally have income verification and/or employment verification standards that are weaker than those standards employed in prime underwriting. Additionally, Alt-A mortgage loans are more frequently collateralized by non-primary residences than prime loans. The credit quality of Alt-A borrowers generally exceeds the credit quality of subprime borrowers.
(3) Subprime mortgage loans are loans that are originated using underwriting standards that are less restrictive than those used for other first and junior lien mortgage loan origination programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards permit loans to be made to borrowers having low credit scores and/or imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), loans with no income disclosure or verification and loans with high loan-to-value ratios.

Our Portfolio

As of June 30, 2009, our RMBS portfolio consisted of the following assets:

Asset Class	Amortized Cost Basis	Estimated Fair Value	Estimated Fair Value as a Percentage of Total Shareholders' Equity
Non-Agency RMBS	$225,592,234	$188,002,122	66%
Agency RMBS	267,228,145	272,046,314	96%
Total	$492,820,379	$460,048,436	162%

As of June 30, 2009, our derivatives portfolio consisted substantially of the following derivatives:

Asset Class	Notional Amount	Estimated Fair Value	Estimated Fair Value as a Percentage of Total Shareholders' Equity
Long positions using credit default swaps on RMBS(1)	$ 15,977,810	$ (10,911,356)	(4)%
Short positions using credit default swaps on RMBS and on RMBS and CMBS indices(2)	(175,779,400)	127,686,902	45 %
Short positions using credit default swaps on corporate bonds and corporate bond indices	(48,625,000)	5,440,874	2 %
Short positions in interest rate swaps(3)	(100,000,000)	(4,140,602)	(1)%
Total		$118,075,818	42 %

(1) Long positions using credit default swaps represent transactions where we sold credit protection to a counterparty.
(2) Short positions using credit default swaps represent transactions where we purchased credit protection from a counterparty.
(3) For short positions in interest rate swaps, a fixed rate is being paid and a floating rate is being received.

As of June 30, 2009, a small portion of our portfolio consisted of depreciated futures, long and short positions in total return swaps and other swaps. As of June 30, 2009, the fair value of our long and short positions in total return swaps and other swaps was $(427,459).

As of June 30, 2009, in addition to our RMBS portfolio and our derivatives portfolio, a small portion of our investment portfolio consisted of put options purchased and trade claims with a fair value of $5.4 million.

Our Performance

Notwithstanding the difficult market conditions in which we have operated since our inception in August 2007, we have delivered a positive total return on our capital over that period. As of June 30, 2009, our book value per common share was $23.87. For companies such as ours that employ an investment company basis of accounting, book value and net asset value are the same. Entities utilizing investment company accounting carry investments at fair value. The total return on our common shares based on change in book value per share since inception and for the six month period ended June 30, 2009, was 24.52% and 23.87%, respectively. Total return on our common shares excludes shares held by our Manager. See "Description of Shares—Manager's Shares," for a detailed description of how shares held by our Manager were treated prior to July 1, 2009.

The following table shows our book value per outstanding common share as of our inception date and as of the end of each fiscal quarter thereafter, the quarterly total return for each such quarter and the cumulative total return as of the end of each such quarter:

	Book Value(1)	Quarterly Total Return(1)(2)	Cumulative Total Return(1)(2)
Inception (August 17, 2007)	$ 19.17	—	—
September 30, 2007	$ 19.10	(0.37)%	(0.37)%
December 31, 2007	$ 19.35	1.31%	0.94%
March 31, 2008	$ 18.96	(2.02)%	(1.10)%
June 30, 2008	$ 20.28	6.96%	5.79%
September 30, 2008	$ 20.47	0.94%	6.78%
December 31, 2008	$ 19.27	(5.86)%	0.52%
March 31, 2009(3)	$ 20.83	8.10%	8.66%
June 30, 2009(4)	$ 23.87	14.59%	24.52%

(1) Amounts exclude common shares issuable upon conversion of outstanding LTIP units. As of June 30, 2009, we had 11,901,533 common shares outstanding and 381,250 LTIP units outstanding (which are convertible into common shares on a one-to-one basis).
(2) Returns are calculated based on the sum of the changes in book value per share plus distributions per share. As of June 30, 2009, we had not paid any distributions on our common shares.
(3) Returns include the effect of share repurchases during the quarter. Because we repurchased common shares during the quarter at a discount to our book value per common share and subsequently canceled the repurchased shares, the share repurchases were accretive to our quarter-end book value per common share. Had this accretive benefit not been included, total return for the first quarter of 2009 would have been 6.26% and cumulative total return would have been 6.83%.
(4) Returns include the effect of share repurchases during the quarter. Because we repurchased common shares during the quarter at a discount to our book value per common share and subsequently canceled the repurchased shares, the share repurchases were accretive to our quarter-end book value per common share. Had this accretive benefit not been included, total return for the second quarter of 2009 would have been 14.11% and cumulative total return would have been 21.54%.

As of August 31, 2009, our book value per common share was approximately $. The change in our book value per common share as compared to June 30, 2009, resulted primarily from net realized and unrealized gains (losses) on investments. Our results can fluctuate from month to month depending on a variety of factors, some of which are beyond our control and/or are difficult to predict, including, without limitation, changes in interest rates, changes in default rates and prepayment speeds, and other changes in market conditions and economic trends. Therefore, you should not assume that our performance (as measured by the change in our book value per share) for the two month period ended August 31, 2009 is indicative of what our performance is likely to be for the three month period ended September 30, 2009, and we cannot assure you that our performance for the full three month period or in future periods will be consistent with our performance for the two month period ended August 31, 2009 or consistent with our performance in recent periods. The estimated book value per common share as of August 31, 2009 that is referenced above does not reflect the impact on our book value of the $1.50 dividend that was paid on September 15, 2009 to shareholders of record as of September 1, 2009.

We believe that our performance is attributable to the experience and expertise of our Manager. We further believe that our strategy of being flexible with respect to the sectors of the non-Agency RMBS market in which we acquire assets and the level of credit exposure taken in our portfolio combined with selective hedging of credit risk in our portfolio has been effective in these difficult markets. Given the substantial declines in the mortgage markets during the last two years, as evidenced by the decline in the 2006-2 AAA ABX index from approximately 91.75 as of August 17, 2007 to approximately 36.00 as of August 31, 2009, we believe that we have performed well relative to the broader mortgage market.

The 2006-2 AAA ABX index, an index widely used and cited by investors and market participants tracking the subprime non-Agency RMBS market, is composed of 20 credit default swaps referencing mortgage-backed securities, originally rated AAA by Standard & Poor's, Inc., or Standard & Poor's, and Aaa by Moody's Investors

Service, Inc., or Moody's, issued during the first six months of 2006 and backed by subprime mortgage loans originated in late 2005 and early 2006. Subject to certain selection criteria, these transactions represent some of the largest subprime mortgage securitizations completed during the first six months of 2006. Given that monthly subprime loan origination peaked in the last six months of 2005 and that monthly subprime non-Agency RMBS issuance peaked in late 2005 and early 2006, we believe that the performance of this index since our inception is a representative measure of the performance of the subprime non-Agency RMBS market over the same period.

All performance data provided is historical and is not indicative of future results, and there can be no assurance that these or comparable results will be achieved or that performance objectives will be achieved.

Our Hedging Strategy

In addition to utilizing derivatives to generate profits outright, we utilize derivatives and other hedging instruments to opportunistically hedge our credit and interest rate risk. For example, we enter into short positions using credit default swaps to protect against adverse credit events with respect to an underlying credit instrument (which may be a single debt instrument, a basket of debt instruments, or an issuer of a series of debt instruments). We also enter into short positions in interest rate swaps to offset the potential adverse effects that changes in interest rates will have on the value of our assets and our financing costs. We also enter into derivative contracts for hedging purposes referencing the unsecured corporate credit, or the equity of corporations. See "—Our Portfolio," for a description of our short derivatives positions, most of which were entered into for hedging purposes.

Our Financing Strategy

We finance our assets with what we believe to be a prudent amount of leverage, the level of which varies from time to time based upon the particular characteristics of our portfolio, availability of financing and market conditions. Our borrowings currently consist solely of reverse repurchase agreements, or reverse repos. Currently, the great majority of our reverse repo borrowings are collateralized by Agency RMBS; however, should the prospects for stable and reliable reverse repo financing for non-Agency RMBS continue to improve, we would expect to increase our reverse repo borrowings that are collateralized by non-Agency RMBS. While the proceeds of our reverse repo financings are generally used to finance the assets subject to the repo, our financing arrangements do not restrict our ability to use the proceeds from these arrangements to support our other liquidity needs. Our reverse repo arrangements are typically documented under the standard form Master Repurchase Agreement published by the Securities Industry and Financial Market Association (formerly The Bond Market Association), or SIFMA, with the ability for both parties to request margin. Given daily market volatility, we and our repo counterparties are required to post additional margin collateral to each other from time to time as part of the normal course of our business. Our reverse repo financing counterparties generally have the right to determine the value of the underlying collateral for margining purposes, subject to the terms and conditions of our agreement with the counterparty, including in certain cases our right to dispute the counterparty's valuation determination. As of June 30, 2009, we had approximately $352.1 million outstanding on reverse repos with four counterparties. These borrowings were the only debt financings we had outstanding as of June 30, 2009, and, given that we had approximately $284.1 million of shareholders' equity as of June 30, 2009, our debt-to-equity ratio was 1.24 to 1. Our debt-to-equity ratio does not account for liabilities other than debt financings. As of June 30, 2009, the remaining terms on our reverse repos ranged between 6 and 71 days.

We may utilize other types of borrowings in the future, including term facilities or other more complex financing structures. Additionally, we may also take advantage of available borrowings, if any, under new programs established by the U.S. Government such as the Term Asset Loan Facility, or TALF, to finance our assets. We also may raise capital by issuing unsecured debt, preferred or common shares, or trust preferred securities.

Our use of leverage, especially in order to increase the amount of assets supported by our capital base, may have the effect of increasing losses when these assets underperform. Our investment policies require no minimum or maximum leverage and our Manager's investment and risk management committee will have the discretion, without the need for further approval by our board of directors, to change both our overall leverage and the leverage used for individual asset classes. Because our strategy is flexible, dynamic and opportunistic, our overall leverage will vary over time. As a result, we do not have a targeted debt-to-equity ratio.

Our Competitive Strengths

Experienced and Cohesive Management Team. We believe that the extensive experience of our officers and the officers and employees of Ellington and our Manager provides us with expertise across all of our targeted asset classes. Certain of our officers were founding principals of Ellington and have worked together in the mortgage securities business for over 14 years. Among the members of our management team are the former heads of RMBS origination and trading, whole loan MBS origination and trading and fixed income research and quantitative systems at Kidder Peabody. Our Chief Executive Officer, Mr. Penn, was one of the founding principals of Ellington and worked for 10 years at Lehman Brothers where he co-headed the Lehman Brothers trading desk for collateralized mortgage obligations, or CMOs.

Access to Leading Investment Advisor. We benefit substantially from our relationship with our Manager and Ellington through our access to Ellington's investment ideas, proprietary research, models and analytics, trading and structuring expertise, risk management, and asset-sourcing capabilities. We believe this relationship provides us with unique access to attractive opportunities and market information that enhances our ability to make decisions regarding our targeted asset classes, which we believe is a significant competitive advantage. We believe that Ellington possesses the essential elements necessary to successfully acquire and manage RMBS and our other targeted asset classes: portfolio management experience across multiple market cycles, asset selection, trading and hedging expertise, broad asset sourcing capabilities, and sophisticated risk management systems and analytical tools.

As of June 30, 2009, Ellington employed over 100 employees, including 14 principals with an average of over 20 years of industry experience; its Chief Executive Officer and three Vice Chairmen have an average of over 24 years of industry experience. Ellington and its senior management have a long history managing a broad range of asset classes and sectors and extensive experience as a leader in buying, selling, analyzing, and structuring MBS and ABS. As of June 30, 2009, Ellington, including our company, various hedge funds, and various private accounts, had net assets under management of approximately $2.2 billion, in addition to approximately $578.0 million of net assets under management in certain hedge funds that have not been actively making new investments but rather have been returning capital to investors. In addition, Ellington, through its affiliates, manages CDOs collateralized by MBS or ABS and a traditional managed account.

Sophisticated Platform and Analytical Capabilities. We benefit from Ellington's proprietary analytical models and infrastructure, which have been developed as a result of many years of experience as a significant participant in our target markets. Ellington's risk management process emphasizes the quantitative assessment of credit risk, interest rate risk and prepayment risk, both on a security-by-security and portfolio basis. This is only possible with sophisticated quantitative tools and methodologies that are the foundation of Ellington's investment technique and asset surveillance. Analyzing RMBS credit risk and prepayment risk, in particular, necessitates the development and continuous refinement of sophisticated statistics-based computer models. We believe that these skills and range of resources, together with Ellington's experience investing and leveraging large pools of capital in complex mortgage and derivative instruments through various economic and business cycles, are critical for us to meet our objectives. We believe that Ellington's proprietary models and modeling capabilities provide it with a competitive advantage over most other market participants.

Strong Relationships and Deal Flow. Acquiring our targeted assets is a highly competitive process, and our Manager competes with many other investment managers and companies for attractive opportunities in these areas. We believe that the strengths of Ellington in this regard give us a competitive advantage. We capitalize on the proprietary deal-sourcing opportunities that Ellington brings to us as a result of its investment experience in our targeted asset classes and extensive network of contacts in the financial community.

Ellington currently sources many of its and our assets through its well-developed relationships with a large and diverse group of financial intermediaries. Ellington has extensive contacts throughout the market and experience dealing with investment banks, lenders and other major market participants, as well as a thorough knowledge of the characteristics and location of the product inventory in the fixed income markets.

Alignment of Interests between Our Manager, the Manager Group and Our Investors. As of November 2, 2009, the Manager Group owned 1,794,004 of our common shares, excluding LTIP units, representing approximately 15.0% of our common shares outstanding as of that date. EMG Holdings, L.P., an affiliate of our Manager, has committed to purchase in a concurrent private placement at a price per share equal to the initial public offering price per share, no less than the greater of (i)   common shares and (ii) the lesser of   common shares and the number of common shares sufficient for the Manager Group to own, in aggregate,   % of our outstanding common shares immediately after completion of this offering and the concurrent private placement, excluding any shares sold pursuant to the underwriters' exercise of their over-allotment option. Subject to these conditions, assuming we sell the number of shares set forth on the cover of this prospectus, EMG Holdings, L.P. will purchase   common shares from us in the concurrent private placement. Upon completion of this offering and the concurrent private placement to EMG Holdings, L.P., the Manager Group will own an aggregate of   common shares representing approximately   % of our outstanding common shares, excluding LTIP units, at that time. Our directors and executive officers and the Manager Group have indicated that they intend to enter into lock-up agreements covering   of our common shares, including vested LTIP units and the common shares purchased by EMG Holdings, L.P. in the concurrent private placement. In addition, our Manager receives at least 10.0% of its incentive fee under our management agreement in the form of EFC common shares. Our Manager has agreed not to sell any of the common shares it receives as part of its incentive fee prior to one year after the date such shares are issued. To date, the Manager Group has not sold any of our common shares.

Summary Risk Factors

An investment in our common shares involves various risks. You should consider carefully the risks listed below and those risks under "Risk Factors" before purchasing common shares.

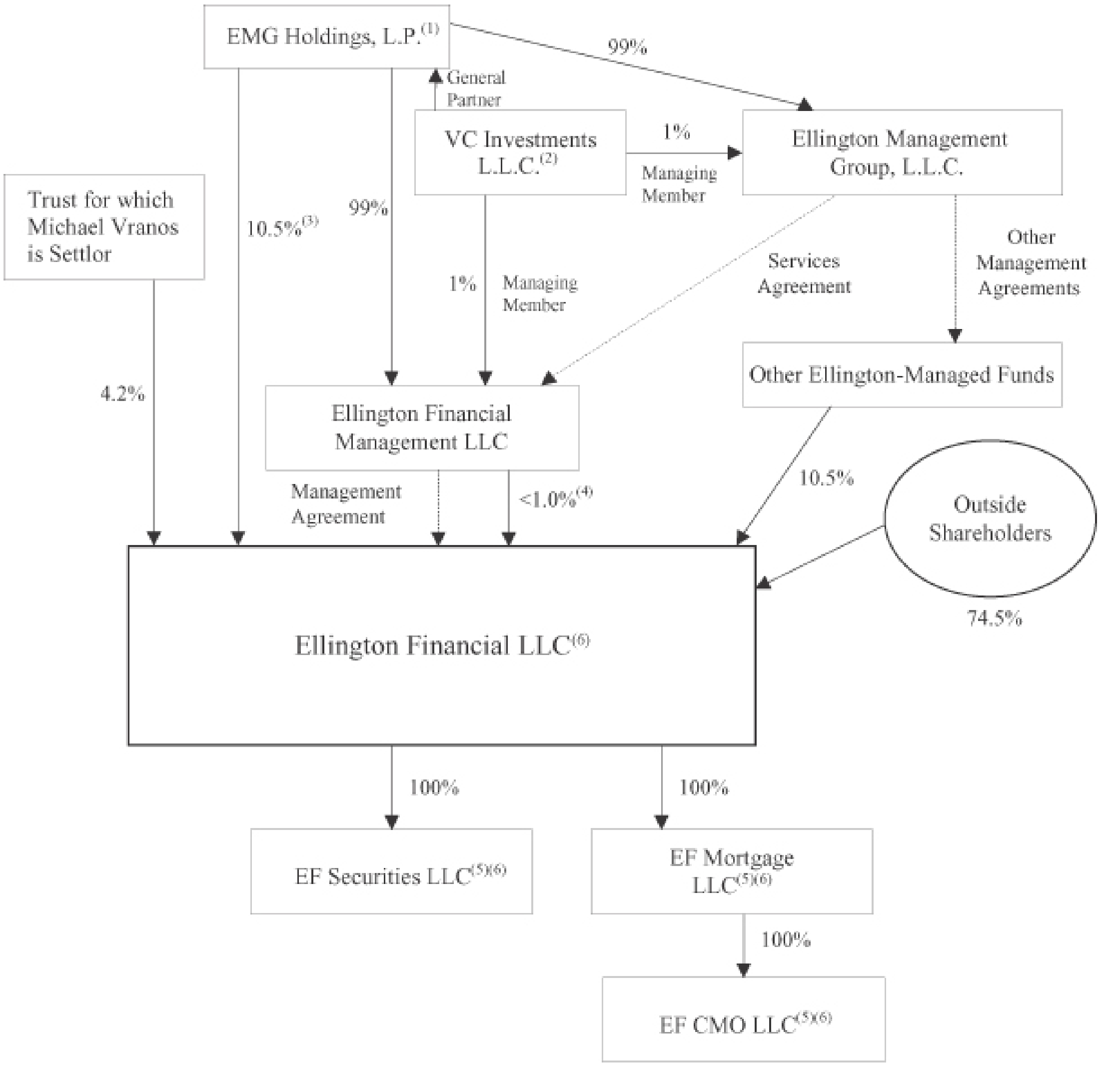
- Difficult conditions in the mortgage and residential real estate markets have caused and may cause us to experience losses and these conditions may persist for the foreseeable future.
- No assurance can be given that the actions taken by the U.S. Government, including the Federal Reserve and the Treasury, and other governmental and regulatory bodies, for the purpose of stabilizing the financial and credit markets will achieve their intended effect, or will benefit our business, and further government or market developments could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.
- The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.
- Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.
- The principal and interest payments on our non-Agency RMBS are not guaranteed by any entity, including any government entity or government-sponsored entity, or GSE, and, therefore, are subject to increased risks, including credit risk.
- We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or

incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.

- Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. As a result, the values of some of our assets are uncertain.
- Prepayment rates can change, adversely affecting the performance of our assets.
- We leverage certain of our assets, which may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.
- Interest rate mismatches between our assets and any borrowings used to fund purchases of our assets may reduce our income during periods of changing interest rates.
- Our lenders may require us to provide additional collateral, especially when the market values for our assets decline, which may restrict us from leveraging our assets as fully as desired, force us to liquidate assets, reduce our liquidity, and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.
- Hedging against credit events and interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.
- We are dependent on our Manager and certain key personnel of Ellington that are provided to us through our Manager and may not find a suitable replacement if our Manager terminates the management agreement or such key personnel are no longer available to us.
- The base management fee payable to our Manager is payable regardless of the performance of our portfolio, which may reduce its incentive to devote the time and effort to seeking profitable opportunities for our portfolio.
- Our Manager’s incentive fee may induce our Manager to acquire certain assets, including speculative or high risk assets, or to acquire assets with increased leverage, which could increase the risk to our portfolio.
- We compete with Ellington’s other accounts for access to Ellington.
- We and other Ellington accounts may compete for opportunities to acquire assets, which are allocated in accordance with Ellington’s investment allocation policies.
- There are conflicts of interest in our relationships with our Manager and Ellington, which could result in decisions that are not in the best interests of our shareholders.
- There may not be an active market for our common shares, which may cause our common shares to trade at a discount to the initial offering price and make it difficult to sell the common shares you purchase.
- The market price and trading volume of our common shares may be volatile following this offering.
- Future sales of our common shares could have an adverse effect on our share price.
- Our shareholders may not receive distributions or distributions may not grow over time.
- Investing in our common shares involves a high degree of risk.
- If we were required to register as an investment company under the Investment Company Act, we would be subject to the restrictions imposed by the Investment Company Act, which would require us to make material changes to our strategy.
- If we fail to satisfy the “qualifying income exception” under the tax rules for publicly traded partnerships, all of our income will be subject to an entity-level tax.
- The Internal Revenue Service, or IRS, Schedules K-1 we will provide will be significantly more complicated than the IRS Forms 1099 provided by real estate investment trusts, or REITs, and regular corporations, and holders of our common shares may be required to request an extension of time to file their tax returns.

Our Formation and Structure

We were formed as a Delaware limited liability company in July 2007 and completed our initial capitalization in August 2007. We have a holding company structure and conduct most of our business through various subsidiaries. The following chart illustrates our organizational structure immediately prior to the completion of this offering and the concurrent private placement to EMG Holdings, L.P., an affiliate of our Manager.



(1) EMG Holdings, L.P. is a holding company that owns interests in our Manager, Ellington, and other Ellington affiliates. VC Investments L.L.C. is the general partner of EMG Holdings, L.P., and is also the managing member of our Manager and Ellington, and as such controls each of these three entities. The limited partners of EMG Holdings L.P. include Mr. Vranos and certain other Ellington principals.

(2) Michael Vranos, our Co-Chief Investment Officer, beneficially owns a controlling interest in VC Investments L.L.C.

(3) Includes 1,258,783 common shares held by EMG Holdings, L.P., but excludes LTIP units held by EMG Holdings, L.P.
(4) Includes 35,221 common shares held by Ellington Financial Management LLC, but excludes LTIP units held by Ellington Financial Management LLC.
(5) This entity has established a wholly-owned subsidiary for the purpose of utilizing TALF financing for asset purchases. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Recent Market Developments."
(6) Our assets generally include cash, cash equivalents, shares of EF Mortgage LLC and shares of EF Securities LLC. EF Mortgage LLC's assets generally include Agency whole pool pass-through certificates and shares of EF CMO LLC. EF CMO LLC's assets generally include non-Agency CMOs. EF Securities LLC's assets generally include any targeted assets that are not cash, cash equivalents, Agency whole pool pass-through certificates, or CMOs; however EF Securities LLC's assets may also include cash and certain CMOs. Although the foregoing reflects recent and current allocations of assets among our subsidiaries, as well as our expectations for our allocations in the near term, we may choose to allocate assets among our subsidiaries in a different manner going forward.

Conflicts of Interest; Equitable Allocation of Opportunities

Ellington manages, and expects to continue to manage, other funds, accounts and vehicles that have strategies that are similar to, or that overlap with, our strategy. As of June 30, 2009, Ellington managed various funds, accounts and vehicles that have strategies that are similar to, or that overlap with, our strategy, that have aggregate net assets of approximately $1.9 billion (excluding our assets and excluding the assets of certain hedge funds that have not been actively making new investments but rather have been returning capital to investors). Ellington makes available to our Manager all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation procedures and policies, subject to the exception that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities. Ellington's investment and risk management committee and its compliance committee (headed by its Chief Compliance Officer) are responsible for monitoring the administration of, and facilitating compliance with, Ellington's investment allocation procedures and policies.

Because many of our targeted assets are typically available only in specified quantities and because many of our targeted assets are also targeted assets for other Ellington accounts, Ellington often is not able to buy as much of any given asset as required to satisfy the needs of all its accounts. In these cases, Ellington's investment allocation procedures and policies typically allocate such assets to multiple accounts in proportion to their needs and available capital. As a result, accounts in start-up mode are given priority. The policies permit departure from such proportional allocation when such allocation would result in an inefficiently small amount of the security being purchased for an account. In that case, the policy allows for a protocol of allocating assets so that, on an overall basis, each account is treated equitably.

Other policies of Ellington that our Manager will apply to the management of our company include controls for cross transactions (transactions between Ellington-managed accounts), principal transactions (transactions between Ellington and an Ellington-managed account), investments in other Ellington accounts and split price executions. To date we have not entered into any cross transactions with other Ellington-managed accounts, principal transactions with Ellington or invested in other Ellington accounts. See "Business—Conflicts of Interest; Equitable Allocation of Opportunities" for a more detailed description of these types of transactions and the policies of Ellington and our Manager that govern these types of transactions.

Our executive officers and the officers and employees of our Manager are also officers and employees of Ellington, and, with the exception of those officers that are dedicated to us, we compete with other Ellington accounts for access to these individuals.

The management agreement with our Manager does not restrict the ability of its officers and employees from engaging in other business ventures of any nature, whether or not such ventures are competitive with our business.

Our Management Agreement

We entered into a management agreement with our Manager upon our inception in August 2007. The management agreement, which was amended and restated effective July 1, 2009, has a current term that expires on December 31, 2011, and will be automatically renewed for successive one-year terms thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. Pursuant to the management agreement, our Manager implements our strategy and manages our assets and our day-to-day business and operations and performs certain services for us, subject to oversight by our board of directors. Our Manager is responsible for, among other duties, determining criteria, in conjunction with our board of directors, for sourcing, analyzing and executing asset purchases, asset sales and financings and performing asset management duties.

The following table summarizes the fees and expense reimbursements and other amounts that we pay to our Manager and its affiliates.

Type	Description	Payment
Base management fee	We pay a base management fee of 1.50% per annum of our shareholders' equity (calculated in accordance with GAAP) as of the end of each fiscal quarter (before calculations related to base management fees and incentive fees with respect to such quarter). Shareholders' equity will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.	Quarterly in arrears in cash
Incentive fee	In addition to the base management fees, with respect to each fiscal quarter we pay an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) our Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters (but excluding any fiscal quarters prior to July 1, 2009)) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.	Quarterly in arrears in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in EFC common shares
	Adjusted Net Income for the Incentive Calculation Period means our net increase in shareholders' equity from operations (or such equivalent GAAP measure based on the basis of presentation of our consolidated financial statements) for such period, after all base management fees but before any incentives fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) remaining as of the end of the fiscal quarter preceding the Incentive Calculation Period. Adjusted Net Income will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.	

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Type	Description	Payment
	The “Loss Carryforward” as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) our net increase in shareholders’ equity from operations (expressed as a positive number) or net decrease in shareholders’ equity from operations (expressed as a negative number) for such fiscal quarter (or such equivalent GAAP measures as may be appropriate depending on the basis of presentation of our consolidated financial statements), as the case may be, calculated in accordance with GAAP, adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges. For purposes of calculating the incentive fee, the Hurdle Amount means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the ten-year Treasury rate for such fiscal quarter (determined as provided in the management agreement), (ii) the sum of (A) the weighted average gross proceeds per share of all of our common share issuances (excluding issuances of our common shares (a) as equity incentive awards, (b) to our Manager as part of its base management fees or incentive fees and (c) to our Manager or any of its affiliates in privately negotiated transactions) up to the end of such fiscal quarter (with each such issuance weighted by both the number of shares issued in such issuance and the number of days that such issued shares were outstanding during such fiscal quarter) and (B) the result obtained by dividing (I) retained earnings attributable to our common shares at the beginning of such fiscal quarter by (II) the average number of our common shares outstanding for each day during such fiscal quarter, and (iii) the average number of our common shares and LTIP units outstanding for each day during such fiscal quarter.	
Expense reimbursement	We reimburse our Manager for certain expenses directly related to our operations incurred by our Manager on our behalf or for our benefit, including legal, accounting and other services provided by outside professionals, as well as the costs associated with a dedicated Chief Financial Officer and a dedicated in-house counsel, and, if provided by our Manager, a dedicated controller.	Quarterly in cash

Operating and Regulatory Structure

Tax Requirements

We believe that we have been organized and have operated so that we have qualified, and will continue to qualify, to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In general, an entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax at the entity level. Consequently, as a holder of our common shares, you will be required to take into account your allocable share of items of our income, gain, loss, deduction and credit for our taxable year ending within or with your taxable year, regardless of whether we make cash distributions on a current basis with which to pay any resulting tax. We believe that we are treated, and will continue to be treated, as a publicly traded partnership. Publicly traded partnerships are generally treated as partnerships for U.S. federal income tax purposes as long as they satisfy certain income and other tests on an ongoing basis. We believe that we have satisfied and will continue to satisfy those requirements and that we have been and will continue to be treated as a partnership for U.S. federal income tax purposes.

Investment Company Act Exclusions

Most of our business is conducted through various wholly-owned or majority-owned subsidiaries in a manner such that neither we nor our subsidiaries are subject to regulation under the Investment Company Act. Under Section 3(a)(1) of the Investment Company Act, a company is deemed to be an "investment company" if:

- it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities (Section 3(a)(1)(A)); or
- it is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and does own or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (excluding U.S. Government securities and cash) on an unconsolidated basis, or the 40% Test. "Investment securities" excludes U.S. Government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for private funds under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We believe we will not be considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because we will not engage primarily or hold ourself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through wholly owned or majority-owned subsidiaries, we will be primarily engaged in the non-investment company businesses of these subsidiaries.

The 40% Test limits the types of businesses in which we may engage either directly or through our subsidiaries. Our wholly-owned subsidiary, EF Mortgage LLC, relies on the exclusion provided by Section 3(c)(5)(C) under the Investment Company Act. It, in turn, has a wholly-owned subsidiary, EF CMO LLC, which invests in mortgage-related securities and relies on Section 3(c)(7) of the Investment Company Act. EF Mortgage LLC treats its investment in EF CMO LLC as a real estate-related asset for purposes of its own exclusion under Section 3(c)(5)(C). Our other wholly-owned subsidiary, EF Securities LLC, owns securities, including various kinds of mortgage-related securities and relies on the exemption provided by Section 3(c)(7) of the Investment Company Act; therefore, we treat securities that we own and that were issued by EF Securities LLC as "investment securities" and are required to keep the value of these securities, together with any other investment securities we own, below 40% of our total assets (excluding U.S. Government securities and cash) on an unconsolidated basis. Any subsidiaries we may form in the future may not be majority-owned or wholly-owned by us or might rely on the exemption provided by Section 3(c)(1) or 3(c)(7) of the Investment Company Act, in which case we would treat securities that we own and that were issued by these types of subsidiaries as "investment securities" and be required to keep the value of these securities (together with the value of our investment in EF Securities LLC and any other investment securities we own) below 40% of our total assets (excluding U.S. Government securities and cash) on an unconsolidated basis.

Section 3(c)(5)(C), the Investment Company Act exclusion upon which EF Mortgage LLC relies, is designed for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets consist of qualifying real estate assets and at least 80% of the entity's assets consist of either qualifying real estate assets or real estate-related assets. Qualifying real estate assets for this purpose include mortgage loans, whole pool Agency pass-through certificates and other assets that the SEC staff has determined in various no-action letters are the functional equivalent of mortgage loans for the purposes of the Investment Company Act. We intend to treat as real estate-related assets RMBS that do not satisfy the conditions set forth in those SEC staff no-action letters. In classifying the assets held by EF Mortgage LLC as qualifying real estate assets or real estate-related assets, we also will rely on any other guidance published by the SEC staff or on our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets to determine which assets are qualifying real estate assets and real estate-related assets.

Both the 40% Test and the requirements of the Section 3(c)(5)(C) exclusion limit the types of businesses in which we may engage and the types of assets we may hold, as well as the timing of sales and purchases of assets.

There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exemption from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of EF Mortgage LLC regularly, there can be no assurance that EF Mortgage LLC will be able to maintain this exclusion from registration. In that case, our investment in EF Mortgage LLC would be classified as an investment security, and we might not be able to maintain our overall exclusion from registering as an investment company under the Investment Company Act.

If we or our subsidiaries were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Compliance with the restrictions imposed by the Investment Company Act would require us to make material changes to our strategy which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders. Accordingly, to avoid that result, we may be required to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common shares, the sustainability of our business model and our ability to make distributions.

Investment Advisers Act of 1940

Both Ellington and our Manager are registered as investment advisers under the Investment Advisers Act of 1940, as amended, or the Advisers Act, and are subject to the regulatory oversight of the Investment Management Division of the SEC.

Distribution Policy

The declaration of distributions to our shareholders and the amount of such distributions are at the discretion of our board of directors. Our present intention is to make quarterly and special distributions to our common shareholders so that at least 50% of our net income attributable to our common shares each calendar year has been distributed prior to April of the subsequent calendar year, subject to adjustments for changes in common shares outstanding. In setting the level of shareholder distributions, our board of directors takes into account, among other things, our earnings, our financial condition, our working capital needs and new investment opportunities. Our ability to make distributions is subject to certain restrictions under the Delaware Limited Liability Company Act, or the Delaware LLC Act. Under the Delaware LLC Act, a limited liability company generally is not permitted to make a distribution if, after giving effect to the distribution, the liabilities of the company will exceed the value of the company's assets. In addition, it is possible that some of our future financing arrangements could contain provisions restricting our ability to make distributions. Shareholders generally will be subject to U.S. federal income tax (and any applicable state and local taxes) on their respective allocable shares of our net taxable income regardless of the timing or amount of distributions we make to our shareholders. On August 7, 2009, our board of directors authorized our first distribution to our shareholders of $1.50 per share for the quarter ended June 30, 2009. The distribution was paid on September 15, 2009 to our shareholders of record as of September 1, 2009. The distribution represented approximately 36.7% of our net income for the first six months of the 2009 fiscal year. We cannot assure you that we will make any future distributions to our shareholders and this distribution is not intended to be indicative of the amount and timing of future distributions, if any.

Lock-up Agreements

Our directors and executive officers and the Manager Group have indicated that they intend to enter into lock-up agreements covering a period of 180 days after the date of this prospectus with respect to our common shares held by them. The number of shares, including vested LTIP units, that will be subject to lock-up agreements covering a period of 180 days after the date of this prospectus is , including the common shares purchased by EMG Holdings, L.P. in the concurrent private placement. One Ellington-managed hedge fund, which owns 120,000 of our common shares, will be subject to a lock-up agreement covering a period of 60 days after the date of this prospectus. Two other Ellington-managed hedge funds, which collectively own 1,130,000 of our common shares, are selling shareholders named in this prospectus and do not at the present time intend to be subject to lock-up agreements in the event the number of shares offered by such selling shareholders is reduced. In addition, unaffiliated shareholders that beneficially hold common shares have entered into lock-up agreements covering a period of 60 days after the date of this prospectus.

Our Corporate Information

Our principal executive offices are located at 53 Forest Avenue, Old Greenwich, CT 06870. Our telephone number is (203) 698-1200. Our internet address is www.ellingtonfinancial.com. Our internet web site, and the information contained therein or connected thereto, does not constitute part of this prospectus.

The Offering

Common shares offered by us	common shares (plus up to an additional common shares that we may issue and sell upon the exercise of the underwriters' over-allotment option)
Common shares offered by selling shareholders	1,130,000
Shares outstanding after this offering and the concurrent private placement	common shares(1)
Use of proceeds	The net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses, will be approximately $ million (or approximately $ million if the underwriters fully exercise their over-allotment option). We expect to use a substantial portion of the net proceeds of this offering and the concurrent private placement to acquire our targeted assets within six months after the closing of this offering and the concurrent private placement. We expect to use the balance of the net proceeds of this offering and the concurrent private placement, if any, for working capital and general corporate purposes. Pending such uses, we may invest the net proceeds from this offering and the concurrent private placement in interest-bearing, short-term investments, including money market accounts. See "Use of Proceeds."
Distribution policy	Our present intention is to make quarterly and special distributions to our common shareholders so that at least 50% of our net income attributable to our common shares each calendar year has been distributed prior to April of the subsequent calendar year, subject to adjustments for changes in common shares outstanding. The declaration of distributions to our shareholders and the amount of such distributions are at the discretion of our board of directors. In setting the level of shareholder distributions, our board of directors takes into account, among other things, our earnings, our financial condition, our working capital needs and new opportunities. See "Distribution Policy."
Ownership and transfer restrictions	We may own interests in real estate investment trusts, or REITs. Due to limitations on the concentration of ownership of REITs that are imposed by the Internal Revenue Code of 1986, as amended, or the Code, our operating agreement generally prohibits any holder of our common shares from directly or indirectly owning more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares. Our board of directors has granted an exemption from this limitation to Ellington, certain affiliated entities of Ellington and certain non-affiliated entities, subject to certain terms and conditions. In addition, our operating agreement contains various other restrictions on the ownership and transfer of our common shares.
Risk Factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the common shares.
Proposed New York Stock Exchange Symbol	"EFC"

(1) The number of common shares outstanding after this offering includes (i) 12,500,000 common shares issued in our August 2007 private offering, (ii) 50 common shares issued in connection with the formation of our company, (iii) 43,954 common shares issued to our Manager as part of the incentive fees we have paid to our Manager, (iv) 3,750 common shares that have been issued in connection with LTIP unit conversions, (v) common shares being offered in this offering and (vi) shares to be sold to EMG Holdings, L.P. in a concurrent private placement. The number of common shares outstanding after this offering and the concurrent private placement (i) excludes 375,000 common shares which are issuable upon conversion of 375,000 LTIP units that were issued to our Manager and 7,500 common shares which are issuable upon conversion of 7,500 LTIP units that were issued to our independent directors to date and (ii) reflects the repurchase by us of 608,500 of our common shares. The number of common shares outstanding after the offering and the concurrent private placement also excludes up to an additional common shares that we may issue and sell upon the exercise of the underwriters' over-allotment option.

Summary Consolidated Financial Information

The following table presents summary consolidated financial information as of June 30, 2009, as of December 31, 2008 and 2007, for the six month periods ended June 30, 2009 and 2008, for the year ended December 31, 2008 and for the period from August 17, 2007 (commencement of operations) to December 31, 2007. The summary consolidated financial information as of June 30, 2009 and for the six month periods ended June 30, 2009 and 2008 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial information presented below as of December 31, 2008 and 2007, for the year ended December 31, 2008 and for the period from August 17, 2007 (commencement of operations) to December 31, 2007, have been derived from our audited consolidated financial statements included elsewhere in this prospectus. These unaudited consolidated financial statements have been prepared on substantially the same basis as our audited consolidated financial statements and include all adjustments that we consider necessary for a fair presentation of our consolidated financial position and results of operations for the periods presented therein. These results are not necessarily indicative of our results for the full fiscal year. Similarly, because we only operated our business for a portion of the year ended December 31, 2007, we do not believe that a comparison of our operating results for the year ended December 31, 2008 to the period from August 17, 2007 (commencement of operations) to December 31, 2007 is indicative of the trends in our performance.

Since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements included elsewhere in this prospectus, including the related notes, you should read it in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	Six Months Ended June 30,		Year Ended December 31,	Period from August 17, 2007 (commencement of operations) to December 31,
	2009	2008	2008	2007
Net Investment Income:				
Interest Income	$ 22,934,130	$12,924,980	$29,914,585	$ 5,898,720
Expenses:				
Base management fee	1,958,546	1,822,210	3,721,121	1,355,912
Incentive fee	8,407,373	1,771,026	1,771,026	—
Share-based LTIP expense	1,823,000	1,312,430	2,389,436	906,973
Interest expense	1,012,021	1,698,267	6,189,887	—
Professional fees	1,057,927	405,500	1,524,060	658,185
Other expenses	837,227	662,435	1,494,115	625,117
Total expenses	15,096,094	7,671,868	17,089,645	3,546,187
Net Investment Income	7,838,036	5,253,112	12,824,940	2,352,533
Net Realized and Unrealized Gain (Loss) on Investments and Financial Derivatives:				
Net realized gain (loss) on:				
Investments	(21,463,442)	(278,335)	(5,075,879)	1,753,849
Financial derivatives	20,743,064	6,015,766	63,598,153	—
Net realized gain (loss)	(720,378)	5,737,431	58,522,274	1,753,849

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Year Ended December 31, 2008	Period from August 17, 2007 (commencement of operations) to December 31, 2007
Change in net unrealized gain (loss) on:				
Investments	$50,776,288	$(32,865,988)	$(79,180,278)	$ (651,290)
Financial derivatives	(7,532,030)	32,871,545	5,410,419	(130,122)
Change in net unrealized gain (loss)	43,244,258	5,557	(73,769,859)	(781,412)
Net Realized and Unrealized Gain (Loss) on Investments and Financial Derivatives	42,523,880	5,742,988	(15,247,585)	972,437
Net Increase (Decrease) in Shareholders' Equity Resulting from Operations	$50,361,916	$ 10,996,100	$ (2,422,645)	$ 3,324,970

	As of June 30, 2009	As of December 31, 2008	As of December 31, 2007
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 73,858,758	$ 61,400,254	$ 61,705,104
Investments at fair value	565,680,650	429,884,006	180,657,979
Financial derivatives at fair value (appreciated)	133,195,918	141,690,748	—
Total assets	922,759,150	699,976,080	243,494,998
Investments sold short at fair value	100,239,532	38,421,032	—
Reverse repos	352,098,700	260,534,000	—
Financial derivatives at fair value (depreciated)	15,547,559	17,304,903	130,122
Total liabilities	638,614,617	458,898,436	1,668,105
Shareholders' equity	284,144,533	241,077,644	241,826,893
Shareholders' equity per common share	$ 23.87	$ 19.27	$ 19.35

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Distribution Policy,” “Business” and other statements included elsewhere in this prospectus constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “goal,” “objective,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently in our possession. These beliefs, assumptions and expectations may change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of our portfolio and our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks before you invest in our common shares, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the effect of the Federal Reserve’s and the Treasury’s recent actions and programs, including the Treasury’s plan to buy Agency RMBS, the TALF, and the Public-Private Investment Program, or PPIP, on the liquidity of the capital markets and the impact and timing of any further programs or regulations implemented by the U.S. Government or its agencies;
- the federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government;
- the volatility of our target markets, especially the markets for non-Agency RMBS and of the market value of our common shares;
- increased rates of default and/or decreased recovery rates on our assets;
- mortgage loan modification programs and future legislative action;
- the degree to which our hedging strategies may or may not protect us from, or expose us to, credit or interest rate risk;
- changes in our business and strategy;
- availability, terms and deployment of capital;
- our projected financial and operating results;
- changes in interest rates and interest rate mismatches between our assets and related borrowings;
- our ability to maintain existing financing agreements, obtain future financing arrangements and the terms of such arrangements;
- our ability to effectively deploy the proceeds raised in this offering and the concurrent private placement;
- changes in economic conditions generally and the real estate and debt securities markets specifically;
- legislative or regulatory changes (including tax law changes and changes to laws governing the regulation of investment companies);
- availability of qualified personnel;
- estimates relating to our future distributions to our shareholders;

- changes in our industry;
- increased prepayments of the mortgages and other loans underlying our RMBS or other ABS;
- availability of opportunities in real estate-related and other assets;
- the degree and nature of our competition; and
- changes to generally accepted accounting principles, or GAAP.

RISK FACTORS

Investing in our common shares involves a high degree of risk. Before making an investment decision, you should carefully consider the following risk factors and all other information contained in this prospectus.

If any of the following risks occurs, our business, financial condition or results of operation could be materially and adversely affected. If this were to happen, we may be unable to make distributions to our shareholders, the market value of our common shares could decline significantly, and you may lose some or all of your investment. In connection with the forward-looking statements that appear in this prospectus, you should also carefully review the cautionary statements referred to under "Special Note Regarding Forward-Looking Statements."

Risks Related To Our Business

Difficult conditions in the mortgage and residential real estate markets have caused and may cause us to experience losses and these conditions may persist for the foreseeable future.

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets and the economy generally. Concerns about the residential mortgage market and a declining real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential mortgage market has been severely affected by changes in the lending landscape, the severity of which was largely unanticipated by the markets. There is no assurance that this market has stabilized or that it will not worsen.

For now (and for the foreseeable future), homeowner access to residential mortgage loans has been substantially limited. While the limitation on financing was initially in the subprime mortgage market, it also materially affected the prime jumbo and Alt-A mortgage market, with lending standards having become significantly more stringent than in recent periods and many product types being severely curtailed or eliminated. This financing limitation has had an impact on new demand for homes, has compressed home ownership rates and is weighing heavily on home price performance. There is a strong correlation between home price growth rates and mortgage loan delinquencies. Furthermore, investor perception of the risks associated with RMBS, residential mortgage loans, real estate-related securities and various other assets that we acquire has been negatively impacted by the continued adverse developments in the broader residential mortgage market, which has caused the values of these assets to experience high volatility. The further deterioration of the mortgage market and investor perception of the risks associated with RMBS, residential mortgage loans, real estate-related securities and various other assets that we acquire may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

No assurance can be given that the actions taken by the U.S. Government, including the Federal Reserve and the Treasury, and other governmental and regulatory bodies, for the purpose of stabilizing the financial and credit markets will achieve their intended effect, or will benefit our business, and further government or market developments could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

In response to the issues affecting the banking system and financial and housing markets, the U.S. Government, including the Federal Reserve and the Treasury, and other governmental and regulatory bodies, have taken a number of initiatives intended to bolster the banking system and the financial and housing markets. For a description of some of these initiatives, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Trends and Recent Market Developments."

The effects of the actions taken by the U.S. Government and governmental entities and regulatory bodies remain uncertain. Furthermore, the scope and nature of these and other actions are unknown and will continue to evolve. No assurance can be given that these initiatives will have the intended beneficial impact on the banking system, financial market or housing market. To the extent the markets do not respond favorably to these initiatives or if these initiatives do not function as intended, the pricing, supply, liquidity and value of our assets and the availability of financing on attractive terms may be materially adversely affected and our business may not receive the intended positive impact from these actions. There can also be no assurance that we will be eligible to participate in programs established by the U.S. Government and other governmental and regulatory bodies, or if we are eligible, that we will be able to utilize them successfully or at all. In addition, because the programs are designed, in part, to stimulate the market for certain of our targeted assets, the establishment of these programs may result in increased competition for our targeted assets. In addition, the U.S. Government and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. We cannot predict whether or when such actions may occur, and such actions could have a material adverse impact on our business, results of operations and financial condition and our ability to make distributions to our shareholders.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

The payments we receive on our Agency RMBS depend upon a steady stream of payments on the underlying mortgages and such payments are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Fannie Mae and Freddie Mac are GSEs but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

In response to the deteriorating financial condition of Fannie Mae and Freddie Mac and the recent credit market disruption, the United States Congress and the Treasury undertook a series of actions to stabilize these GSEs and the financial markets generally, including the enactment of the Housing and Economic Recovery Act of 2008, or the HERA, on July 30, 2008. These actions include steps taken by the Treasury to capitalize and provide financing to Fannie Mae and Freddie Mac and an agreement to purchase direct obligations and Agency RMBS issued or guaranteed by Fannie Mae or Freddie Mac. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Trends and Recent Market Developments.”

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the Treasury, in announcing the actions, noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements or even eliminated. Under this conservatorship, Fannie Mae and Freddie Mac are required to reduce the amount of mortgage loans they own or for which they provide guarantees on Agency RMBS. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae and Freddie Mac could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee. Any action that affects the credit quality of the guarantees provided by Fannie Mae and Freddie Mac could materially adversely affect the value of our Agency RMBS.

The Treasury could also stop providing financial support to Fannie Mae and Freddie Mac in the future. The Treasury’s authority to purchase Agency RMBS and to provide financial support to Fannie Mae and Freddie Mac under the HERA expires on December 31, 2009. If Fannie Mae or Freddie Mac were eliminated, or their structures were to change radically or the U.S. Government significantly reduced its support for them, we may be unable or significantly limited in our ability to acquire Agency RMBS, which would drastically reduce the amount and type of Agency RMBS available for purchase which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.

In the second half of 2008, the U.S. Government, through the Federal Housing Authority, or FHA, and the Federal Deposit Insurance Corporation, or FDIC, commenced implementation of programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. It is likely that loan modifications would result in interest rate reductions or principal reductions on the mortgage loans that back our RMBS. However, it is also likely that loan modifications would result in increased prepayments on some RMBS. See "—Prepayment rates can change, adversely affecting the performance of our assets," for information relating to the impact of prepayments on our business.

In addition, members of Congress have indicated support for additional legislative relief for homeowners, including an amendment of the bankruptcy laws to permit the modification of mortgage loans in bankruptcy proceedings. Under such an amendment, the mortgage servicer would have the authority to modify mortgage loans that are in default, or for which default is reasonably foreseeable, if such modifications are in the best interests of the holders of the related RMBS and such modifications are done in accordance with the terms of the relevant agreements. A significant number of loan modifications could result in a significant reduction in cash flows to the holders of the related RMBS on an ongoing basis.

These loan modification programs, as well as future legislative or regulatory actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans may adversely affect the value of, and the returns on, our assets which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

The increasing number of proposed federal, state and local laws may increase our risk of liability with respect to certain mortgage loans and could increase our cost of doing business.

Congress and various state and local legislatures are considering, and in the future may consider, legislation, which, among other provisions, would permit limited assignee liability for certain violations in the mortgage loan origination process, and would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially adversely affect our business, results of operations and financial condition and our ability to make distributions to our shareholders, particularly if we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process.

The principal and interest payments on our non-Agency RMBS are not guaranteed by any entity, including any government entity or GSE, and, therefore, are subject to increased risks, including credit risk.

Our portfolio includes non-Agency RMBS which are backed by residential mortgage loans that do not conform to the Fannie Mae or Freddie Mac underwriting guidelines, including subprime, Alt-A and prime jumbo mortgage loans. See "Business—Our Targeted Asset Classes," for a detailed description of our assets. Consequently, the principal and interest on non-Agency RMBS, unlike those on Agency RMBS, are not guaranteed by GSEs such as Fannie Mae and Freddie Mac or, in the case of Ginnie Mae, the U.S. Government.

Non-Agency RMBS are subject to many of the risks of the respective underlying mortgage loans. Residential mortgage loans are typically secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of God, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their mortgage loans. The ability of a borrower to repay these mortgage loans is dependent upon his or her income or assets.

In the event of defaults under mortgage loans backing any of our non-Agency RMBS, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan. Additionally, in the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan. If borrowers default on the mortgage loans backing our non-Agency RMBS and we are unable to recover any resulting loss through the foreclosure process, our business, financial condition and results of operations and our ability to make distributions to our shareholders could be materially adversely affected.

We rely on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. Such models and other data may be incorrect, misleading or incomplete, which could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.

Our Manager relies on Ellington's analytical models (both proprietary and third-party models), and information and data supplied by third parties. These models and data may be used to value assets or potential asset acquisitions and dispositions and also in connection with our asset management activities. If Ellington's models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon could expose us to potential risks. Our Manager's reliance on Ellington's models and data may induce it to purchase certain assets at prices that are too high, to sell certain other assets at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

Some of the risks of relying on analytical models and third-party data include the following:

- collateral cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors;
- information about collateral may be incorrect, incomplete or misleading;
- collateral or RMBS historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e.g. different RMBS issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); and
- collateral or RMBS information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Some models, such as prepayment models or mortgage default models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation, and are therefore more speculative and of more limited reliability.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is inputted correctly, “model prices” will often differ substantially from market prices, especially for securities with complex characteristics or whose values are particularly sensitive to various factors. If our market data inputs are incorrect or our model prices differ substantially from market prices, our business, financial condition and results of operations and our ability to make distributions to our shareholders could be materially adversely affected.

Valuations of some of our assets are inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed. As a result, the values of some of our assets are uncertain.

The values of some of the assets in our portfolio are not readily determinable. We value these assets quarterly at fair value, as determined in good faith by our Manager, subject to the oversight of the valuation sub-committee of the Manager’s investment and risk management committee as well as the oversight of the independent members of our board of directors, and changes in the fair value of our assets directly impact our net income. Because such valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our Manager’s determinations of fair value may differ from the values that would have been used if a ready market for these assets existed or from the prices at which trades occur. Furthermore, we do not obtain third party valuations for all of our assets. Our Manager’s determination of fair value has a material impact on our net earnings through recording unrealized appreciation or depreciation of investments.

While in many cases our Manager’s determination of the fair value of our assets is based on valuations provided by third-party dealers and pricing services, our Manager can and does value assets based upon its judgment and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Higher valuations of our assets have the effect of increasing the amount of base management fees and incentive fees we pay to our Manager. Therefore, conflicts of interest exist because our Manager is involved in the determination of the fair value of our assets. The valuation process has been particularly difficult recently as market events have made valuations of certain assets more difficult and unpredictable and the disparity of valuations provided by third-party dealers has widened.

Our business, financial condition and results of operations and our ability to make distributions to our shareholders could be materially adversely affected if our Manager’s fair value determinations of these assets were materially higher than the values that would exist if a ready market existed for these assets.

We depend on third-party service providers, including mortgage servicers, for a variety of services related to our non-Agency RMBS, and we intend to utilize third-party service providers if we acquire pools of whole mortgage loans. We are, therefore, subject to the risks associated with third-party service providers.

We depend on a variety of services provided by third-party service providers related to our non-Agency RMBS, and we will depend on similar services should we acquire pools of whole mortgage loans. We rely on the mortgage servicers who service the mortgage loans backing our non-Agency RMBS to, among other things, collect principal and interest payments on the underlying mortgages and perform loss mitigation services. Our mortgage servicers and other service providers to our non-Agency RMBS, such as trustees, bond insurance providers and custodians, may not perform in a manner that promotes our interests. In addition, recent legislation intended to reduce or prevent foreclosures through, among other things, loan modifications may reduce the value of mortgage loans backing our non-Agency RMBS or whole mortgage loans that we acquire, and mortgage servicers may be incentivized by the federal government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interest of the holder of the mortgage loan. In addition to the recent legislation that creates financial incentives for mortgage loan servicers to modify loans and take other actions that are intended to prevent foreclosures, legislation has recently been adopted that creates a safe harbor from liability to creditors for servicers that undertake loan modifications and other actions that are intended to prevent foreclosures. As a result of these recent legislative actions, the mortgage loan servicers on which we rely may not perform in our best interests or up to our expectations. If our third-party service providers do not perform as expected, our business, financial condition and results of operations and ability to make distributions to our shareholders may be materially adversely affected.

We rely on mortgage servicers for our loss mitigation efforts, and we also may engage in our own loss mitigation efforts with respect to whole mortgage loans we may purchase. Such loss mitigation efforts may be unsuccessful or not cost effective.

Both default frequency and default severity of mortgage loans is highly dependent on the quality of the mortgage servicer. We depend on the loss mitigation efforts of mortgage servicers and in some cases “special servicers,” which are mortgage servicers who specialize in servicing non-performing loans. If mortgage servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers are far less likely to make those payments. In addition, if we purchase pools of whole mortgage loans, we may engage in our own loss mitigation efforts in addition to the efforts of the mortgage servicers, including more hands-on mortgage servicer oversight and management, borrower refinancing solicitations, as well as other efforts. Our and our mortgage servicers’ loss mitigation efforts may be unsuccessful in limiting delinquencies, defaults and losses, or may not be cost effective, which may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

To the extent that due diligence is conducted on potential assets, especially non-Agency RMBS or pools of whole mortgage loans, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before acquiring non-Agency RMBS or pools of whole mortgage loans, our Manager may decide to conduct (either directly or using third parties) certain due diligence. Such due diligence may include (i) an assessment of the strengths and weaknesses of the originators or services of the related mortgage loans, (ii) a review of all or merely a subset of the related individual mortgage loans in order to, among other things, assess the accuracy or reasonableness of certain loan-level information, and to estimate current loan-to-value ratios by obtaining updated property appraisals or otherwise, or (iii) other reviews that our Manager may deem appropriate to conduct. There can be no assurance that our Manager will conduct any specific level of due diligence, or that, among other things, our Manager’s due diligence processes will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Our assets include subordinated and lower-rated securities that generally have greater risks of loss than senior and higher-rated securities.

Certain securities that we acquire are deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities we acquire have the lowest quality ratings or are unrated. Many RMBS or ABS that we acquire are subordinated in cash flow priority to other more “senior” securities of the same securitization. The risks of defaults on the underlying mortgages or assets are severely magnified in subordinated securities. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk. Such securities therefore possess some of the attributes typically associated with equity securities. Also, the risk of declining real estate values, in particular, is amplified in subordinated RMBS, as are the risks associated with possible changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies. Accordingly, these securities may experience significant price and performance volatility relative to more senior securities and they are subject to greater risk of loss than more senior securities which, if realized, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Prepayment rates can change, adversely affecting the performance of our assets.

The frequency at which prepayments (including both voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) occur on mortgage loans underlying RMBS is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Many of the mortgage loans underlying our existing RMBS were originated in a relatively higher interest rate environment than currently in effect and, thus, could be prepaid if borrowers are eligible for refinancings.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments because the above-market coupon that such premium securities carry will be earned for a shorter period of time. Generally, "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Since many RMBS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact us in various ways. First, particular investments may experience outright losses, as in the case of IOs and IIOs in an environment of faster actual or anticipated prepayments. Second, particular investments may under-perform relative to any hedges that our Manager may have constructed for these assets, resulting in a loss to us. In particular, prepayments (at par) may limit the potential upside of many RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates our business, financial condition and results of operations and ability to make distributions to our shareholders could be materially adversely affected.

Changes in interest rates could negatively affect the value of our assets, and increase the risk of default on our assets.

Currently, our assets primarily consist of RMBS. Most RMBS, especially most fixed-rate RMBS and most RMBS backed by fixed-rate mortgage loans, decline in value when long-term interest rates increase. Even in the case of Agency RMBS, the guarantees provided by GSEs do not protect us from declines in market value caused by changes in interest rates. In the case of RMBS backed by ARMs, increases in interest rates can lead to increases in delinquencies and defaults as borrowers become less able to make their mortgage payments following interest payment resets. At the same time, an increase in short-term interest rates would increase the amount of interest owed on our reverse repos.

RMBS backed by ARMs are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase over the life of the security. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps could limit the interest rates on our RMBS backed by ARMs. This problem is magnified for RMBS backed by ARMs and hybrid ARMs that are not fully indexed. Further, some RMBS backed by ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, the payments we receive on RMBS backed by ARMs and hybrid ARMs may be lower than the related debt service costs. These factors could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Residential whole mortgage loans, including subprime residential mortgage loans and non-performing and sub-performing residential mortgage loans, are subject to increased risks.

We may acquire and manage pools of residential whole mortgage loans. Residential whole mortgage loans, including subprime mortgage loans and non-performing and sub-performing mortgage loans, are subject to increased risks of loss. Unlike Agency RMBS, whole mortgage loans generally are not guaranteed by the U.S. Government or any GSE, though in some cases they may benefit from private mortgage insurance. Additionally, by directly acquiring whole mortgage loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly impact the value of such mortgage. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

Whole mortgage loans are also subject to “special hazard” risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower’s mortgage debt by a bankruptcy court). In addition, claims may be assessed against us on account of our position as mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be “recourse liabilities” or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

Commercial mortgage loans are subject to risks of delinquency and foreclosure and risks of loss that may be greater than similar risks associated with residential mortgage loans.

We may acquire CMBS backed by commercial mortgage loans or directly acquire commercial mortgage loans. Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with residential mortgage loans. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower’s ability to repay the loan may be impaired. If we incur losses on CMBS, or commercial mortgage loans, our business, financial condition and results of operations and our ability to make distributions to our shareholders may be materially adversely affected.

Our real estate assets are subject to risks particular to real property.

We own assets secured by real estate and may own real estate directly in the future, either through direct acquisitions or upon a default of mortgage loans. Real estate assets are subject to various risks, including:

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;

- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold; and
- the potential for uninsured or under-insured property losses.

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

If we acquire and subsequently re-sell any whole mortgage loans, we may be required to repurchase such loans or indemnify investors if we breach representations and warranties.

If we acquire and subsequently re-sell any whole mortgage loans, we would generally be required to make customary representations and warranties about such loans to the loan purchaser. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against an originating broker or correspondent. Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We engage in short selling transactions, which may subject us to additional risks.

Many of our hedging transactions, and occasionally our investment transactions, are short sales. Short selling involves selling securities that are not owned and typically borrowing the same securities for delivery to the purchaser, with an obligation to repurchase the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale may create the risk of an unlimited loss, in that the price of the underlying security might theoretically increase without limit, thus increasing the cost of repurchasing the securities. There can be no assurance that securities sold short will be available for repurchase or borrowing. Repurchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

We leverage certain of our assets, which may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We currently leverage certain of our assets through borrowings under reverse repos. The degree of leverage we employ may increase substantially in the future. Leverage can enhance our potential returns but can also exacerbate losses. Market conditions could cause our financing costs to increase relative to the income earned from our assets. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to forced liquidation in order to satisfy our debt obligations.

If our financing costs increase relative to the income earned from our assets or we are unable to satisfy our debt service obligations, our business, financial condition and results of operations and our ability to make distributions to our shareholders may be materially adversely affected.

Our access to financing sources, which may not be available on favorable terms, or at all, especially in light of current market conditions, may be limited, and this may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We depend upon the availability of adequate capital and financing sources to fund our operations. However, as previously discussed, the capital and credit markets recently experienced unprecedented levels of volatility and disruption which exerted downward pressure on stock prices and credit capacity for lenders. If these levels of market volatility and disruption recur, it could materially adversely affect one or more of our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing, or to increase the costs of that financing, or to become insolvent, as was the case with Lehman Brothers. Moreover, we are currently party to reverse repos of a short duration and there can be no assurance that we will be able to roll over these borrowings on favorable terms, if at all. In the event we are unable to roll over our reverse repos, it may be more difficult for us to obtain debt financing on favorable terms or at all. In addition, if regulatory capital requirements imposed on our lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. Under current market conditions, securitizations are generally unavailable, which has also limited borrowings under warehouse facilities and other credit facilities that are intended to be refinanced by such securitizations. Consequently, depending on market conditions at the relevant time, we may have to rely on additional equity issuances to meet our capital and financing needs, which may be dilutive to our shareholders, or we may have to rely on less efficient forms of debt financing that consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our shareholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our asset acquisition activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Interest rate mismatches between our assets and any borrowings used to fund purchases of our assets may reduce our income during periods of changing interest rates.

Some of our assets are fixed-rate securities or have a fixed rate component (such as hybrid ARMs). This means that the interest we earn on these assets will not vary over time based upon changes in a short-term interest rate index. Although the interest we earn on our RMBS backed by ARMs generally will adjust for changing interest rates, the interest rate adjustments may not occur as quickly as the interest rate adjustments to any related reverse repos. Therefore, to the extent we finance our assets with reverse repos or other types of floating rate debt, the interest rate indices and repricing terms of our assets and their funding sources will create an interest rate mismatch between our assets and liabilities. Additionally, our RMBS backed by ARMs will generally be subject to interest rate caps, which potentially could cause such RMBS to acquire many of the characteristics of fixed-rate securities if interest rates were to rise above the cap levels. The use of interest rate hedges also will introduce the risk of other interest rate mismatches and exposures, as will the use of other financing techniques. During periods of changing interest rates, these mismatches could cause our business, financial condition and results of operations and ability to make distributions to our shareholders to be materially adversely affected.

Our lenders may require us to provide additional collateral, especially when the market values for our assets decline, which may restrict us from leveraging our assets as fully as desired, force us to liquidate assets, reduce our liquidity, and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Our reverse repos allow the lenders, to varying degrees, to determine an updated market value of the collateral to reflect current market conditions. If the market value of the collateral declines in value, we may be required by the lender to provide additional collateral or pay down a portion of the funds advanced on minimal notice, which is known as a margin call. Posting additional collateral will reduce our liquidity and limit our ability to leverage our assets. Additionally, in order to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses and adversely affect our results of operations, financial condition, and may impair our ability to make distributions. We receive margin calls from our lenders from time to time in the ordinary course of business similar to other entities in the specialty finance business. In the event we do not have sufficient liquidity to satisfy these margin calls, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral and terminate our ability to borrow. A significant increase in margin calls could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders, and could increase our risk of insolvency.

Further, lenders may require us to maintain a certain amount of cash that is not invested or to set aside non-leveraged assets sufficient to maintain a specified liquidity position which would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our portfolio as fully as we would prefer, which could reduce our return on equity. In the event that we are unable to meet these collateral maintenance obligations, then, as described above, our financial condition could deteriorate rapidly.

Our rights under our reverse repos are subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders.

In the event of our insolvency or bankruptcy, certain reverse repos may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on and/or liquidate the collateral pledged under such agreements without delay. In the event of the insolvency or bankruptcy of a lender during the term of a reverse repo, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a reverse repo or to be compensated for any damages resulting from the lenders' insolvency may be further limited by those statutes. These claims would be subject to significant delay and costs to us and, if and when received, may be substantially less than the damages we actually incur.

There is no assurance that we will be able to obtain any TALF loans or remain eligible as a TALF borrower, and the terms and conditions of the TALF may change, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We may consider financing certain assets with borrowings to the extent available to us under the TALF. The TALF is operated by the Federal Reserve Bank of New York. The Federal Reserve Bank of New York has complete discretion regarding the extension of credit under the TALF and is under no obligation to make any loans to us. Depending on the demand for TALF loans and the general state of the credit markets, the Federal Reserve and the Treasury may decide to modify the terms and conditions of the TALF, including asset and borrower eligibility, at any time. Any such modifications may adversely affect the market value of any of our assets financed under the TALF or our ability to obtain additional TALF financing. If the TALF is prematurely discontinued or reduced while our assets financed under the TALF are still outstanding, there may be no market for these assets and the market value of these assets would be adversely affected.

The application of the eligibility rules under the TALF also remain unclear. If for any reason we are deemed not to be eligible to participate in the TALF, we may not be eligible to obtain TALF loans and all of our outstanding TALF loans will become immediately due and payable with full recourse under the TALF program rules.

In addition to the foregoing, assets to be used as collateral for TALF loans must meet strict eligibility criteria with respect to characteristics such as issuance date and credit rating. These restrictions may limit the availability of eligible assets, and we may be unable to acquire sufficient amounts of assets to obtain financing under the TALF consistent with our strategy which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Downgrades of legacy CMBS or changes in the rating methodology and assumptions for future CMBS issuances may decrease the availability of the TALF to finance CMBS.

On May 26, 2009, S&P, which rates a substantial majority of CMBS issuances, issued a request for comment regarding its proposed changes to its methodology and assumptions for rating CMBS, and in so doing indicated that “it is likely that the proposed changes, which represent a significant change to the criteria for rating high investment-grade classes, will prompt a considerable amount of downgrades in recently issued (2005-2008 vintage) CMBS.” The current TALF guidelines issued by the Federal Reserve Bank of New York indicate that in order to be eligible for the TALF, legacy CMBS must not have a rating below the highest investment-grade rating category from any TALF CMBS-eligible rating agency, which includes S&P. Other rating agencies may take similar actions with regard to their ratings of CMBS. As a result, downgrades of legacy CMBS or a decrease in the amount or availability of new issue CMBS resulting from such a change to the rating criteria may limit substantially the availability of the TALF to finance CMBS.

Our ability to transfer assets purchased using the TALF funding, to the extent available to us, would be restricted, which would limit our ability to trade or otherwise dispose of our assets as we may desire.

Our assets purchased using the TALF funding will be pledged to the Federal Reserve Bank of New York as collateral for the TALF loans. If we sell or transfer any of these assets, we must either repay the related TALF loan or obtain the consent of the Federal Reserve Bank of New York to assign our obligations under the related TALF loan to the applicable assignee. The Federal Reserve Bank of New York in its discretion may restrict or prevent us from assigning our loan obligations to a third party and will not consent to any assignments after the termination date for making new loans. These restrictions may limit our ability to trade or otherwise dispose of our assets pledged as collateral for TALF funding, and may adversely affect our ability to take advantage of favorable market conditions to trade or otherwise dispose of our assets as we may desire.

In accessing the TALF, we will be dependent on the activities of our primary dealers.

To obtain TALF loans, a TALF borrower must execute a customer agreement with at least one primary dealer which will act on its behalf under the agreement with the Federal Reserve Bank of New York. In addition to submitting aggregate loan request amounts on behalf of its customers in the form and manner specified by the Federal Reserve Bank of New York, primary dealers are also responsible for distributing principal and interest after receipt thereof from The Bank of New York Mellon, as custodian for the TALF. Once funds or collateral are transferred to a primary dealer or at the direction of a primary dealer, neither the custodian nor the Federal Reserve Bank of New York has any obligation to account for whether the funds or collateral are transferred to the borrower. We will therefore be exposed to bankruptcy risk of our primary dealers.

Under certain conditions, we may be required to provide full recourse for TALF loans or to make indemnification payments, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders and we could incur a loss.

To participate in the TALF, a TALF borrower must execute a customer agreement with a primary dealer authorizing it to act as its agent under the TALF and to act on its behalf under the agreement with the Federal Reserve Bank of New York and with The Bank of New York Mellon as administrator and as the Federal Reserve Bank of New York’s custodian of the collateral. Under such agreements, the TALF borrower will be required to represent to the primary dealer and to the Federal Reserve Bank of New York that, among other things, it is an eligible borrower and that the collateral that it pledges meets the TALF eligibility criteria. The Federal Reserve Bank of New York will have full recourse to such TALF borrower for repayment of the loan for any breach of these representations and may have full recourse to such TALF borrower for repayment of a TALF loan if the eligibility criteria for collateral under the TALF are considered continuing requirements and the pledged collateral no longer satisfies such criteria. In addition, a TALF borrower will be required to indemnify its primary dealers for certain breaches under the customer agreements and to indemnify the Federal Reserve Bank of New York and its custodian for certain breaches under the agreement with the Federal Reserve Bank of New York. Payments made to satisfy such full recourse requirements and indemnities could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

The terms and conditions of the Legacy Loans Program established under PPIP have not been finalized and there is no assurance that the final terms will enable us to participate in the Legacy Loans Program in a manner consistent with our investment strategy or benefit from the Legacy Loans Program.

Investors in the Legacy Loans Program must be pre-qualified by the FDIC. It is likely that the FDIC will have broad discretion regarding the qualification of investors in the Legacy Loans Program and is under no obligation to approve our participation even if we meet all of the applicable criteria. While the Treasury and the FDIC have released a summary of preliminary terms and conditions for the PPIP, including the Legacy Loans Program, they have not released the final terms and conditions governing these programs. The preliminary terms and conditions do not address the specific terms and conditions relating to, among other things: the FDIC-guaranteed debt to be issued by participants in the Legacy Loans Program and the warrants that the Treasury will receive under the Legacy Loans Program if it makes an equity investment in a Public-Private Investment Fund, or PPIF. The FDIC has indicated that Legacy Loans PPIFs will be subject to government loan modification program requirements. In addition, the Treasury and FDIC have reserved the right to modify the proposed terms of the PPIP, including the Legacy Loans Program. Because the Legacy Loans Program is still being developed and the details of the program are still emerging, it is not possible for us to predict how this program will impact our business. If and when the final terms and conditions are released, there is no assurance that we will benefit from this program or that the final terms will enable us to participate in the Legacy Loans Program in a manner that is consistent with our strategy, or at all.

Governmental regulation of participants in U.S. Government programs could materially adversely affect our ability to participate in such programs and may impose various restrictions on our business or on our investors.

The U.S. Government may from time to time establish or change requirements applicable to participants in the various programs that have been established by the U.S. Government, such as the TALF and PPIP. Furthermore, the U.S. Government may seek to modify the requirements applicable to participants in such programs after their initial participation. There can be no assurance that the U.S. Congress or regulatory bodies will not seek such modifications or impose new restrictions and/or taxes and penalties on participants in such programs, possibly even with retroactive effect. Even without action taken by the U.S. Congress or regulatory bodies, if a perception develops that there is or could be a Congressional or regulatory focus on participants in the various U.S. Government programs, market participants may become apprehensive or refuse to participate in such programs. If this were to occur, the intended benefits of such programs may not materialize, which could significantly diminish the value of our assets. While it is not possible for us to predict what types of new laws or regulations could be imposed on us or how they may affect us or our investors, it may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Some of our lending and derivative counterparties may cease doing business with us or may become insolvent, which would adversely affect our ability to obtain financing readily or on favorable terms and enter into derivatives or may expose us to losses on our derivatives.

The ongoing downturn in the economy and stress within the financial industry may cause some of our lenders and the counterparties to our derivative positions to cease doing business with us, or to become insolvent, as was the case with Lehman Brothers. In the event one or more of our lenders cease doing business with us or becomes insolvent, it may be more difficult for us to obtain additional debt financing on favorable terms or at all. We also are exposed to the risk of loss associated with the insolvency of our lending and derivatives counterparties, including the risk that we may incur significant costs in attempting to recover any collateral held with such counterparties and the risk that we may not be able to recover such collateral in a timely manner or at all. Any of these events could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Hedging against credit events and interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We opportunistically pursue various hedging strategies to seek to reduce our exposure to losses from adverse credit events and other factors. Hedging against a decline in the values of our portfolio positions does not prevent losses if the values of such positions decline, or eliminate the possibility of fluctuations in the value of our portfolio. Hedging transactions generally will limit the opportunity for gain if the values of our portfolio positions should increase. Further, certain hedging transactions could result in our experiencing significant losses. Moreover, at any point in time we may choose not to hedge all or a portion of these risks, and we generally will not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge. Even if we do choose to hedge certain risks, for a variety of reasons we generally will not seek to establish a perfect correlation between our hedging instruments and the risks being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activity will vary in scope based on the composition of our portfolio, our market views, and changing market conditions, including the level and volatility of interest rates. When we do choose to hedge, hedging may fail to protect or could materially adversely affect us because, among other things:

- our Manager may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged;
- our Manager may fail to recalculate, re-adjust and execute hedges in an efficient and timely manner;
- the hedging transactions may actually result in poorer over-all performance for us than if we had not engaged in the hedging transactions;
- credit hedging can be expensive, particularly when the market is forecasting future credit deterioration and when markets are more illiquid;
- interest rate hedging can be expensive, particularly during periods of volatile interest rates;
- available hedges may not correspond directly with the risks for which protection is sought;
- the durations of the hedges may not match the durations of the related assets or liabilities being hedged;
- many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations; and
- to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty.

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Hedging instruments and other derivatives, including credit default swaps, often are not traded on regulated exchanges, guaranteed by or regulated by any U.S. or foreign governmental authorities and involve risks and costs that could result in material losses.

Hedging instruments and other derivatives, including credit default swaps, involve risk because they often are not traded on regulated exchanges and are not guaranteed by or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. Our Manager is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Furthermore, our Manager has only a limited internal credit function to evaluate the creditworthiness of its counterparties, mainly relying on its experience with such counterparties and their general reputation as participants in these markets. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom we enter into a hedging transaction, such as occurred with Lehman Brothers, may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

The U.S. Commodity Futures Trading Commission and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could materially adversely affect our business, financial condition and results of operation and our ability to make distributions to our shareholders.

In light of recent events, significant public pressure exists for increased regulatory oversight of derivative transactions, including credit default swaps. Any actions taken by regulators could constrain our strategy and could increase our costs; either of which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We may change our asset acquisition strategy, hedging strategy and, asset allocation and operational and management policies without shareholder consent, which may result in the purchase of riskier assets and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We may change our asset acquisition strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of our shareholders, which could result in our purchasing assets or entering into hedging transactions that are different from, and possibly riskier than, the assets and hedging transactions described in this prospectus. A change in our asset acquisition or hedging strategy may increase our exposure to real estate values, interest rates and other factors. A change in our asset allocation could result in us purchasing assets in classes different from those described in this prospectus. Our board of directors determines our operational policies and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, our shareholders. Operational policy changes could materially adversely affect our business, financial condition and results of operations and ability to make distributions to our shareholders.

A portion of the net proceeds from this offering and the concurrent private placement will most likely be invested in more liquid, lower-yielding assets, which is likely to produce an initial return on your investment that may be lower than when the net proceeds from this offering and the concurrent private placement are fully invested in assets meeting our objectives.

We expect to take up to six months to fully deploy the net proceeds from this offering and the concurrent private placement in a portfolio satisfying our general objectives and policies, subject to the availability of appropriate opportunities to acquire assets. However, there can be no assurance that sufficient suitable opportunities will be available to adhere to this time frame. As a result, the initial return on your investment may be lower than when our portfolio is fully invested in assets meeting our long-term investment objectives and policies.

Until appropriate assets can be identified and purchased, our Manager may invest the net proceeds of this offering and the concurrent private placement in interest-bearing, short-term investments, including money market accounts. These investments are expected to provide a lower net return than we will seek to achieve from our targeted assets.

We may not realize income or gains from our assets.

We acquire assets to generate both current income and capital appreciation. The assets we acquire may, however, not appreciate in value and, in fact, may decline in value, and the debt securities we purchase may default on interest or principal payments. Accordingly, we may not be able to realize income or gains from our acquired assets. Any gains that we do realize may not be sufficient to offset any other losses we experience. Any income that we realize may not be sufficient to offset our expenses.

We or Ellington or its affiliates may be subject to adverse legislative or regulatory changes and to regulatory inquiries or proceedings.

At any time, laws or regulations that impact our business, or the administrative interpretations of those laws or regulations, may be amended. In addition, the markets for MBS and derivatives, including credit default swaps, have been the subject of intense legislative, regulatory and other scrutiny in recent months. We cannot predict when or if any new law, regulation or administrative interpretation, or any amendment to any existing law, regulation or administrative interpretation, will be adopted or promulgated or will become effective. Additionally, revisions in these laws, regulations or administrative interpretations could cause us to change our portfolio. We could be adversely affected by any change in, or any new, law, regulation or administrative interpretation.

Moreover, we cannot predict when or if any industry-wide or company-specific regulatory inquiries or proceedings will be initiated in which we and/or our Manager and Ellington will be involved. For example, in the last several years, as described below and also under “Business-Legal Proceedings,” Ellington and its affiliates have received, and we expect in the future may receive, inquiries and requests for documents and information from various federal, state and foreign regulators, including the following:

In June 2007, Ellington received an informal inquiry from the SEC requesting documents and other information relating to trading in credit default swaps on the ABX indices. Ellington provided documents to the SEC staff in August 2007 and Ellington has had no communication with the SEC on the matter since that time.

In November 2006, Ellington received a request from the SEC that it produce documents relating to trading of collateralized mortgage obligations, or CMOs, between Ellington and a third party broker-dealer as well as individuals associated with that broker-dealer, and Ellington produced documents to the SEC consistent with that request. In July 2007, Ellington received a subpoena from the SEC requesting documents relating to trading in CMOs by these individuals and firms they were affiliated with, including that broker-dealer. Ellington responded to that subpoena in August 2007, and has had no communication with the SEC on the matter since that time. In

May 2009, the SEC filed a complaint against certain former employees of that broker-dealer, alleging fraud in their marketing of CMOs to their clients, and stated that its investigation is ongoing.

In August 2007, Ellington received a subpoena from the New York Attorney General, or the NYAG, requesting documents and other information from Ellington about its and its affiliates' mortgage loan servicing activities. Ellington informed the NYAG that it did not engage in mortgage loan servicing. Ellington subsequently received subpoenas for documents and information relating to Ellington's residual or equity interests in mortgage securitization trusts; communications with and information received from mortgage servicers relating to these trusts and their underlying mortgage loans; and trading in bonds of these trusts and related credit default swaps, and for documents and other information relating to communications with and information received from one of its vendors, which had performed asset surveillance for Ellington on these trusts. Ellington completed its response to the NYAG subpoenas in June 2008 and has had no communication with the NYAG since that time.

In March 2008, Ellington received a subpoena from the SEC requesting documents and other information relating primarily to CDOs underwritten during 2007 and 2008 by a particular investment bank and for which Ellington acted as collateral manager. Ellington provided an initial response to the subpoena in April 2008 and finished its production in May 2009. Ellington has had no communication with the SEC on the matter since that time.

In August 2009, Ellington and one of its affiliates received subpoenas from the SEC seeking documents and information regarding certain structuring, sales and marketing practices in the CDO market. The subpoenas seek documents and details regarding CDOs in which Ellington or its affiliates participated during 2006 and 2007. Ellington intends to cooperate fully with both of these subpoenas.

Information relating to legal proceedings and regulatory inquiries is also discussed under "Business-Legal Proceedings." We can give no assurances that regulatory inquiries such as those discussed above will not result in investigations of Ellington or its affiliates or enforcement actions, fines or penalties or the assertion of private litigation claims against Ellington or its affiliates. In the event regulatory investigations such as those discussed above were to result in investigations, enforcement actions, fines, penalties or the assertion of private litigation claims against Ellington or its affiliates, our Manager's ability to perform its obligations to us under the management agreement between us and our Manager, or Ellington's ability to perform its obligations to our Manager under the services agreement between Ellington and our Manager, could be adversely impacted, which could in turn have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We operate in a highly competitive market.

Our profitability depends, in large part, on our ability to acquire targeted assets at favorable prices. We compete with a number of entities when acquiring our targeted assets, including mortgage REITs, financial companies, public and private funds, commercial and investment banks and residential and commercial finance companies. We may also compete with (i) the Federal Reserve and the Treasury to the extent they purchase assets in our targeted asset classes and (ii) companies that partner with and/or receive financing from the U.S. Government, including TALF and PPIP participants. Many of our competitors are substantially larger and have considerably greater access to capital and other resources than we do. Furthermore, new companies with significant amounts of capital have recently been formed or have raised additional capital, and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with ours, which may create competition for assets we wish to acquire. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets to acquire and establish more relationships than us. Furthermore, competition for assets in our targeted asset classes may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

We are highly dependent on information systems and system failures could significantly disrupt our business, which may, in turn, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities, including RMBS trading activities, which could materially adversely affect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets.

Our management objectives and policies do not place a limit on the size of the amount of capital used to support, or the exposure to (by any other measure), any individual asset or any group of assets with similar characteristics or risks. As a result, our portfolio may be concentrated in a small number of assets or may be otherwise undiversified, increasing the risk of loss and the magnitude of potential losses to us and our shareholders if one or more of these assets perform poorly.

For example, our portfolio of mortgage-related assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of security, downturns relating generally to such region or type of security may result in defaults on a number of our assets within a short time period, which may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

The lack of liquidity in our assets may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Many of our assets are structured as private placements. As such, they may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly-traded securities. Other assets of ours, while publicly issued, have limited liquidity on account of their complexity, turbulent market conditions or other factors. Illiquid assets typically experience greater price volatility, because a ready market does not exist, and they can be more difficult to value. The illiquidity of our assets may make it difficult for us to sell such assets if the need arises or to vary our portfolio in response to changes in economic and other conditions. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our assets. We may also face other restrictions on our ability to liquidate any assets for which we or our Manager has or could be attributed with material non-public information. If we are unable to sell our assets at favorable prices or at all, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders

We may allocate the net proceeds from this offering and the concurrent private placement to acquiring assets with which you may not agree or for purposes that are different in range or focus than those contemplated in this prospectus.

We will have significant flexibility in using the net proceeds of this offering and the concurrent private placement and may use the net proceeds from this offering and the concurrent private placement to acquire assets with which you may not agree or for purposes that are different in range or focus than those contemplated in this prospectus or those in which we have historically invested. The failure of our Manager to apply these proceeds effectively could result in unfavorable returns, and could cause a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

In addition, prior to the time we have fully deployed the net proceeds of this offering and the concurrent private placement, we may fund distributions to our shareholders out of such net proceeds, which would reduce the amount of cash we have available for acquiring assets and other purposes. The use of our net proceeds for such distributions could be dilutive to our financial results and may constitute a return of capital to our investors, which would have the effect of reducing each shareholder's basis in its common shares.

We could be subject to liability for potential violations of predatory lending laws, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Various federal, state and local laws have been enacted that are designed to discourage predatory lending practices. The federal Home Ownership and Equity Protection Act of 1994, or HOEPA, prohibits inclusion of certain provisions in residential mortgage loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases impose restrictions and requirements greater than those in HOEPA. In addition, under the anti-predatory lending laws of some states, the origination of certain residential mortgage loans, including loans that are not classified as "high cost" loans under applicable law, must satisfy a net tangible benefits test with respect to the related borrower. This test may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan, for example, does not meet the test even if the related originator reasonably believed that the test was satisfied. Failure of residential mortgage loan originators or servicers to comply with these laws, to the extent any of their residential mortgage loans become part of our mortgaged-related assets, could subject us, as an assignee or purchaser to the related residential mortgage loans, to monetary penalties and could result in the borrowers rescinding the affected residential mortgage loans. Lawsuits have been brought in various states making claims against assignees or purchasers of high cost loans for violations of state law. Named defendants in these cases have included numerous participants within the secondary mortgage market. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We may be exposed to environmental liabilities with respect to properties to which we take title.

In the course of our business, we may take title to real estate, and, if we do take title, we could be subject to environmental liabilities with respect to these properties. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, the presence of hazardous substances may adversely affect an owner's ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may materially adversely affect the value of the relevant mortgage-related assets held by us.

Risks Related to our Relationship with our Manager and Ellington

We are dependent on our Manager and certain key personnel of Ellington that are provided to us through our Manager and may not find a suitable replacement if our Manager terminates the management agreement or such key personnel are no longer available to us.

We do not have any employees of our own. Our officers are employees of Ellington or one or more of its affiliates. We have no separate facilities and are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and execution of our business strategies and risk management practices. We also depend on our Manager's access to the professionals and principals of Ellington as well as information and deal flow generated by Ellington. The employees of Ellington identify, evaluate, negotiate, structure, close and monitor our portfolio. The departure of any of the senior officers of our Manager, or of a significant number of investment professionals or principals of Ellington, could have a material adverse effect on our ability to achieve our objectives. We can offer no assurance that our Manager will remain our manager or that we will continue to have access to our Manager's senior management. We are subject to the risk that our Manager will terminate the management agreement or that we may deem it necessary to terminate the management agreement or prevent certain individuals from performing services for us and that no suitable replacement will be found to manage us.

The base management fee payable to our Manager is payable regardless of the performance of our portfolio, which may reduce its incentive to devote the time and effort to seeking profitable opportunities for our portfolio.

We pay our Manager substantial base management fees based on our equity capital (as defined in the management agreement) regardless of the performance of our portfolio. The base management fee takes into account the net issuance proceeds of both common and preferred share offerings. Our Manager's entitlement to non-performance-based compensation might reduce its incentive to devote the time and effort of its professionals to seeking profitable opportunities for our portfolio, which could result in a lower performance of our portfolio and materially adversely affect our business, financial condition and results of operations.

Our Manager's incentive fee may induce our Manager to acquire certain assets, including speculative or high risk assets, or to acquire assets with increased leverage, which could increase the risk to our portfolio.

In addition to its base management fee, our Manager is entitled to receive an incentive fee based, in part, upon our achievement of targeted levels of net income. In evaluating asset acquisition and other management strategies, the opportunity to earn an incentive fee based on net income may lead our Manager to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining liquidity and/or management of credit risk or market risk, in order to achieve a higher incentive fee. Assets with higher yield potential are generally riskier or more speculative. This could result in increased risk to our portfolio.

Our board of directors has approved very broad investment guidelines for our Manager, but will not approve each decision made by our Manager, to acquire, dispose of, or otherwise manage an asset.

Our Manager is authorized to follow very broad guidelines in pursuing our strategy. Our board of directors periodically reviews our guidelines and our portfolio and asset-management decisions; however, it does not review all of our proposed acquisitions. In addition, in conducting periodic reviews, our board of directors relies primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager has great latitude within the broad guidelines in determining the types of assets it may decide are proper for us to acquire and other decisions with respect to the management of those assets. Poor decisions could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

We compete with Ellington's other accounts for access to Ellington.

Ellington has sponsored and/or currently manages accounts with a focus that overlaps with our investment focus, and expects to continue to do so in the future. Ellington is not restricted in any way from sponsoring or accepting capital from new accounts, even for investing in asset classes or strategies that are similar to, or overlapping with, our asset classes or strategies. Therefore, we compete for access to the benefits that our relationship with our Manager and Ellington provides us. For the same reasons, the personnel of Ellington and our Manager may be unable to dedicate a substantial portion of their time managing our assets.

We and other Ellington accounts may compete for opportunities to acquire assets, which are allocated in accordance with Ellington's investment allocation policies.

Ellington may, from time to time, simultaneously seek to purchase the same or similar assets for us (through our Manager) that it is seeking to purchase for other Ellington accounts, and has no duty to allocate such opportunities in a manner that preferentially favors us. Ellington makes available to us all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation procedures and policies, subject to the exception that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities.

Since many of our targeted assets are typically available only in specified quantities and since many of our targeted assets are also targeted assets for other Ellington accounts, Ellington often is not able to buy as much of any given assets as required to satisfy their needs. In these cases, Ellington's investment allocation procedures and policies typically allocate such assets to multiple accounts in proportion to their needs. As a result, accounts in start-up mode are given priority which could work to our disadvantage, particularly because there are no limitations surrounding Ellington's ability to create new accounts. The policies permit departure from such proportional allocation when such allocation would result in an inefficiently small amount of the security being purchased for an account, which may also serve to preclude our ability to acquire certain assets.

There are conflicts of interest in our relationships with our Manager and Ellington, which could result in decisions that are not in the best interests of our shareholders.

We are subject to conflicts of interest arising out of our relationship with Ellington and our Manager. Two of Ellington's employees are our directors and all of our executive officers – even those expected to dedicate all or substantially all of their time to us—are or will be employees of Ellington or one or more of its affiliates. As a result, our Manager and our officers may have conflicts between their duties to us and their duties to, and interests in, Ellington or our Manager.

We may acquire or sell assets in which Ellington or its affiliates have or may have an interest. Similarly, Ellington or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with Ellington or its affiliates, including the purchase and sale of all or a portion of a portfolio asset.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Ellington may have economic interests in or other relationships with others in whose obligations or securities we may acquire. In particular, such persons may make and/or hold an investment in securities that we acquire that may be pari passu, senior or junior in ranking to our interest in the securities or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, Ellington may, in its sole discretion, make recommendations and decisions regarding such securities for other entities that may be the same as or different from those made with respect to such securities and may take actions (or omit to take actions) in the context of these other economic interests or relationships the consequences of which may be adverse to our interests.

The officers of our Manager and its affiliates devote as much time to us as our Manager deems appropriate, however, these officers may have conflicts in allocating their time and services among us and Ellington and its affiliates' accounts. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our Manager and Ellington employees, other entities for which Ellington serves as a manager, or its accounts will likewise require greater focus and attention, placing our Manager and Ellington's resources in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed or if Ellington did not act as a manager for other entities.

We, directly or through Ellington, may obtain confidential information about the companies or securities in which we have invested or may invest. If we do possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our Manager's and Ellington's management of other accounts could create a conflict of interest to the extent our Manager or Ellington is aware of material non-public information concerning potential investment decisions. We have implemented compliance procedures and practices designed to ensure that investment decisions are not made while in possession of material non-public information. We cannot assure you, however, that these procedures and practices will be effective. In addition, this conflict and these procedures and practices may limit the freedom of our Manager to make potentially profitable investments, which could have an adverse effect on our operations. These limitations imposed by access to confidential information could therefore materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

The Manager Group currently owns approximately 17.6% of our outstanding common shares as of the date of this prospectus, including LTIP units. In evaluating opportunities for us and other management strategies, this may lead our Manager to emphasize certain asset acquisition, disposition or management objectives over others, such as balancing risk or capital preservation objectives against return objectives. This could increase the risks, or decrease the returns, of your investment.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

Our management agreement with our Manager was negotiated between related parties, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Various potential and actual conflicts of interest may arise from the activities of Ellington and its affiliates by virtue of the fact that our Manager is controlled by Ellington.

Termination of our management agreement without cause is subject to several conditions which may make such a termination difficult and costly. The management agreement, which was amended and restated effective July 1, 2009, has a current term that expires on December 31, 2011, and will be automatically renewed for successive one-year terms thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. The management agreement provides that it may be terminated by us based on performance upon the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of at least a majority of our outstanding common shares, based either upon unsatisfactory performance by our Manager that is materially detrimental to us or upon a determination by the board of directors that the management fee payable to our Manager is not fair, subject to our Manager's right to prevent such a termination by accepting a mutually acceptable reduction of management fees. In the event we terminate the management agreement as discussed above or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of the average annual base management fee and the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. These provisions will increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our Manager without cause.

Our Manager's failure to identify and acquire assets that meet our asset criteria or perform its responsibilities under the management agreement could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Our ability to achieve our objectives depends on our Manager's ability to identify and acquire assets that meet our asset criteria. Accomplishing our objectives is largely a function of our Manager's structuring of our investment process, our access to financing on acceptable terms and general market conditions. We have not yet identified any specific assets for our portfolio from the proceeds to be raised herewith. Additionally, our assets are selected by our Manager, and our shareholders will not have input into such decisions. All of these factors increase the uncertainty, and thus the risk, of investing in our common shares. The senior management team of our Manager has substantial responsibilities under the management agreement. In order to implement certain strategies, our Manager may need to hire, train, supervise and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

If our Manager ceases to be our Manager pursuant to the management agreement, our reverse repo and our derivative counterparties may cease doing business with us.

If our Manager ceases to be our Manager, it could constitute an event of default or early termination event under many of our reverse repo or derivative transaction agreements, upon which our counterparties would have the right to terminate their agreements with us. If our Manager ceases to be our Manager for any reason, including upon the non-renewal of our management agreement which has a current term that expires on December 31, 2011, and we are unable to obtain financing or enter into or maintain derivative transactions, our business, financial condition and results of operations and our ability to make distributions to our shareholders may be materially adversely affected.

We do not own the Ellington brand or trademark, but may use the brand and trademark as well as our logo pursuant to the terms of a license granted by Ellington.

Ellington has licensed the "Ellington" brand, trademark and logo to us for so long as our Manager or another affiliate of Ellington continues to act as our Manager. We do not own the brand, trademark or logo that we will use in our business and may be unable to protect this intellectual property against infringement from third parties. Ellington retains the right to continue using the "Ellington" brand and trademark. We will further be unable to preclude Ellington from licensing or transferring the ownership of the "Ellington" brand and trademark to third parties, some of whom may compete against us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of Ellington or others. Furthermore, in the event our Manager or another affiliate of Ellington ceases to act as our Manager, or in the event Ellington terminates the license we will be required to change our name and trademark. Any of these events could disrupt our recognition in the market place, damage any goodwill we may have generated and otherwise harm our business. Finally, the license is a domestic license in the United States only and does not give us any right to use the "Ellington" brand, trademark and logo overseas even though we expect to use the brand, trademark and logo overseas. Our use of the "Ellington" brand, trademark and logo overseas will therefore be unlicensed and could expose us to a claim of infringement.

Risks Related To Our Common Shares

There may not be an active market for our common shares, which may cause our common shares to trade at a discount to the initial offering price and make it difficult to sell the common shares you purchase.

Prior to this offering, there has been no public market for our common shares. The initial public offering price of our common shares will be determined by negotiations between the underwriters and us. We cannot assure you that the initial public offering price will correspond to the price at which our common shares will trade in the public market subsequent to this offering or that the price of our shares available in the public market will reflect our actual financial performance.

Our common shares have been approved for listing on the New York Stock Exchange under the symbol "EFC." Listing on the New York Stock Exchange would not ensure that an actual market will develop for our common shares. Accordingly, no assurance can be given as to:

- the likelihood that an actual market for our common shares will develop;
- the liquidity of any such market;
- the ability of any holder to sell common shares; or
- the prices that may be obtained for our common shares.

The market price and trading volume of our common shares may be volatile following this offering.

The stock market has experienced extreme price and volume fluctuations during the past two years that have affected the market price and trading volume of many companies in industries similar to ours. As a result, even if an active trading market develops for our common shares after this offering, the market price of our common shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common shares will not fluctuate or decline significantly in the future, and in particular, we cannot assure you that you will be able to resell your shares at or above the initial public offering price. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common shares include:

- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our earnings estimates, failure to meet earnings or operating results expectations of public market analysts and investors, or publication of research reports about us or the real estate specialty finance industry;
- increases in market interest rates that lead purchasers of our common shares to demand a higher yield;
- changes in applicable laws or regulations, court rulings and enforcement and legal actions;
- changes in government polices or changes in timing of implementation of government policies, including with respect to TALF, PPIP, Fannie Mae, Freddie Mac and Ginnie Mae;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional shareholders;
- speculation in the press or investment community; and
- general market and economic conditions.

Future offerings of debt securities, which would rank senior to our common shares upon our liquidation, and future offerings of equity securities, which would dilute our existing shareholders and may be senior to our common shares for the purposes of dividend and liquidating distributions, may adversely affect the market value of common shares.

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred shares. If we decide to issue senior securities in the future, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Holders of senior securities may be granted specific rights, including the right to hold a perfected security interest in certain of our assets, the right to accelerate payments due under an indenture, rights to restrict dividend payments and rights to require approval to sell assets. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common shares and may result in dilution of owners of our common shares. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Upon liquidation, holders of our debt securities and preferred shares and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market value of our common shares, or both. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common shares bear the risk of our future offerings reducing the market value of our common shares and diluting their share holdings in us.

Future sales of our common shares could have an adverse effect on our share price.

We cannot predict the effect, if any, of future sales of our common shares, or the availability of our common shares for future sales, on the market value of our common shares. Sales of substantial amounts of our common shares, or the perception that such sales could occur, may adversely affect prevailing market values for our common shares.

Upon the completion of this offering and the concurrent private placement, we will have common shares outstanding, assuming common shares are sold in this offering, shares are purchased by EMG Holdings, L.P., an affiliate of our Manager, in a concurrent private placement and the underwriters' over-allotment option is not exercised. If the underwriters exercise their over-allotment option in full, we will have common shares outstanding following the completion of this offering and the concurrent private placement. Of these shares, 8,887,750 were sold in our August 2007 private offering and remain outstanding and are freely tradable without restriction or registration under the Securities Act. Our directors and executive officers and the Manager Group have indicated that they intend to enter into lock-up agreements covering of our common shares, including vested LTIP units and the common shares purchased by EMG Holdings, L.P. in the concurrent private placement, or % of our common shares (which percentage excludes 1,130,000 common shares being offered by the selling shareholders in this prospectus) and vested LTIP units outstanding upon completion of this offering and the concurrent private placement, for a period of 180 days after the date of this prospectus with respect to our common shares held by them. One Ellington-managed hedge fund, which owns 120,000 of our common shares, will be subject to a lock-up agreement covering a period of 60 days after the date of this prospectus. In addition, unaffiliated shareholders that beneficially own an aggregate of of our common shares, or % of our common shares (which percentage excludes 1,130,000 common shares being offered by the selling shareholders in this prospectus) and vested LTIP units outstanding prior to this offering, have entered into lock-up agreements covering a period of 60 days after the date of the prospectus, with respect to the common shares held by them.

Although we, our directors and officers and the Manager Group and one of its affiliates intend to enter into lock-up agreements, the representatives of the underwriters, at any time and without notice, may release all or any portion of the common shares subject to the foregoing lock-up agreements. If the restrictions under any of these lock-up agreements are waived, common shares will be available for sale into the market, which could reduce the market value for common shares.

We are currently a party to a registration rights agreement whereby we are obligated to file a resale shelf registration statement within 60 days following the closing of this offering with respect to 3,047,704 of our common shares held by the Manager Group, three Ellington-managed funds, and one of our independent directors, of which 1,130,000 common shares are being offered by the selling shareholders in this prospectus. Upon registration, the remaining 1,917,704 common shares will be eligible for sale into the market, subject to the restrictions set forth in the lock-up agreements noted above and the one-year resale restriction on common shares issued pursuant to the management agreement. See "Certain Relationships and Related Party Transactions—Registration Rights."

Our shareholders may not receive distributions or distributions may not grow over time.

We have not established a minimum distribution payment level and our ability to make distributions may be adversely affected by a number of factors, including the risk factors described herein. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition and other factors as our board of directors may deem relevant from time to time. Our board is under no obligation or requirement to declare a distribution. Among the factors that could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders are:

- the ultimate profitability of our assets;
- margin calls or other expenses that reduce our cash flow;
- defaults in our portfolio or decreases in the value of our portfolio; and
- increases in actual or estimated operating expenses.

A change in any one of these factors could affect our ability to make distributions to our shareholders. We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions.

Market interest rates may have an effect on the trading value of our shares.

One of the factors that investors may consider in deciding whether to buy or sell our common shares is our distribution rate or earnings as a percentage of our common share price, as compared to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution or earnings rate or seek higher-yielding alternative debt or equity investments. As a result, interest rate fluctuations and other capital market conditions can affect the market value of our common shares independent of the effects such conditions may have on our portfolio. For instance, if interest rates rise, it is likely that the market price of our common shares will decrease as market rates on interest-bearing securities, such as bonds, increase.

Investing in our common shares involves a high degree of risk.

The assets we purchase in accordance with our objectives may result in a higher amount of risk than other alternative asset acquisition options. The assets we acquire may be highly speculative and aggressive and may be subject to a variety of risks, including credit risk, prepayment risk, interest rate risk and market value risks. As a result, an investment in our common shares may not be suitable for someone with lower risk tolerance.

Risks Related To Our Organization And Structure

Our operating agreement and management agreement contain provisions that may inhibit potential acquisition bids that shareholders may consider favorable, and the market price of our common shares may be lower as a result.

Our operating agreement contains provisions that have an anti-takeover effect and inhibit a change in our board of directors. These provisions include the following:

- allowing only our board of directors to fill newly created directorships;
- requiring advance notice for our shareholders to nominate candidates for election to our board of directors or to propose business to be considered by our shareholders at a meeting of shareholders;
- our ability to issue additional securities, including, but not limited to, preferred shares, without approval by shareholders;
- the ability of our board of directors to amend the operating agreement without the approval of our shareholders except under certain specified circumstances; and
- limitations on the ability of shareholders to call special meetings of shareholders or to act by written consent.

Certain provisions of the management agreement also could make it more difficult for third parties to acquire control of us by various means, including limitations on our right to terminate the management agreement and a requirement that, under certain circumstances, we make a substantial payment to our Manager in the event of a termination.

Our operating agreement, subject to certain exceptions, contains restrictions on the amount of our shares that a person may own and may prohibit certain entities from owning our shares. Our operating agreement provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of our common shares which are transferred to the trust (as described below), will be required to give written notice immediately to us, or in the case of proposed or attempted transactions will be required to give at least 15 days written notice to us, and provide us with such other information as we may request in order to determine the effect of such transfer, including, without limitation, the effect on the qualification of any of our potential REIT subsidiaries as a REIT.

Our board of directors, in its sole discretion, may exempt any person from the foregoing restrictions. Any person seeking such an exemption must provide to our board of directors such representations, covenants and undertakings as our board of directors may deem appropriate. Our board of directors may also condition any such exemption on the receipt of a ruling from the IRS or an opinion of counsel as it deems appropriate. Our board of directors has granted an exemption from this limitation to Ellington, certain affiliated entities of Ellington and certain non-affiliates, subject to certain conditions.

Our rights and the rights of our shareholders to take action against our directors and officers or against our Manager or Ellington are limited, which could limit your recourse in the event actions are taken that are not in your best interests.

Our operating agreement limits the liability of our directors and officers to us and our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer established by a final judgment and that is material to the cause of action adjudicated.

We have entered into indemnification agreements with our directors and officers that obligate us to indemnify them to the maximum extent permitted by Delaware law. In addition, our operating agreement authorizes us to obligate our company to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Delaware law. Our operating agreement requires us to indemnify each present or former director or officer, to the maximum extent permitted by Delaware law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. See “Description of Shares—Operating Agreement—Limitations on Liability and Indemnification of Our Directors and Officers.”

Our management agreement with our Manager requires us to indemnify our Manager and its affiliates against any and all claims and demands arising out of claims by third parties caused by acts or omissions of our Manager and its affiliates not constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager’s duties under the management agreement.

Due to the liability limitations contained in our operating agreements and our indemnification arrangements with our directors and officers and our Manager, our and our shareholders' rights to take action against our directors and officers and our Manager are limited, which could limit your recourse in the event actions are taken that are not in your best interests.

Maintenance of our exclusion from registration under the Investment Company Act imposes significant limitations on our operations.

We intend to conduct our operations through various wholly-owned or majority-owned subsidiaries in a manner such that neither we nor those subsidiaries are subject to regulation under the Investment Company Act. The securities issued by our subsidiaries that are excluded from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, together with other investment securities we may own, cannot exceed a combined value of 40% of the value of all our assets (excluding U.S. Government securities and cash) on an unconsolidated basis. This requirement limits the types of businesses in which we may engage and the assets we may hold. Our wholly-owned subsidiary, EF Mortgage LLC, relies on the exclusion provided by Section 3(c)(5)(C) under the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act is designed for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets consist of qualifying real estate assets and at least 80% of the entity's assets consist of qualifying real estate assets or real estate-related assets. These requirements limit the assets we can own and the timing of sales and purchases of our assets.

To classify the assets held by EF Mortgage LLC as qualifying real estate assets or real estate-related assets, we rely on no-action letters and other guidance published by the SEC staff regarding those kinds of assets, as well as upon our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exemption from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of EF Mortgage LLC regularly, there can be no assurance that EF Mortgage LLC will be able to maintain this exemption from registration. Any of the foregoing could require us to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common shares, the sustainability of our business model and our ability to make distributions.

If we were required to register as an investment company under the Investment Company Act, we would be subject to the restrictions imposed by the Investment Company Act, which would require us to make material changes to our strategy.

If we are deemed to be an investment company under the Investment Company Act, we would be required to materially restructure our activities or to register as an investment company under the Investment Company Act, which would have a material adverse effect on our business, financial conditions and results of operations. In connection with any such restructuring, we may be required to sell portfolio assets at a time we otherwise might not choose to do so, and we may incur losses in connection with such sales. Further, our Manager may unilaterally terminate the management agreement if we become regulated as an investment company under the Investment Company Act. Further, if it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the Commission, that we would be unable to enforce contracts with third parties and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company.

Federal Income Tax Risks

If we fail to satisfy the "qualifying income exception" under the tax rules for publicly traded partnerships, all of our income will be subject to an entity-level tax.

We have operated, and intend to continue to operate, so that we qualify as a partnership, and not as an association or a publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes. In general, if a partnership is "publicly traded" (as defined in the Internal Revenue Code of 1986, as amended, or the Code), it will be treated as a corporation for U.S. federal income tax purposes. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation, for U.S. federal income tax purposes, so long as at least 90% of its gross income for each taxable year constitutes "qualifying income" within the meaning of Section 7704(d) of the Code and it would not be included in the definition of a regulated investment company, or RIC, under Section 851(a) of the Code if it were a domestic corporation (which generally applies to entities required to register under the Investment Company Act). We refer to this exception as the "qualifying income exception." Qualifying income generally includes rents, dividends, interest (to the extent such interest is neither derived from the "conduct of a financial or insurance business" nor based, directly or indirectly, upon "income or profits" of any person), and capital gains from the sale or other disposition of stocks, bonds and real property. Qualifying income also includes other income derived from the business of investing in, among other things, stocks and securities.

If we fail to satisfy the "qualifying income exception" described above, we would be treated as a corporation for U.S. federal income tax purposes. In that event, items of income, gain, loss, deduction and credit would not pass through to holders of our common shares and such holders would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. We would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of our income. Distributions to holders of our common shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and these distributions would not be deductible by us. Additionally, distributions paid to non-U.S. holders of our common shares would be subject to U.S. federal withholding taxes at the rate of 30% (or such lower rate provided by an applicable tax treaty). Thus, if we were treated as a corporation, such treatment would result in a material reduction in cash flow and after-tax returns for holders of our common shares and thus would result in a substantial reduction in the value of our common shares.

Holders of our common shares will be subject to U.S. federal income tax on their share of our taxable income, regardless of whether or when they receive any cash distributions from us, and may recognize income in excess of our cash distributions.

We intend to continue to operate so as to qualify, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Holders of our common shares are subject to U.S. federal income taxation and, in some cases, state, local and foreign income taxation, on their allocable share of our items of income, gain, loss, deduction, and credit, regardless of whether or when they receive cash distributions. In addition, certain of our assets may produce taxable income without corresponding distributions of cash to us or produce taxable income prior to or following the receipt of cash relating to such income. Consequently, it is possible that the U.S. federal income tax liability of shareholders with respect to their respective allocable shares of our earnings in a particular taxable year could exceed the cash distributions we make to shareholders with respect to that taxable year, thus requiring out-of-pocket tax payments by shareholders. Furthermore, if we did not make cash distributions with respect to a taxable year, holders of our common shares would still have a tax liability attributable to their allocation of our taxable income for that taxable year. Our present intention is to make quarterly and special distributions to our common shareholders so that at least 50% of our net income attributable to our common shares each calendar year has been distributed prior to April of the subsequent calendar year, subject to adjustments for changes in common shares outstanding.

The ability of holders of our common shares to deduct certain expenses incurred by us may be limited.

We believe that the expenses incurred by us, including base management fees and incentive fees paid to our Manager, will generally not be treated as "miscellaneous itemized deductions" and will be deductible as ordinary trade or business expenses. In general, "miscellaneous itemized deductions" may be deducted by a holder of our common shares that is an individual, estate or trust only to the extent that such deductions exceed, in the aggregate, 2% of such holder's adjusted gross income. In addition, "miscellaneous itemized deductions" are also not deductible in determining the alternative minimum tax liability of a holder. There are also limitations on the deductibility of itemized deductions by individuals whose adjusted gross income exceeds a specified amount, adjusted annually for inflation. Although we believe that our expenses will not be treated as "miscellaneous itemized deductions," there can be no assurance that the IRS will not successfully challenge that treatment. In that event, a holder's inability to deduct all or a portion of such expenses could result in an amount of taxable income to such holder with respect to us that exceeds the amount of cash actually distributed to such holder for the year.

Holders of our common shares may recognize a greater taxable gain (or a smaller tax loss) on a disposition of our shares than expected because of the treatment of our debt under the partnership tax accounting rules.

We incur debt for a variety of reasons, including for acquisitions as well as other purposes. Under partnership tax accounting principles (which apply to us), our debt is generally allocable to holders of our common shares, who will realize the benefit of including their allocable share of our debt in the tax basis of their shares. A holder's tax basis in our common shares will be adjusted for, among other things, distributions of cash and allocations of our losses, if any. At the time a holder of our common shares sells its shares, the holder's amount realized on the sale will include not only the sales price of the shares but also such holder's portion of our debt allocable to those shares (which is treated as proceeds from the sale of those shares). Depending on the nature of our activities after having incurred the debt, and the utilization of the borrowed funds, a later sale of our common shares could result in a larger taxable gain (or a smaller tax loss) than anticipated.

Tax-exempt holders of our common shares will likely recognize significant amounts of "unrelated business taxable income," the amount of which may be material.

An organization that is otherwise exempt from U.S. federal income tax is nonetheless subject to taxation with respect to its "unrelated business taxable income," or UBTI. Because we have incurred "acquisition indebtedness" with respect to certain securities we hold (either directly or indirectly through subsidiaries that are treated as partnerships or are disregarded for U.S. federal income tax purposes), a proportionate share of a holder's income from us with respect to such securities will be treated as UBTI. Accordingly, tax-exempt holders of our common shares will likely recognize significant amounts of UBTI. For certain types of tax-exempt entities, the receipt of any UBTI might have adverse consequences. Tax-exempt holders of our common shares are strongly urged to consult their tax advisors regarding the tax consequences of owning our common shares.

There can be no assurance that the IRS will not assert successfully that some portion of our income is properly treated as effectively connected income with respect to non-U.S. holders of our common shares.

While it is expected that our method of operation will not result in the generation of significant amounts of income treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders of our common shares, there can be no assurance that the IRS will not assert successfully that some portion of our income is properly treated as effectively connected income with respect to such non-U.S. holders. To the extent our income is treated as effectively connected income, non-U.S. holders generally would be required to (i) file a U.S. federal income tax return for such year reporting their allocable portion, if any, of our income or loss effectively connected with such trade or business and (ii) pay U.S. federal income tax at graduated U.S. tax rates on any such income. Additionally, we would be required to withhold tax (currently at a rate of

35%) on a non-U.S. holder's allocable share of any effectively connected income. Non-U.S. holders that are corporations also would be required to pay branch profits tax at a 30% rate (or lower rate provided by applicable treaty). To the extent our income is treated as effectively connected income, it may also be treated as nonqualifying income for purposes of the qualifying income exception.

If the IRS challenges our election to mark our assets to market for U.S. federal income tax purposes, the taxable income allocated to the holders of our common shares would be adjusted (possibly retroactively) and our ability to provide tax information on a timely basis could be negatively affected.

We intend to continue to qualify as a trader in securities and have elected to mark-to-market our positions in securities that we hold as a trader, in accordance with Section 475(f) of the Code. There are limited authorities under Section 475(f) of the Code as to what constitutes a trader for U.S. federal income tax purposes. Under other sections of the Code, the status of a trader in securities depends on all of the facts and circumstances, including the nature of the income derived from the taxpayer's activities, the frequency, extent and regularity of the taxpayer's securities transactions, and the taxpayer's investment intent. Therefore, there can be no assurance that we have qualified or will continue to qualify as a trader in securities eligible for the mark-to-market election. We have not received, and in connection with this offering we will not receive, an opinion from counsel or a ruling from the IRS regarding our qualification as a trader. If our eligibility for, or our application of, the mark-to-market election were successfully challenged by the IRS, in whole or in part, it could, depending on the circumstances, result in retroactive (or prospective) changes in the amount of taxable income recognized by us and allocated to the holders of our common shares. An inability to utilize the mark-to-market election might also have an adverse effect on our ability to provide tax information to you on a timely basis. The IRS could also challenge any conventions that we use in computing, or in allocating among holders of our common shares, any gain or loss resulting from the mark-to-market election. See "Material U.S. Federal Income Tax Considerations—Taxation of Holders of Our Common Shares—Allocation of Profits and Losses."

In addition, we intend to take the position that our mark-to-market gain or loss, and any gain or loss on the actual disposition of marked-to-market assets, should be treated as ordinary income or loss. However, because the law is unclear as to the treatment of assets that are held for investment, and the determination of which assets are held for investment, the IRS could take the position that the mark-to-market gain or loss attributable to certain assets should be treated as capital gain or loss and not as ordinary gain or loss. In that case, we will not be able to offset our non-cash ordinary income with any resulting capital losses from such assets, which could increase the amount of our non-cash taxable income.

The IRS may challenge our allocations of income, gain, loss, deduction and credit.

Our operating agreement provides for the allocation of income, gain, loss, deduction and credit among the holders of our common shares. The rules regarding partnership allocations are complex. It is possible that the IRS could successfully challenge the allocations in the operating agreement and reallocate items of income, gain, loss, deduction and credit in a manner which reduces benefits or increases income allocable to holders of our common shares. See "Material U.S. Federal Income Tax Considerations—Taxation of Holders of Our Common Shares—Allocation of Profits and Losses."

Complying with certain tax-related requirements may cause us to forego otherwise attractive business opportunities.

To be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must satisfy the qualifying income exception, which requires that at least 90% of our gross income each taxable year consist of interest, dividends, capital gains and other types of "qualifying income." Interest income will not be qualifying income for the qualifying income exception if it is derived from "the conduct of a financial or insurance business." This requirement limits our ability to originate loans or acquire loans originated by our Manager and its affiliates. In addition, we intend to operate so as to avoid generating a significant amount of income that is treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders. In order to comply with these requirements, we (or our subsidiaries) may be required to invest through foreign or domestic corporations or forego attractive business opportunities. Thus, compliance with these requirements may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders.

The IRS Schedules K-1 we will provide will be significantly more complicated than the IRS Forms 1099 provided by REITs and regular corporations, and holders of our common shares may be required to request an extension of time to file their tax returns.

Holders of our common shares are required to take into account their allocable share of items of our income, gain, loss, deduction and credit for our taxable year ending within or with their taxable year. We will use reasonable efforts to furnish holders of our common shares with tax information (including IRS Schedule K-1) as promptly as possible, which describes their allocable share of such items for our preceding taxable year. However, we may not be able to provide holders of our common shares with tax information on a timely basis. Because holders of our common shares will be required to report their allocable share of each item of our income, gain, loss, deduction, and credit on their tax returns, tax reporting for holders of our common shares will be significantly more complicated than for shareholders in a REIT or a regular corporation. In addition, delivery of this information to holders of our common shares will be subject to delay in the event of, among other reasons, the late receipt of any necessary tax information from an investment in which we hold an interest. It is therefore possible that, in any taxable year, holders of our common shares will need to apply for extensions of time to file their tax returns.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available, and which is subject to potential change, possibly on a retroactive basis. Any such change could result in adverse consequences to the holders of our common shares.

The U.S. federal income tax treatment of holders of our common shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process and the IRS, resulting in changes in and revised interpretations of established concepts. Also, the IRS pays close attention to the proper application of tax laws to partnerships and investments in foreign entities. The present U.S. federal income tax treatment of an investment in our common shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments we have previously made. We and holders of our common shares could be adversely affected by any such change in, or any new tax law, regulation or interpretation. Our operating agreement permits our board of directors to modify (subject to certain exceptions) the operating agreement from time to time, without the consent of the holders of our common shares. These modifications may address, among other things, certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have an adverse impact on some or all of the holders of our common shares. Moreover, we intend to apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders of our common shares in a manner that reflects their distributive share of our items, but these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions we use do not satisfy the technical requirements of the Code and/or Treasury Regulations and could require that items of income, gain, deduction, loss or credit be adjusted or reallocated in a manner that adversely affects holders of our common shares.

Proposed tax legislation, if enacted, could limit our ability to conduct investment management or advisory or other activities in the future.

Proposed tax legislation has been introduced in Congress that is intended to prevent publicly traded partnerships from conducting investment management or advisory activities without the imposition of corporate income tax. One version of this proposed legislation would prevent a publicly traded partnership from qualifying as a partnership for U.S. federal income tax purposes if it conducts such activities either directly or indirectly through any entity in which it owns an interest, no matter how small or insignificant such activities are compared to the partnership's other activities. Other versions of the legislation would mandate that any income from investment management or advisory activities be treated as non-qualifying income under the 90% qualifying income exception for publicly traded partnerships, which, in turn, would limit the amount of such income that a publicly traded partnership could derive other than through corporate subsidiaries. It is unclear which version of the legislation, if any, ultimately will be enacted. It also is uncertain whether such legislation, if enacted, would apply retroactively to dates specified in the original proposals or prospectively only. We do not currently engage in investment management or advisory activities either directly or indirectly through an entity in which we own an interest. However, if such legislation is enacted, depending on the form it takes, it could limit our ability to engage in investment management and advisory or other activities in the future. Holders should consult their own tax advisors regarding the likelihood that the proposed legislation will be enacted and, if enacted, the form it is likely to take.

USE OF PROCEEDS

The net proceeds from the sale of common shares in this offering will be approximately $ million (or approximately $ million if the underwriters fully exercise their over-allotment option), in each case after deducting the underwriting discounts and commissions of approximately $ million (or approximately $ million if the underwriters fully exercise their over-allotment option) and estimated offering expenses of approximately $ payable by us. In addition, 1,130,000 of our common shares are being offered by the selling shareholders named in this prospectus. We will not receive any proceeds from the sale of our common shares by the selling shareholders.

Concurrently with the closing of this offering, we will sell to EMG Holdings, L.P., an affiliate of our Manager, in a separate private placement, an aggregate of common shares at a price per share equal to the initial public offering price per share.

We plan to use substantially all of the net proceeds of this offering and the concurrent private placement to acquire our targeted assets in accordance with our investment objectives and strategies as described in this prospectus. See “Business—Our Strategy.” Based on prevailing market conditions, our current expectation is that we will use substantially all of the net proceeds of this offering and the concurrent private placement within six months after completion of this offering and the concurrent private placement. We expect that the net proceeds of this offering and the concurrent private placement will be allocated as follows: % to % in non-Agency RMBS, % to % in Agency RMBS, % to % in mortgage-related derivatives including credit default swaps on individual RMBS and on the ABX indices, and % to % in our other targeted assets and cash. The foregoing percentages do not reflect our expected use of leverage, in that they reflect the use of capital that we expect to deploy, as opposed to the gross assets that we expect to acquire. See “Business—Our Financing Strategies and Use of Leverage.” However, we cannot assure you that we will not change the capital allocation described above. Our decisions will depend on prevailing market conditions and the opportunities we identify and may be adjusted in response to changes in interest rates, economic and credit environments. Capital allocated to particular targeted assets may reflect the actual usage of cash, such as in connection with the payment of the purchase price for such assets or in connection with the posting of collateral with third parties in connection with the financing of such assets, or may represent deemed allocations of capital pursuant to internal liquidity guidelines in connection with the financing or maintenance of such assets. We expect to use the balance of the net proceeds of this offering and the concurrent private placement, if any, for working capital and general corporate purposes. Pending such uses, we may invest the net proceeds from this offering and the concurrent private placement in interest-bearing, short-term investments, including money market accounts. These investments are expected to provide a lower net return than we hope to achieve from investments in our longer-term intended use of proceeds of this offering and the concurrent private placement.

While we intend to use the net proceeds of this offering and the concurrent private placement to acquire our targeted assets as described above, we will have significant flexibility in using the net proceeds of this offering and the concurrent private placement and may use the net proceeds from this offering and the concurrent private placement to acquire assets with which you may not agree or for purposes that are different in range or focus than those described above and elsewhere in this prospectus or those in which we have historically invested.

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INSTITUTIONAL TRADING OF OUR COMMON SHARES

Currently, there is no public trading market for our common shares. Our common shares issued in our August 2007 private offering are eligible for resale to qualified institutional buyers as defined under, and pursuant to, Rule 144A under the Securities Act. These trades may be reported in the PORTAL℠ Market, or PORTAL, a subsidiary of the Nasdaq Stock Market, Inc. The following table shows the high and low sales prices for our common shares as reported on PORTAL for each quarterly period since our common stock became eligible for PORTAL:

	High Sales Price	Low Sales Price
August 1 to September 30, 2007	*	*
October 1 to December 31, 2007	*	*
January 1 to March 31, 2008	$ 20.00	$ 20.00
April 1 to June 30, 2008	*	*
July 1 to September 30, 2008	$ 20.00	$ 20.00
October 1 to December 31, 2008	*	*
January 1 to March 31, 2009	*	*
April 1 to June 30, 2009	*	*
July 1 to September 30, 2009	$ 20.00	$ 20.00

* No trades of our common shares were reported on PORTAL during this period.

We have been advised that, as of November 2, 2009, the last sale of our common shares reported on PORTAL occurred on August 21, 2009, at a price of $20.00 per share. The information above regarding trades reported on PORTAL may not include all reported trades. Moreover, institutions and individuals are not required to report all trades to PORTAL. Therefore, the last sales price that was reported on PORTAL may not be reflective of sales of our common shares that have occurred and were not reported and may not be indicative of the prices at which our common shares may trade after this offering and the concurrent private placement. In addition, between March 2, 2009 and May 22, 2009, we repurchased a total of 608,500 of our common shares in three separate transactions at prices ranging from $12.00 to $13.00 per share.

As of June 30, 2009, we had 11,901,533 common shares issued and outstanding. As of June 30, 2009, 50 of our issued and outstanding common shares were held in the name of our Manager and the remainder of our issued and outstanding common shares were held in the name of Cede & Co., which holds shares as nominee for The Depository Trust Company, or DTC. We believe that, as of December 31, 2008, DTC held shares on behalf of approximately 76 beneficial owners of our common shares.

DISTRIBUTION POLICY

The declaration of distributions to our shareholders and the amount of such distributions are at the discretion of our board of directors. Our present intention is to make quarterly and special distributions to our common shareholders so that at least 50% of our net income attributable to our common shares each calendar year has been distributed prior to April of the subsequent calendar year, subject to adjustments for changes in common shares outstanding. In setting the level of shareholder distributions, our board of directors takes into account, among other things, our earnings, our financial condition, our working capital needs and new investment opportunities. Our ability to make distributions is subject to certain restrictions under the Delaware LLC Act. Under the Delaware LLC Act, a limited liability company generally is not permitted to make a distribution if, after giving effect to the distribution, the liabilities of the company will exceed the value of the company's assets. In addition, it is possible that some of our future financing arrangements could contain provisions restricting our ability to make distributions. Shareholders generally will be subject to U.S. federal income tax (and any applicable state and local taxes) on their respective allocable shares of our net taxable income regardless of the timing or amount of distributions we make to our shareholders.

On August 7, 2009, our board of directors authorized our first distribution to our shareholders of $1.50 per share for the quarter ended June 30, 2009. The distribution was paid on September 15, 2009 to our shareholders of record as of September 1, 2009. The distribution represented approximately 36.7% of our net income for the first six months of the 2009 fiscal year. We cannot assure you that we will make any future distributions to our shareholders and this distribution is not intended to be indicative of the amount and timing of future distributions, if any.

DILUTION

The price per common share offered hereby will exceed the pro forma book value per share as of June 30, 2009, after giving effect to this offering and the concurrent private placement. Therefore, purchasers of the common shares in this offering will realize an immediate dilution in the book value of their common shares. Pro forma book value per share is determined by subtracting our total liabilities from our total assets and dividing the remainder by the number of common shares that will be outstanding after this offering and the concurrent private placement. Pro forma book value per share excludes the effects of LTIP units and common shares issuable upon conversion of LTIP units. The following table illustrates the dilution to purchasers of common shares sold in this offering and the concurrent private placement, based on the sale of shares in this offering and shares in the concurrent private placement at an assumed offering price of $ per common share (the midpoint of the price range set forth on the front cover page of this prospectus) and assuming underwriting discounts and commissions and estimated expenses of this initial public offering of $ per share.

Price per share to investors in this offering and the concurrent private placement(1)	$
Book value per share as of June 30, 2009, before giving effect to this offering and the concurrent private placement	23.87
Increase in book value per share attributable to this offering and the concurrent private placement(2)	
Pro forma book value per share after giving effect to this offering and the concurrent private placement(3)	
Dilution per share to new investors	$

(1) Before deducting the underwriting discounts and commissions and estimated expenses payable by us in this offering.
(2) After deducting the underwriting discounts and commissions and estimated expenses payable by us in this offering.
(3) Based on an assumed price per share of $, the offering price will be equal to % of the June 30, 2009 book value per share.

The following table summarizes, as of June 30, 2009, the differences between the average price per share paid by our existing shareholders in previous issuances and by new investors purchasing common shares in this offering at an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the front cover page of this prospectus, before deducting underwriting discounts and commissions and estimated offering expenses payable by us in this offering and the concurrent private placement:

	Shares Purchased or LTIPs Granted(1)		Total Consideration		Average Price Per Share
	Number	%	Amount	%	
Shares purchased by existing shareholders	12,500,050		$247,674,500		$ 19.81(5)
Shares issued to our Manager as part of its incentive fee(2)	8,733(6)		—	—	—
LTIP units granted pursuant to our incentive plans(2)(3)	381,250		—	—	—
Shares issued pursuant to the conversion of LTIP units(4)	1,250(7)		—	—	—
New investors					
Total		100.0%	$	100.0%	$

(1) Assumes no exercise of the underwriters' over-allotment option to purchase an additional common shares.
(2) No cash consideration was paid for these securities.
(3) As of June 30, 2009, includes 375,000 LTIP units issued to our Manager and an aggregate of 6,250 LTIP units owned by our independent directors. Each LTIP unit is convertible into one common share. No cash consideration was paid for the LTIP units or will be payable upon conversion of the LTIP units into common shares.
(4) No cash consideration was paid in connection with the conversion of these LTIP units into common shares.
(5) Represents the weighted average price per share purchased by the initial purchaser/placement agent for its own account in our August 2007 private offering at $18.80 per share and by other investors at $20.00 per share.
(6) Excludes 35,221 common shares issued in August 2009 as part of our Manager's incentive fee for the second quarter of 2009.
(7) Excludes 1,250 common shares issued pursuant to the conversion of LTIP units by one of our independent directors in August 2009 and 1,250 common shares issued pursuant to the conversion of LTIP units by one of our independent directors in October 2009.

CAPITALIZATION

The following table sets forth our actual capitalization as of June 30, 2009, and our capitalization as of June 30, 2009, as adjusted to give effect to (a) the sale of common shares in this offering at an offering price of $ per share, which is the midpoint of the price range set forth on the front cover page of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us and (b) the sale of an aggregate of common shares in the concurrent private placement to EMG Holdings, L.P., an affiliate of our Manager, at an offering price of $ per share, which is the assumed initial public offering price. You should read this table together with "Use of Proceeds" included elsewhere in this prospectus.

	As of June 30, 2009	
	Actual[1]	**As Adjusted[2]**
Common shares, no par value; 100,000,000 shares authorized; 11,901,533 common shares outstanding, actual; common shares outstanding, as adjusted upon completion of the offering and the concurrent private placement[1][2]	$ 279,050,124	$
Preferred shares, no par value; 100,000,000 preferred shares authorized, no preferred shares outstanding, actual or as adjusted	—	—
Additional paid-in capital—LTIP units	5,094,409	5,094,409
Total shareholders' equity	$ 284,144,533	$

(1) Excludes 375,000 common shares which are issuable upon conversion of 375,000 LTIP units that were issued to our Manager and 7,500 common shares which are issuable upon conversion of 7,500 LTIP units that were issued to our independent directors to date, 35,221 common shares issued to our Manager in August 2009 as part of our Manager's incentive fee for the second quarter of 2009, 1,250 common shares issued pursuant to the conversion of LTIP units by one of our independent directors in August 2009 and 1,250 common shares issued pursuant to the conversion of LTIP units by one of our independent directors in October 2009.

(2) Assumes the sale of common shares in this offering and the concurrent private placement at an initial offering price of $ per share, which is the midpoint of the price range set forth on the front cover page of this prospectus, for net proceeds of approximately $ million after deducting the underwriting discounts and commissions for the initial public offering and estimated offering expenses payable by us. Does not include up to an additional common shares that we may issue and sell upon the exercise of the underwriters' over-allotment option.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents selected consolidated financial information as of June 30, 2009, as of December 31, 2008 and 2007, for the six month periods ended June 30, 2009 and 2008, for the year ended December 31, 2008 and for the period from August 17, 2007 (commencement of operations) to December 31, 2007. The selected consolidated financial information as of June 30, 2009 and for the six month periods ended June 30, 2009 and 2008 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial information presented below as of December 31, 2008 and 2007, for the year ended December 31, 2008 and for the period from August 17, 2007 (commencement of operations) to December 31, 2007, have been derived from our audited consolidated financial statements included elsewhere in this prospectus. These unaudited consolidated financial statements have been prepared on substantially the same basis as our audited consolidated financial statements and include all adjustments that we consider necessary for a fair presentation of our consolidated financial position and results of operations for the periods presented therein. These results are not necessarily indicative of our results for the full fiscal year. Similarly, because we only operated our business for a portion of the year ended December 31, 2007, we do not believe that a comparison of our operating results for the year ended December 31, 2008 to the period from August 17, 2007 (commencement of operations) to December 31, 2007 is indicative of the trends in our performance.

Since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements included elsewhere in this prospectus, including the related notes, you should read it in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	Six Months Ended June 30,		Year Ended December 31,	Period from August 17, 2007 (commencement of operations) to December 31, 2007
	2009	2008	2008	
Net Investment Income:				
Interest Income	$ 22,934,130	$ 12,924,980	$ 29,914,585	$ 5,898,720
Expenses:				
Base management fee	1,958,546	1,822,210	3,721,121	1,355,912
Incentive fee	8,407,373	1,771,026	1,771,026	—
Share-based LTIP expense	1,823,000	1,312,430	2,389,436	906,973
Interest expense	1,012,021	1,698,267	6,189,887	—
Professional fees	1,057,927	405,500	1,524,060	658,185
Other expenses	837,227	662,435	1,494,115	625,117
Total expenses	15,096,094	7,671,868	17,089,645	3,546,187
Net Investment Income	7,838,036	5,253,112	12,824,940	2,352,533
Net Realized and Unrealized Gain (Loss) on Investments and Financial Derivatives:				
Net realized gain (loss) on:				
Investments	(21,463,442)	(278,335)	(5,075,879)	1,753,849
Financial derivatives	20,743,064	6,015,766	63,598,153	—
Net realized gain (loss)	(720,378)	5,737,431	58,522,274	1,753,849
Change in net unrealized gain (loss) on:				
Investments	50,776,288	(32,865,988)	(79,180,278)	(651,290)
Financial derivatives	(7,532,030)	32,871,545	5,410,419	(130,122)
Change in net unrealized gain (loss)	43,244,258	5,557	(73,769,859)	(781,412)
Net Realized and Unrealized Gain (Loss) on Investments and Financial Derivatives	$ 42,523,880	5,742,988	(15,247,585)	972,437
Net Increase (Decrease) in Shareholders' Equity Resulting from Operations	$ 50,361,916	$ 10,996,100	$ (2,422,645)	$ 3,324,970

	As of June 30, 2009	As of December 31, 2008	2007
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 73,858,758	$ 61,400,254	$ 61,705,104
Investments at fair value	565,680,650	429,884,006	180,657,979
Financial derivatives at fair value (appreciated)	133,195,918	141,690,748	—
Total assets	922,759,150	699,976,080	243,494,998
Investments sold short at fair value	100,239,532	38,421,032	—
Reverse repos	352,098,700	260,534,000	—
Financial derivatives at fair value (depreciated)	15,547,559	17,304,903	130,122
Total liabilities	638,614,617	458,898,436	1,668,105
Shareholders' equity	284,144,533	241,077,644	241,826,893
Shareholders' equity per common share	$ 23.87	$ 19.27	$ 19.35

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

Executive Summary

We are a specialty finance company that specializes in acquiring and managing mortgage-related assets, including non-Agency RMBS, Agency RMBS and mortgage-related derivatives, as well as corporate debt and equity securities and derivatives. We also may opportunistically acquire and manage other types of mortgage-related and financial asset classes, such as residential whole mortgage loans, CMBS, commercial mortgages or other commercial real estate debt, ABS backed by consumer and commercial assets and non-mortgage-related derivatives. We are externally managed and advised by our Manager, an affiliate of Ellington. Ellington is a private investment management firm and a registered investment advisor with a 14-year history of investing in a broad spectrum of MBS and related derivatives.

We completed our initial capitalization in August 2007, pursuant to which we sold 12,500,000 common shares for aggregate net proceeds of approximately $239.7 million.

Our primary objective is to generate attractive, risk-adjusted total returns for our shareholders. We seek to attain this objective by utilizing an opportunistic strategy to make investments, without restriction as to ratings, structure or position in the capital structure, that we believe compensate us appropriately for the risks associated with them rather than targeting a specific yield. Our evaluation of the potential risk-adjusted return of any potential investment typically involves weighing the potential returns of such investment under a variety of economic scenarios against the perceived likelihood of the various scenarios. Potential investments subject to greater risk (such as those with lower credit ratings and/or those with a lower position in the capital structure) will generally require a higher potential return to be attractive in comparison to investment alternatives with lower potential return and a lower degree of risk. However, at any particular point in time, depending on how we perceive the market's pricing of risk both generally and across sectors, we may favor higher-risk assets or we may favor lower-risk assets, or a combination of the two in the interests of portfolio diversification or other considerations.

As of June 30, 2009, our invested capital was weighted toward non-Agency RMBS, although we also acquire Agency RMBS on a leveraged basis to take advantage of opportunities in that market sector and to maintain our exclusion from regulation as an investment company under the Investment Company Act. As discussed below in "—Liquidity and Valuation," financing for non-Agency RMBS is becoming available in limited quantities, but currently we employ only low levels of leverage with respect to these non-Agency RMBS. We expect that over the near term our invested capital will continue to be weighted toward non-Agency RMBS, subject to maintaining our exclusion from regulation as an investment company under the Investment Company Act.

Our strategy is intended to take advantage of opportunities in the current credit environment. We intend to adjust our strategy to changing market conditions by shifting our asset allocations across various asset classes as credit and liquidity trends evolve over time. We believe that this strategy, combined with Ellington's experience, will help us generate more consistent returns on our capital throughout changing market cycles. We take a long-term view of assets and liabilities, and our reported earnings and mark-to-market valuations at the end of a financial reporting period do not significantly impact our objective of providing attractive, risk-adjusted total returns to our shareholders over the long-term.

As of June 30, 2009, the great majority of our borrowings consisted of reverse repos collateralized by Agency RMBS, and our debt-to-equity ratio was 1.24 to 1. Our debt-to-equity ratio does not account for liabilities other than debt financings.

We opportunistically hedge our credit risk and interest rate risk; however, at any point in time we may choose not to hedge all or a portion of these risks, and we will generally not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

We believe that we have been organized and have operated so that we have qualified, and will continue to qualify, to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation.

Trends and Recent Market Developments

Market Disruption in RMBS. We commenced operations in August 2007 in the midst of challenging market conditions which affected both (i) the credit performance and valuations of assets we targeted at that time (especially non-Agency RMBS) and (ii) the cost and availability of financing for those assets (primarily, reverse repos and securitizations). After reviewing the market conditions that existed at that time, we decided to deploy a relatively modest amount of our capital in late 2007 and also began to adapt the strategy for the portfolio in light of market conditions.

As credit availability diminished and valuations of non-Agency RMBS came under significant pressure, in early 2008 we began slowly purchasing primarily senior tranches of non-Agency RMBS and simultaneously began aggressively hedging the credit risk in these securities through a combination of single name credit default swaps referencing primarily mezzanine tranches of non-Agency RMBS, positions with respect to certain vintages and tranches of the ABX indices and selected other hedges. The market for non-Agency RMBS was impacted by several significant events during the first quarter of 2008, including the forced liquidation of several multi-billion dollar RMBS portfolios by heavily leveraged investors and the failure of Bear Stearns & Co. in March 2008. These market events also severely restricted the financing available for non-Agency RMBS, as many lenders curtailed their lending against these types of securities.

Poor credit performance of non-Agency RMBS and limited availability of financing for such assets continued throughout 2008 and into 2009, influenced by many market events including the bankruptcy of Lehman Brothers in September 2008.

As discussed below, home price declines and increases in loss severities upon default continued through the second quarter of 2009, although both trends have in many regions slowed or modestly reversed in recent months. However, these recent improvements may be short-lived as we believe they may be the result of (i) a temporarily lower inventory of lender-owned properties for sale, resulting from foreclosure moratoria and other delays in foreclosure actions as discussed below, (ii) increased seasonal demand for housing during the second quarter of 2009, and (iii) a temporary increase in the ratio of voluntary sales to liquidations. An easing or reversal of these factors could lead to further home price declines and increased loss severities upon default.

Since the announcement of the PPIP discussed below, liquidity and prices have improved in the RMBS markets presumably reflecting, among other things, market participants' pricing better economic scenarios into, and demanding lower target returns on, their investments.

In light of these conditions, we continue to target non-Agency RMBS at prices that we believe will provide attractive, risk-adjusted total returns. Additionally, we continually focus on managing our cash and liquidity with a goal of maintaining sufficient available cash and liquidity to both take advantage of opportunities to acquire assets and meet our anticipated operating and financing needs.

Although our Agency RMBS portfolio is generally not subject to the same credit risks as our non-Agency RMBS portfolio, many of the market events that affected the non-Agency RMBS market discussed above also affected the Agency RMBS market. However, unless we acquire very substantial amounts of whole mortgage loans, we expect that we will always maintain some core amount of Agency RMBS to maintain our exclusion from regulation as an investment company under the Investment Company Act.

Government Response. During this period of market dislocation, fiscal and monetary policymakers have (i) established new liquidity facilities for primary dealers and commercial banks, (ii) reduced short-term interest rates, and (iii) passed the Housing and Economic Recovery Act of 2008, which seeks to, among other things, forestall home foreclosures for distressed borrowers and assist communities with foreclosure problems.

Subsequent to June 30, 2008, there were increased market concerns about Freddie Mac and Fannie Mae's ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the federal government. In September 2008 Fannie Mae and Freddie Mac were placed into the conservatorship of the FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. As the conservator of Fannie Mae and Freddie Mac, the FHFA controls and directs their operations and may (i) take over their assets and operate them with all the powers of their shareholders, directors, and officers and conduct all their business; (ii) collect all obligations and money due to them; (iii) perform all of their functions which are consistent with the conservator's appointment; (iv) preserve and conserve their assets and property and (v) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, (i) the Treasury and FHFA have entered into preferred stock purchase agreements with Fannie Mae and Freddie Mac pursuant to which the Treasury will ensure that each of Fannie Mae and Freddie Mac maintains a positive net worth; (ii) the Treasury has established a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks until December 2009 and which is intended to serve as a liquidity backstop; and (iii) the Treasury has initiated a temporary program to purchase RMBS issued by Fannie Mae and Freddie Mac. It is unclear how the continuing highly fluid and evolving nature of these events will impact our business.

The Emergency Economic Stabilization Act, or EESA, was adopted in the fourth quarter of 2008. The EESA provided the U.S. Secretary of the Treasury with the authority to establish the Troubled Asset Relief Program, or TARP, to purchase from financial institutions up to $700 billion of, among other financial instruments, equity or preferred securities, residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008. The EESA also provides for a program that would allow companies to insure their troubled assets.

The TALF was first announced by the Treasury on November 25, 2008, and has been expanded in size and scope since its initial announcement. Under the TALF, the Federal Reserve Bank of New York makes non-recourse loans to borrowers to fund their purchase of eligible assets, currently certain ABS but not RMBS. Currently, TALF loans have three-year or five-year terms, have interest due monthly, are exempt from mark-to-market accounting rules and margin calls related to a decrease in the underlying collateral value, are pre-payable in whole or in part, and prohibit the substitution of any underlying collateral. TALF loans require that any payments of principal made on the underlying collateral reduce the principal amount of the TALF loan pro rata based upon the original loan-to-value ratio.

In May 2009, the Federal Reserve announced that certain types of CMBS would be eligible for TALF financing. The TALF-eligibility requirements for CMBS include, but are not limited to, the following: (i) at closing, the CMBS must have been rated in the highest long-term investment-grade rating category of an eligible rating agency, (ii) the CMBS must not have been junior to other securities with claims on the same pool of loans, and (iii) payments on the CMBS must be applied to both principal and interest (no IOs or POs).

On August 17, 2009, the Federal Reserve and the Treasury announced that they approved an extension of the TALF. With respect to newly issued ABS and legacy CMBS, the TALF was extended through March 31, 2010 and, with respect to newly issued CMBS, the TALF was extended through June 30, 2010. In connection with the announcement of such extension, the Federal Reserve and the Treasury announced that they did not anticipate any further additions to the types of collateral that are eligible for the TALF.

In addition, on March 23, 2009 the U.S. Government announced that the Treasury in conjunction with the FDIC, and the Federal Reserve, would create the PPIP. The PPIP aims to recreate a market for specific illiquid residential and commercial loans and securities through a number of joint public and private investment funds. The PPIP is designed to draw new private capital into the market for these securities and loans by providing government equity co-investment and attractive public financing.

The PPIP consists of the following two parts:

- *The Legacy Loans Program*—The Legacy Loans Program is intended to provide a market for troubled legacy loans on bank balance sheets. Pursuant to the Legacy Loans Program, the FDIC will conduct auctions where private investors will have an opportunity to bid on loans that banks wish to sell. The highest bidder at auction will be the winner and will form a Legacy Loans PPIF with the Treasury. The Treasury will provide 50% of the equity of the fund (with the private investor providing the other 50%), and the fund will be able to leverage that equity with FDIC-guaranteed debt at a ratio of up to 6-to-1. After the loans are purchased by the fund, the private investor will manage the servicing of the loans and the timing of disposition using FDIC-approved asset managers. It is possible that we will seek to participate in the Legacy Loans Program in the future.
- *The Legacy Securities Program*—The Legacy Securities Program is an expansion of the TALF whereby qualified fund managers will be able to invest side-by-side with the U.S. Government in certain types of non-Agency RMBS, commercial mortgage-backed securities and ABS from banks and financial institutions. Pursuant to this program, asset managers will form a Legacy Securities PPIF with the Treasury. The Treasury will provide 50% of the equity of the fund (with the asset manager providing the other 50%), and the U.S. Government will provide debt financing of up to 100% of the equity of the fund through TALF. Once securities are purchased, the fund manager will have full discretion in investment decisions (although the fund manager will generally follow a long-term buy and hold strategy). While many of our current assets (such as our non-Agency RMBS) and targeted assets fall within the asset categories targeted for inclusion in the Legacy Securities Program, we do not currently expect to participate in the Legacy Securities Program.

On July 8, 2009, the Treasury released a statement that it had pre-qualified nine firms, together with certain identified partners or sub-advisors, to participate as fund managers in the initial round of the Legacy Securities PPIP. On September 16, 2009, the FDIC announced the winning bid in a pilot sale of receivership assets that the FDIC conducted to test the funding mechanism for the Legacy Loans Program. The Treasury announced, on September 30, 2009, the initial closing of two Legacy Securities PPIFs and, on October 5, 2009, the initial closing of an additional three Legacy Securities PPIFs, each with at least $500.0 million of committed equity capital from private investors. In a second Legacy Loan PPIP transaction, the FDIC announced on October 6, 2009 the execution of a bid confirmation letter to sell a 40% equity stake in the assets of a financial institution which had entered receivership earlier this year. As discussed above, liquidity and prices have increased in the RMBS markets since the announcement of PPIP, although it remains difficult to predict how these programs will impact our business longer term.

In March 2009, as part of the government's Making Home Affordable initiatives, Fannie Mae and Freddie Mac announced the terms of their Home Affordable Modification Programs, or HAMP. The details of each HAMP differ, but they share the goal of helping troubled borrowers who face hardship and either have defaulted or are at imminent risk of default. Subject to certain eligibility criteria, under HAMP, servicers will take a series of steps, including reduction of interest, extension of loan term, forbearance of principal and waiver of interest, to reduce a mortgage borrower's monthly payment obligations. While eligibility for HAMP is being evaluated and adjustments implemented, servicers are directed to suspend foreclosures.

In addition to programs adopted by the Federal government and other federal authorities, state governments have taken a variety of actions intended to help troubled homeowners. In particular, during 2008 many states adopted temporary moratoria on foreclosures. While in effect, these moratoria have slowed the pace of home price declines and the increase of loss severities upon default, but as these moratoria continue to expire we would expect that price declines and loss severity increases will resume.

Although these aggressive steps are intended to protect and support the U.S. housing and mortgage market, we continue to operate under very difficult market conditions. As a result, there can be no assurance that the EESA, TARP, TALF, PPIP, HAMP or other policy initiatives will have a beneficial impact on the financial markets. We cannot predict whether or when such actions may occur or what impact, if any, such actions could have on our business, results of operations and financial condition.

Prepayment Rates. Mortgage prepayment rates are sensitive to changes in interest rates, conditions in financial markets, lender competition and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans and, as a result, prepayment rates tend to decrease. Conversely, when interest rates fall, prepayment rates tend to increase. Prepayment rates can affect our RMBS in a number of ways. Faster-than-expected prepayment rates will generally adversely affect RMBS valued at a premium to par value, because the valuation premium will amortize faster than expected, and the above-market coupon that such premium securities carry will be earned for a shorter period of time. Conversely, slower-than-expected prepayment speeds will generally benefit RMBS valued at a premium, because the above-market coupon that such premium securities carry will be earned for a longer period of time. Similarly, faster-than-expected prepayment rates generally benefit RMBS valued at a discount to par value. However, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets which may reduce our income in the long run.

Certain U.S. Government programs introduced in the first quarter of 2009, such as the Homeowner Affordability and Stability Plan, or HASP, as well as a reduction in the Federal Funds Rate target to 0-0.25%, have resulted in lower residential mortgage interest rates. However, this reduction in mortgage interest rates has not led to increases in prepayment rates to the extent that might have been expected. Because many lenders have recently tightened their lending standards, only certain types of mortgage loans are eligible for refinancing. Consequently, our non-Agency RMBS backed by option ARMs and our newer vintage non-Agency RMBS backed by subprime mortgage loans have experienced declines in prepayment rates despite lower mortgage rates. However, our Agency RMBS and non-Agency RMBS backed by fixed-rate, prime and Alt-A mortgage loans with low current loan-to-value ratios have experienced increases in prepayment rates, though these increases are modest by historical standards and we expect they will likely begin to slow over the coming year as borrowers who are eligible to refinance into lower rate mortgage loans do so, thereby adversely selecting the remainder of mortgage pools.

Credit Quality. The deterioration of the U.S. housing market as well as the recent economic downturn have caused U.S. residential mortgage delinquency rates to remain at high levels for various types of mortgage loans, including subprime mortgage loans and option ARMs. During August 2009, the composite S&P/Case-Shiller 20-city index, a broad measure of U.S. home prices, fell 11.3% from August of the prior year. As of September 1, 2009, delinquency rates on subprime mortgage loans and option ARMs averaged 41.6% and 38.6%, respectively. Loss severities upon default increased steadily through the first half of 2009 due to, among other things, additional servicing costs, delays in loan foreclosure, continuing home price declines and lack of incentive for mortgage servicers to minimize costs. Recent months have seen some stabilization or improvement of these measures of credit quality, although as described above, this stabilization and/or improvement may be temporary. Because many subprime mortgage loans and option ARMs are not eligible for refinancing, our RMBS backed by these types of loans may experience losses if these trends continue. Although other types of loans backing the RMBS in our portfolio continue to experience high delinquency rates, many of these loans are benefiting from refinancing opportunities.

Liquidity and Valuations. As a result of the recent conditions in the credit market, reductions in value of various types of RMBS and other factors, available leverage on RMBS assets has decreased significantly since 2007, which has negatively affected the liquidity of RMBS and has contributed to the significant rise in market yields on these types of assets. As described above, there has been significant government action aimed at increasing the liquidity of various types of RMBS. The PPIP has the potential to increase available leverage to finance the purchase of RMBS; however, this government program is still relatively new and it is difficult to predict the longer term effect of this program on the liquidity of the RMBS market.

In recent months, many investment banks have to a limited extent begun making term financing available for non-Agency RMBS. The return of leverage provides potential opportunities to improve liquidity in the market for these securities, although such financing is currently available only in limited amounts and with respect to only certain types of those securities, so such improved liquidity is likely to be limited in the near term.

The recent illiquidity in the RMBS market as well as the deterioration in credit quality of non-Agency RMBS has led to greater price volatility, making it more difficult to accurately value these assets; however, these conditions are better today than in the first quarter of 2009. Furthermore, validating third-party pricing, especially for our non-Agency RMBS, may be more subjective as fewer participants may be willing to provide this service to us.

Financing Costs. Our reverse repo borrowings are primarily collateralized by Agency RMBS. The interest rates on our reverse repos are typically tied to one-month LIBOR. As of June 30, 2009, one-month LIBOR was 0.31% compared to 2.46% as of June 30, 2008. This reduction in one-month LIBOR has led to a reduction in our reverse repo borrowing costs; this reduction has been offset, however, by reductions in the yields of our Agency RMBS.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States for investment companies. In June 2007, the AICPA issued Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, or SOP 07-1. After our adoption of SOP 07-1, FASB Staff Position No. SOP 07-1-1 (“FSP 07-1-1”), which delayed indefinitely the effective date of SOP 07-1, was issued. However, FSP 07-1-1 explicitly permitted entities that early adopted SOP 07-1 before December 15, 2007 to continue to apply provisions of SOP 07-1. We have elected to continue to apply the provisions of SOP 07-1. SOP 07-1 was effective for fiscal years beginning on or after December 15, 2007 with earlier application encouraged. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies, or the Guide, and provides guidance for determining whether the specialized industry accounting principles of the Guide should be retained in the financial statements of a parent company of an investment company or an equity method investor in an investment company. Effective August 17, 2007, we adopted SOP 07-1 and follow the provisions of the Guide which, among other things, require that investments be reported at fair value in our financial statements. Although we conduct our operations so that we are not required to register as an investment company under the Investment Company Act, for financial reporting purposes we have followed the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies. Our most critical accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on our Manager's and Ellington's experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 to the consolidated financial statements included in this prospectus for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

Valuation: We adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which establishes a three-level valuation hierarchy for disclosure of fair value measurements, on January 1, 2008. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Financial instruments include securities, derivatives and repurchase agreements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in these securities.

The following is a description of the valuation methodologies used for our financial instruments.

Level 1 valuation methodologies include the observation of quoted prices (unadjusted) for identical assets or liabilities in active markets, often received from widely recognized data providers.

Level 2 valuation methodologies include the observation of (i) quoted prices for similar assets or liabilities in active markets, (ii) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves) in active markets and (iii) quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 fair value methodologies include (i) the use of proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions, and (ii) the solicitation of valuations from third parties (typically, broker-dealers). Third-party valuation providers often utilize proprietary models that are highly subjective and also require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions. Our Manager utilizes such information to assign a good faith valuation (the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the valuation date) to such financial instruments. Our Manager has been able to obtain third party valuations on the vast majority of our assets and expects to continue to solicit third party valuations on substantially all of our assets in the future to the extent practical. Our Manager uses its judgment, based on its own models, the assessments of its portfolio managers, and third party valuations it obtains, to determine and assign fair values to our Level 3 assets. We believe that third party valuations play an important role in ensuring that our Manager's valuation determinations are fair and reasonable. Our Manager's valuation process is subject to the oversight of the Manager's investment and risk management committee as well as the oversight of the independent members of our board of directors. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the consolidated financial statements.

Securities Transactions and Investment Income: Securities transactions are recorded on the trade date. Realized and unrealized gains and losses are calculated based on identified cost. Interest income is recorded as earned. We accrete market discount and amortize market premium on debt securities using the effective yield method and classify any paydown gains or losses as interest income. Accretion of market discount and amortization of premium require the use of a significant amount of judgment and the application of several assumptions including, but not limited to, prepayment rate assumptions and default rate assumptions.

LTIP Units: The costs associated with the long term incentive plan units, or LTIP units, issued to our independent directors are amortized on a straight line basis over the vesting period in accordance with SFAS No. 123(R). The costs associated with the LTIP units issued to our Manager are amortized on a straight line basis over the vesting period in accordance with EITF 96-18 and EITF 00-18. The vesting period for the Ellington Incentive Plan for Entities (the "Manager LTIP") is three years. The vesting period for the Ellington Incentive Plan for Individuals (the "Director LTIP") is one year for the initial grant awarded on August 17, 2007, nine months for the grant awarded on December 31, 2008 and one year for the grant awarded on October 1, 2009. The cost of the Manager LTIP units fluctuates with the price per share whereas the cost of the Director LTIP units is based on the price per share at the initial offering date (grant date). Because we remeasure the amount of share-based LTIP unit costs associated with the unvested Manager LTIP units as of each reporting period, our share-based LTIP unit expense reported in our consolidated statement of operations will change based on the price per share, which may result in earnings volatility.

Recent Accounting Pronouncements

In June 2008, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and "*The Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*" ("FASB 168"). FAS 168 identifies the sources of accounting principles and the framework for selecting the accounting principles used in preparing financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. FAS 168 will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. We do not expect the adoption of FAS 168 to have an impact on our financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 was effective for interim and annual periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a material effect on the fair value of our assets. Effective in the quarter ended June 30, 2009, the Company implemented SFAS No. 165, *Subsequent Events*. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of SFAS No. 165 did not impact our financial position or results of operations.

Financial Condition

The following table summarizes certain characteristics of our RMBS portfolio as of June 30, 2009, December 31, 2008, and December 31, 2007. For more detailed information about the investments in our portfolio, please refer to Consolidated Condensed Schedules of Investments as of these dates contained in our financial statements at the end of this prospectus.

RMBS—Agency and Non-Agency Securities

As of June 30, 2009

Security Description	Current Principal	Estimated Fair Value	Average Price	Amortized Cost Basis	Average Cost
Agency RMBS—Floating Rate—Principal and Interest Securities	$ 245,308,824	$ 254,939,137	103.93	$ 250,128,357	101.96
Agency RMBS—Fixed Rate—Principal and Interest Securities	94,231,677	97,735,146	103.72	97,651,312	103.63
Agency RMBS—Fixed Rate—TBA Securities	19,000,000	19,611,563	103.22	19,433,438	102.28
Agency RMBS—Fixed Rate—TBA Securities Sold Short	(97,000,000)	(100,239,532)	103.34	(99,984,962)	103.08
Non-Agency RMBS—Floating Rate—Principal and Interest Securities	348,158,164	145,683,769	41.84	184,908,936	53.11
Non-Agency RMBS—Fixed Rate—Principal and Interest Securities	52,725,580	30,135,936	57.16	28,257,148	53.59
Non-Agency RMBS—Floating Rate—Interest Only Securities	N/A	9,144,906	N/A	7,992,653	N/A
Non-Agency RMBS—Fixed Rate—Interest Only Securities	N/A	3,037,059	N/A	3,668,611	N/A
Non-Agency RMBS—Residual Certificates	N/A	452	N/A	764,886	N/A
Total		$ 460,048,436		$ 492,820,379	

As of December 31, 2008

Security Description	Current Principal	Estimated Fair Value	Average Price	Amortized Cost Basis	Average Cost
Agency RMBS—Floating Rate—Principal and Interest Securities	$ 263,433,307	$ 268,418,351	101.89	$ 266,187,466	101.05
Agency RMBS—Fixed Rate—TBA Securities	15,000,000	15,451,172	103.01	15,426,563	102.84
Agency RMBS—Fixed Rate—TBA Securities Sold Short	(30,000,000)	(30,725,391)	102.42	(30,612,891)	102.04
Non-Agency RMBS—Floating Rate—Principal and Interest Securities	289,693,672	108,183,679	37.34	176,272,585	60.85
Non-Agency RMBS—Fixed Rate—Principal and Interest Securities	27,552,386	12,966,549	47.06	15,376,559	55.81
Non-Agency RMBS—Floating Rate—Interest Only Securities	N/A	787,552	N/A	957,737	N/A
Non-Agency RMBS—Fixed Rate—Interest Only Securities	N/A	2,880,759	N/A	5,356,802	N/A
Non-Agency RMBS—Residual Certificates	N/A	—	N/A	840,438	N/A
Total		$ 377,962,671		$ 449,805,259	

As of December 31, 2007

Security Description	Current Principal	Estimated Fair Value	Average Price	Amortized Cost Basis	Average Cost
Agency RMBS—Floating Rate—Principal and Interest Securities	$ 32,744,131	$ 33,156,559	101.26	$ 33,075,391	101.01
Non-Agency RMBS—Floating Rate—Principal and Interest Securities	136,963,956	87,510,659	63.89	87,987,090	64.24
Non—Agency RMBS—Fixed Rate—Principal and Interest Securities	8,724,487	3,874,786	44.41	4,130,814	47.35
Total		$ 124,542,004		$ 125,193,295	

Non-RMBS—Other Securities

The table below summarizes other Non-RMBS securities as of June 30, 2009. We had no outstanding other Non-RMBS securities as of December 31, 2008 and 2007.

As of June 30, 2009

Security Description	Number of Contracts	Estimated Fair Value	Average Price	Amortized Cost Basis	Average Cost
Options Purchased	517	$ 751,850	14.54	$1,676,020	32.42
Trade Claims		4,640,832	N/A	—	N/A
Total		$5,392,682		$1,676,020	

Mortgage-Related Derivatives

The table below summarizes our mortgage-related derivative instruments as of June 30, 2009 and December 31, 2008. We had no outstanding mortgage-related derivatives as of December 31, 2007.

As of June 30, 2009

Description	Notional Amount	Range of Final Termination Dates(3)	Estimated Fair Value
Long Swaps—Credit Default Swaps On RMBS(1)	$ 15,977,810	05/34 - 09/36	$ (10,911,356)
Short Swaps—Credit Default Swaps On RMBS(2)	(130,982,012)	06/34 - 12/36	109,243,278
Short Swaps—Credit Default Swaps On RMBS and CMBS Indices(2)	(44,797,388)	07/45 - 10/52	18,443,624
Total			$ 116,775,546

As of December 31, 2008

Description	Notional Amount	Range of Final Termination Dates(3)	Estimated Fair Value
Long Swaps—Credit Default Swaps On RMBS(1)	$ 19,747,709	05/34 - 09/36	$ (10,651,424)
Short Swaps—Credit Default Swaps On RMBS(2)	(128,860,596)	06/34 - 12/36	108,126,227
Short Swaps—Credit Default Swaps On RMBS and CMBS Indices(2)	(83,556,020)	01/09 - 10/52	22,769,087
Total			$ 120,243,890

(1) Long swaps represent transactions where we sold protection.
(2) Short swaps represent transactions where we purchased protection.
(3) Final termination dates for credit default swaps represent the contractual final termination date of the swap.

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Derivatives On Corporate Securities (Debt and Equity)

The table below summarizes our derivative instruments on corporate securities (debt and equity) as of June 30, 2009 and December 31, 2008. We had no outstanding derivatives on corporate securities as of December 31, 2007.

As of June 30, 2009

Description	Notional Amount	Range of Final Termination Dates(2)	Estimated Fair Value
Short Swaps—Credit Default Swaps On Corporate Bonds(1)	$ (28,925,000)	03/13 -06/14	$ 5,308,817
Short Swaps—Credit Default Swaps On Corporate Bonds Indices(1)	(19,700,000)	12/13	132,057
Short Swaps—Total Return Swaps on Equity Securities	(309,560)	04/10 - 05/10	391
Long Swaps—Other Swaps	8,700,000	09/13 - 06/14	22,000
Total			$ 5,463,265

As of December 31, 2008

Description	Notional Amount	Range of Final Termination Dates(2)	Estimated Fair Value
Short Swaps—Credit Default Swaps On Corporate Bonds(1)	$ (45,775,000)	01/09 - 12/13	$ 10,085,262
Short Swaps—Credit Default Swaps On Corporate Bonds Indices(1)	(19,700,000)	12/13	385,172
Long Swaps—Total Return Swaps on Equity Securities	643,345	11/13	250,087
Short Swaps—Total Return Swaps on Equity Securities	(426,909)	12/13	(113,313)
Long Swaps—Other Swaps	2,200,000	09/13	22,000
Total			$ 10,629,208

(1) Short swaps represent transactions where we purchased protection.
(2) Final termination dates for swaps represent the contractual final termination date for the swap.

Non-RMBS—Other Derivatives

The table below summarizes Non-RMBS-other derivative instruments as of June 30, 2009, December 31, 2008 and December 31, 2007:

As of June 30, 2009

Description	Notional or Number of Contracts	Range of Final Termination Dates(3)	Estimated Fair Value
Short Swaps—Interest Rate Swaps(1)	$ (100,000,000)	09/11	$ (4,140,602)
Depreciated Futures(4)	(889)	09/09 - 03/11	(449,850)
Total			$ (4,590,452)

As of December 31, 2008

Description	Notional or Number of Contracts	Range of Final Termination Dates(3)	Estimated Fair Value
Short Swaps—Interest Rate Swaps(1)	$ (145,000,000)	09/11 - 10/11	$ (6,487,253)

As of December 31, 2007

Description	Notional or Number of Contracts	Range of Final Termination Dates(3)	Estimated Fair Value
Long Swaps—Interest Rate Swaps(2)	$ 26,000,000	03/08 - 06/08	$ (130,122)

(1) For short interest rate swaps, a fixed rate is being paid and a floating rate is being received.
(2) For long interest rate swaps, a fixed rate is being received and a floating rate is being paid.
(3) Final termination dates represent the contractual final termination date.
(4) Each contract represents a notional amount of $1,000,000.

Liabilities

We have entered into reverse repos to finance some of our assets. Substantially all of our outstanding indebtedness under reverse repos is secured by Agency RMBS and bears interest at rates that have historically moved in close relationship to LIBOR. As of June 30, 2009 and December 31, 2008, indebtedness outstanding on our reverse repos was approximately $352.1 million and $260.5 million, respectively. As of June 30, 2009, our reverse repos had borrowing rates ranging from 0.35% to 2.32%. As of June 30, 2009, the remaining terms on our reverse repos ranged from 6 to 71 days. As of December 31, 2008, our reverse repos had borrowing rates ranging from 1.20% to 4.50%. As of December 31, 2008, the remaining terms on our reverse repos ranged from 6 to 26 days.

In connection with our derivative transactions, in certain circumstances we may require that counterparties post collateral with us. When we exit a derivative transaction for which a counterparty has posted collateral, we may be required to return some or all of the related collateral to the respective counterparty. As of June 30, 2009 and December 31, 2008, we held assets with an aggregate value of approximately $123.3 million and $124.8 million, respectively, as collateral for our derivative counterparties.

Shareholders' Equity

As of December 31, 2007, our shareholders' equity increased by approximately $241.8 million from the period beginning on August 17, 2007 (commencement of operations). The increase consisted of the net proceeds from our August 2007 private offering of approximately $239.7 million, an increase in share-based LTIP awards of approximately $0.9 million, a decrease associated with the special distribution paid to our Manager of approximately $0.2 million, a decrease associated with offering costs of approximately $1.9 million, and a net increase in shareholders' equity resulting from operations for the period beginning on August 17, 2007 (commencement of operations) through December 31, 2007 of approximately $3.3 million.

As of December 31, 2008, our shareholders' equity decreased by approximately $0.7 million from December 31, 2007. The decrease consisted of a net decrease in shareholders' equity resulting from operations for the year of approximately $2.4 million, an increase in share-based LTIP awards of approximately $2.4 million, a decrease associated with the special distribution paid to our Manager of approximately $0.9 million, and other immaterial items.

As of June 30, 2009, our shareholders' equity increased by approximately $43.1 million from December 31, 2008. This increase consisted of a net increase in shareholders' equity resulting from operations for the six month period ended June 30, 2009 of approximately $50.4 million, a decrease for common shares repurchased of $7.3 million, an increase in share-based LTIP awards of approximately $1.8 million, and a decrease associated with the special distribution paid to our Manager of approximately $1.8 million.

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Results of Operations for the Three and Six Month Periods Ended June 30, 2009 and June 30, 2008

Summary of Net Increase (Decrease) in Shareholders' Equity from Operations

Our shareholders' equity resulting from operations increased by $36.0 million and $50.4 million during the three and six month periods ended June 30, 2009, respectively. The majority of the net increase in these periods is attributable to net appreciation on investments held. Total return for our common shares based on change in book value per share was 14.59% and 23.87% during the three and six month periods ended June 30, 2009, respectively. Our shareholders' equity resulting from operations increased by $16.3 million and $11.0 million during the three and six month periods ended June 30, 2008, respectively. The majority of the net increase during these periods was attributable to the net appreciation on swaps held and net gain on swaps sold. Total return for our common shares based on change in book value per share was 6.96% and 4.81% during the three and six month periods ended June 30, 2008, respectively.

The table below presents the net income/loss summary for the three and six month periods ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Investment income—Interest income	$13,255,035	$ 6,783,071	$22,934,130	$ 12,924,980
Expenses:				
Interest expense	370,530	1,294,006	1,012,021	1,698,267
Non-Investment expenses	11,333,908	4,149,275	14,084,073	5,973,601
Total expenses	11,704,438	5,443,281	15,096,094	7,671,868
Net investment income	1,550,597	1,339,790	7,838,036	5,253,112
Net realized and unrealized gain (loss) on investments	40,330,746	(15,353,022)	29,312,846	(33,144,323)
Net realized and unrealized gain (loss) on financial derivatives	(5,865,064)	30,283,599	13,211,034	38,887,311
Net increase (decrease) in shareholders' equity resulting from operations	$36,016,279	$ 16,270,367	$50,361,916	$ 10,996,100

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Beginning Shareholders' Equity Per Share (3/31/09, 3/31/08, 12/31/2008 and 12/31/2007 respectively)	$ 20.83	$ 18.96	$ 19.27	$ 19.35
Net Investment Income	0.13	0.12	0.65	0.41
Net Realized/Unrealized Gains (Losses)	2.89	1.19	3.50	0.46
Results of Operations	3.02	1.31	4.15	0.87
Offering Costs	—	—	—	—
Accretive Effect of Share Repurchase	0.08	—	0.45	—
Share-Based LTIP Awards	0.08	0.05	0.15	0.11
Manager Special Distribution	(0.14)	(0.04)	(0.15)	(0.05)
Ending Shareholders' Equity Per Share(1)	$ 23.87	$ 20.28	$ 23.87	$ 20.28
Ending Shares Outstanding	11,901,533	12,500,050	11,901,533	12,500,050

(1) If all units issued pursuant to the Manager LTIP and Director LTIP were vested and exchanged for common shares as of June 30, 2009 and June 30, 2008, shareholders' equity per share would have been $23.13 and $19.69, respectively.

Three Month Periods Ended June 30, 2009 and 2008

Net Investment Income

Net investment income increased by $0.2 million, or 16%, to $1.5 million for the three month period ended June 30, 2009 as compared to $1.3 million for the three month period ended June 30, 2008. Net investment income consists of interest income less expenses. The period-over-period increase was due primarily to an increase in interest income which was partially offset by an increase in non-investment expenses as further described below.

Interest Income

Our interest income increased by $6.5 million, or 95%, to $13.3 million for the three month period ended June 30, 2009 as compared to $6.8 million for the three month period ended June 30, 2008. This increase in interest income was principally attributable to an increase in our average investment holdings over the stated periods. For this purpose, we define our average investment holdings as the average of our beginning and ending total investments at cost for each quarter included in the relevant period. On this basis, for the three month period ended June 30, 2009, the average investment holdings were $522.4 million compared to average investment holdings for the three month period ended June 30, 2008 of $297.2 million, representing an increase of $225.2 million. The majority of the increase in average investment holdings was related to investments in Agency whole pool pass-through certificates during the three month period ended June 30, 2009.

Interest Expense

Interest expense includes interest on funds borrowed under reverse repos and interest on our counterparties' cash collateral held by us. We had average borrowed funds of $263.0 million and $105.5 million for the three month periods ended June 30, 2009 and 2008, respectively. Our interest expense decreased by $0.9 million, or 71%, to $0.4 million for the three month period ended June 30, 2009 as compared to $1.3 million for the three month period ended June 30, 2008. The decrease in interest expense is mainly related to a decrease in the borrowing rates offset by an increase in total borrowings for the three month period ended June 30, 2009 as compared to the same period in 2008.

The table below shows our average borrowed funds, interest expense, average cost of funds, average one-month LIBOR and average six-month LIBOR under our reverse repos for the three month period ended June 30, 2009 and the three month period ended June 30, 2008.

	Average Borrowed Funds	Interest Expense	Average Cost Of Funds(1)	Average One-Month LIBOR	Average Six-Month LIBOR
For the three month period ended June 30, 2009	$263,017,500	$321,332	0.49%	0.37%	1.39%
For the three month period ended June 30, 2008	105,459,125	621,794	2.36%	2.59%	2.93%

(1) Average cost of funds percentage is annualized.

Non-Investment Expenses

Non-investment expenses consist of base management fees and incentive fees payable to our Manager pursuant to our management agreement, share-based LTIP expense, professional fees, insurance expense, agency and administrative fees, custody and other expenses and directors' fees. Our non-investment expenses increased by $7.2 million, or 173%, to $11.3 million for the three month period ended June 30, 2009 as compared to $4.1 million for the three month period ended June 30, 2008. This increase was mainly due to increased expenses associated with incentive fees and to a lesser extent professional fees and share-based LTIP unit awards.

For the three month periods ended June 30, 2009 and June 30, 2008, we incurred expenses for base management fees payable to our Manager of $1.0 million and $0.9 million, respectively. Our Manager is also entitled to an incentive fee if, and in proportion to the extent that, our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant calculation period exceeds a defined return hurdle. For each of the three month periods ended June 30, 2009 and June 30, 2008, our return hurdles were exceeded, and therefore our Manager earned incentive fees. Total incentive fees for the three month periods ended June 30, 2009 and June 30, 2008 were $8.4 million and $1.8 million, respectively. The increase of $6.6 million is attributable to the substantial increase in adjusted net income for the three month period ended June 30, 2009 over the same period in 2008.

Net Realized and Unrealized Gains and Losses on Investments and Financial Derivatives

During the three month period ended June 30, 2009, we had net realized and unrealized gains on investments of $40.3 million compared to net realized and unrealized losses on investments of $(15.4) million in the three month period ended June 30, 2008. This change of $55.7 million is principally attributable to a net increase in the value of investments, primarily our non-Agency RMBS, for the three month period ended June 30, 2009 over the same period in 2008. During the three month period ended June 30, 2009, we had net realized and unrealized gains (losses) on our financial derivatives of $(5.9) million compared to net realized and unrealized gains on financial derivatives of $30.3 million in the three month period ended June 30, 2008. This change of $(36.1) million is principally attributable to a net decrease in the value of financial derivatives for the three month period ended June 30, 2009 over the same period in 2008.

Six Month Periods Ended June 30, 2009 and 2008

Net Investment Income

Net investment income increased by $2.5 million, or 49%, to $7.8 million for the six month period ended June 30, 2009 as compared to $5.3 million for the six month period ended June 30, 2008. Net investment income consists of interest income less expenses. The period-over-period increase was due primarily to an increase in interest income which was partially offset by an increase in non-investment expenses as further described below.

Interest Income

Our interest income increased by $10.0 million, or 77%, to $22.9 million for the six month period ended June 30, 2009 as compared to $12.9 million for the six month period ended June 30, 2008. This increase in interest income was principally attributable to an increase in our average investment holdings over the stated periods. For this purpose, we define our average investment holdings as the average of our beginning and ending total investments at cost for each quarter included in the relevant period. On this basis, for the six month period ended June 30, 2009, the average investment holdings were $501.0 million compared to average investment holdings for the six month period ended June 30, 2008 of $256.4 million, representing an increase of $244.6 million. The majority of the increase in average investment holdings was related to investments in Agency whole pool pass-through certificates during the six month period ended June 30, 2009.

Interest Expense

Interest expense includes interest on funds borrowed under reverse repos and interest on our counterparties' cash collateral held by us. We had average borrowed funds of $243.8 million and $71.8 million for the six month periods ended June 30, 2009 and 2008, respectively. Our interest expense decreased by $0.7 million, or 40%, to $1.0 million for the six month period ended June 30, 2009 as compared to $1.7 million for the six month period ended June 30, 2008. The decrease in interest expense is mainly related to a decrease in the interest on our counterparties' cash collateral held by us for the six month period ended June 30, 2009 as compared to the same period in 2008.

The table below shows our average borrowed funds, interest expense, average cost of funds, average one-month LIBOR and average six-month LIBOR under our reverse repos for the six month period ended June 30, 2009 and the six month period ended June 30, 2008.

	Average Borrowed Funds	Interest Expense	Average Cost Of Funds(1)	Average One-Month LIBOR	Average Six-Month LIBOR
For the six month period ended June 30, 2009	$243,779,288	$896,644	0.74%	0.42%	1.57%
For the six month period ended June 30, 2008	71,753,063	869,532	2.42%	2.95%	3.06%

(1) Average cost of funds percentage is annualized.

Interest expense on funds borrowed under reverse repos remained constant as the increase in total borrowings was offset by a decrease in the borrowing rates for the six month period ended June 30, 2009 as compared to the same period in 2008.

Non-Investment Expenses

Non-investment expenses consist of base management fees and incentive fees payable to our Manager pursuant to our management agreement, share-based LTIP expense, professional fees, insurance expense, agency and administrative fees, custody and other expenses and directors' fees. Our non-investment expenses increased by $8.1 million, or 136%, to $14.1 million for the six month period ended June 30, 2009 as compared to $6.0 million for the six month period ended June 30, 2008. This increase was mainly due to increased expenses associated with incentive fees and to a lesser extent professional fees and share-based LTIP Unit awards.

For the six month periods ended June 30, 2009 and June 30, 2008, we incurred expenses for base management fees payable to our Manager of $2.0 million and $1.8 million, respectively. Our Manager is also entitled to an incentive fee if, and in proportion to the extent that, our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant calculation period exceeds a defined return hurdle. During the second quarter of each of the six month periods ended June 30, 2009 and June 30, 2008, our return hurdles were exceeded, and therefore our Manager earned incentive fees. Total incentive fees for the six month periods ended June 30, 2009 and June 30, 2008 were $8.4 million and $1.8 million, respectively. The increase of $6.6 million is attributable to the substantial increase in adjusted net income for the six month period ended June 30, 2009 over the same period in 2008.

Net Realized and Unrealized Gains and Losses on Investments and Financial Derivatives

During the six month period ended June 30, 2009, we had net realized and unrealized gains on investments of $29.3 million compared to net realized and unrealized losses on investments of $(33.1) million in the six month period ended June 30, 2008. This change of $62.5 million is principally attributable to an increase in the value of investments, primarily our non-Agency RMBS, for the six month period ended June 30, 2009 over the same period in 2008. During the six month period ended June 30, 2009, we had net realized and unrealized gains on our financial derivatives of $13.2 million compared to net realized and unrealized gains on financial derivatives of $38.9 million in the six month period ended June 30, 2008. This change of $(25.7) million is principally attributable to a net decrease in the value of financial derivatives for the six month period ended June 30, 2009 over the same period in 2008.

Supplemental Summary Financial Information

As of August 31, 2009, our book value per common share was approximately $. The change in our book value per share as compared to June 30, 2009, resulted primarily from net realized and unrealized gains (losses) on investments. Our results can fluctuate from month to month depending on a variety of factors, some of which are beyond our control and/or are difficult to predict, including, without limitation, changes in interest rates, changes in default rates and prepayment speeds, and other changes in market conditions and economic trends. Therefore, you should not assume that our performance (as measured by the change in our book value per share) for the two month period ended August 31, 2009 is indicative of what our performance is likely to be for the three month period ended September 30, 2009, and we cannot assure you that our performance for the full three month period or in future periods will be consistent with our performance for the two month period ended August 31, 2009 or consistent with our performance in recent periods. The estimated book value per common share as of August 31, 2009 that is referenced above does not reflect the impact on our book value of the $1.50 dividend that was paid on September 15, 2009 to shareholders of record as of September 1, 2009.

Results of Operations for the Year Ended December 31, 2008 and the Period from August 17, 2007 (commencement of operations) through December 31, 2007

Summary of Net Increase (Decrease) in Shareholders' Equity from Operations

Our shareholders' equity resulting from operations decreased by $2.4 million during the year ended December 31, 2008. We attribute a majority of the net decrease to increases in unrealized losses on RMBS investments. Total return for our common shares during this period based on change in book value per share was (0.41)%. Our shareholders' equity resulting from operations increased by $3.3 million during the period from August 17, 2007 (commencement of operations) through December 31, 2007. The net increase in this partial year is attributable to interest income on our RMBS investments and net realized gains on investments. Total return for our common shares during this period based on change in book value per share was 0.94%.

The table below presents the increase/(decrease) in shareholders' equity resulting from operations for the year ended December 31, 2008 and for the period from August 17, 2007 (commencement of operations) through December 31, 2007. Because we only operated our business for a portion of the year ended December 31, 2007, we do not believe that a comparison of our operating results for the year ended December 31, 2008 to the period from August 17, 2007 (commencement of operations) to December 31, 2007 is indicative of the trends in our performance.

	Year Ended December 31, 2008	August 17, 2007 (inception) through December 31, 2007
Investment income—interest income	$ 29,914,585	$ 5,898,720
Expenses:		
Interest expense	6,189,887	—
Non-Investment expenses	10,899,758	3,546,187
Total expenses	17,089,645	3,546,187
Net investment income	12,824,940	2,352,533
Net realized and unrealized gain (loss) on investments	(84,256,157)	1,102,559
Net realized and unrealized gain (loss) on financial derivatives	69,008,572	(130,122)
Net increase (decrease) resulting from operations	$ (2,422,645)	$ 3,324,970
Beginning Shareholders' Equity Per Share (12/31/2007 and 8/17/2007 respectively)	$ 19.35	$ 19.17
Net Investment Income	1.03	0.19
Net Realized/Unrealized Gains (Losses)	(1.23)	0.08
Results of Operations	(0.20)	0.27
Offering Costs	—	(0.15)
Share-Based LTIP Awards	0.19	0.07
Manager Special Distribution	(0.07)	(0.01)
Ending Shareholders' Equity Per Share[(1)]	$ 19.27	$ 19.35
Ending Shares Outstanding	12,510,033	12,500,050

(1) If all units issued pursuant to the Manager LTIP and Director LTIP were vested and exchanged for common shares as of December 31, 2008 and December 31, 2007, shareholders' equity per share would be $18.70 and $18.78, respectively.

Net Investment Income

Our net investment income was $12.8 million for the year ended December 31, 2008 as compared to $2.4 million for the period from August 17, 2007 (commencement of operations) through December 31, 2007. Net investment income consists of interest income less expenses. The increase was due primarily to our being more fully invested in 2008 than in 2007 and the fact that we operated for a full fiscal year in 2008.

Interest Income

Our interest income increased by $24.0 million to $29.9 million for the year ended December 31, 2008 as compared to $5.9 million for the period from August 17, 2007 (commencement of operations) through December 31, 2007. Our interest income increased due to our being more fully invested in 2008 than in 2007 and the fact that we operated for a full fiscal year in 2008.

Interest Expense

Interest expense includes interest on funds borrowed under reverse repos and interest on our counterparties' cash collateral held by us. We had average borrowed funds of $165.6 million and $0 for the year ended December 31, 2008 and the period from August 17, 2007 (commencement of operations) through December 31, 2007, respectively. Our interest expense increased $6.2 million for the year ended December 31, 2008 from $0 for the period from August 17, 2007 (commencement of operations) through December 31, 2007. The increase in interest expense is related to an increase in total borrowings.

The table below shows our average borrowed funds, interest expense, average cost of funds, average one-month LIBOR and average six-month LIBOR under our reverse repos for the year ended December 31, 2008.

	Average Borrowed Funds	Interest Expense	Average Cost of Funds(1)	Average One-Month LIBOR	Average Six-Month LIBOR
For the year ended December 31, 2008	$165,616,083	$4,363,685	2.63%	2.68%	3.06%

(1) Average cost of funds percentage is annualized.

There were no borrowings for the period ended December 31, 2007.

Non-Investment Expenses

Non-investment expenses consist of base management fees and incentive fees payable to our Manager pursuant to our management agreement, share-based LTIP expense, professional fees, insurance expense, agency and administrative fees, custody and other expenses, directors' fees and organizational expenses. Our non-investment expenses increased by $7.4 million to $10.9 million for the year ended December 31, 2008 as compared to $3.5 million for the period from August 17, 2007 (commencement of operations) through December 31, 2007. This increase was mainly due to the fact that (i) we operated for a full year in 2008 compared to only a partial year in 2007 and (ii) we paid an incentive fee to our Manager in 2008 and did not pay an incentive fee to our Manager in 2007.

Net Realized and Unrealized Gains and Losses on Investments and Financial Derivatives

During the year ended December 31, 2008, we had net realized and unrealized losses on investments of $(84.3) million compared to net realized and unrealized gains on investments of $1.1 million during the period from August 17, 2007 (commencement of operations) through December 31, 2007. This change of $(85.4) million was mainly the result of a decline in the fair value of our RMBS. During the year ended December 31, 2008, we had net realized and unrealized gains on financial derivatives of $69.0 million compared to net realized and unrealized losses on financial derivatives of $(0.1) million during the period from August 17, 2007 (commencement of operations) through December 31, 2007. This change of $69.1 million was mainly the result of our exiting certain derivative contracts at net realized gains during the year ended December 31, 2008.

Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including in order to repay our borrowings, fund and maintain RMBS and other assets, make distributions and other general business needs. Our short-term (one year or less) and long-term liquidity requirements include acquisition costs for assets we acquire, payment of our base management fee and incentive fee, compliance with margin requirements under our reverse repos and derivative contracts, repayment of reverse repo borrowings to the extent we are unable or unwilling to roll forward our reverse repos, and payment of our general operating expenses. Our capital resources primarily include cash on hand, cash flow from our investments (including monthly principal and interest payments received on our RMBS and proceeds from the sale of securities), borrowings under reverse repos and proceeds from equity offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

We expect to continue to borrow funds in the form of reverse repos and we may increase the level of borrowings in the future. The terms of these borrowings under our master repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by SIFMA as to repayment, margin requirements and the segregation of all securities we have initially sold under the reverse repo. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include changes to the margin maintenance requirements, required haircuts, and purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default provisions. These provisions may differ for each of our lenders.

We have repurchased some of our own common shares in privately negotiated unsolicited transactions. To date, these share repurchases have occurred at prices which represented a material discount to our book value per common share at the time of repurchase. As a result, the share repurchases were each accretive to our book value and, in our Manager’s opinion, the effective expected return on the capital used to repurchase the shares was attractive compared to alternative opportunities available in the market at those times. However, we currently do not have a systematic plan to buy back our common shares.

We may declare distributions based on, among other things, our earnings, our financial condition, our working capital needs and new opportunities. The declaration of distributions to our shareholders and the amount of such distributions are at the discretion of our board of directors.

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements. However, the unexpected inability to finance our Agency RMBS portfolio would create a serious short-term strain on our liquidity and would require us to liquidate much of that portfolio, which in turn would require us to restructure our portfolio to maintain our exclusion from regulation as an investment company under the Investment Company Act. Steep declines in the values of our RMBS assets financed using reverse repos, or in the values of our derivative contracts, would result in margin calls that would significantly reduce our free cash position. Furthermore, a substantial increase in prepayment rates on our assets financed by reverse repos could cause a temporary liquidity shortfall, because on such assets we are generally required to post margin in proportion to the amount of the announced principal paydowns before the actual receipt of the cash from such principal paydowns. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may have to sell assets or issue debt or additional equity securities.

We held cash and cash equivalents of approximately $73.9 million, $61.4 million and $61.7 million as of June 30, 2009, December 31, 2008 and 2007, respectively.

Our operating activities used net cash of approximately $71.5 million for the six month period ended June 30, 2009 primarily through the acquisition of assets. Our operating activities used net cash of $259.8 million for the year ended December 31, 2008, primarily through the acquisition of assets and payments made to open financial derivatives. Our operating activities used net cash of $176.2 million for the period from August 17, 2007 (commencement of operations) through December 31, 2007 primarily for the acquisition of assets.

Our financing activities provided net cash of $84.0 million during the six month period ended June 30, 2009 primarily through borrowings under our reverse repos. Our financing activities provided net cash of $259.5 million during the year ended December 31, 2008, primarily through borrowings under our reverse repos. Our financing activities provided net cash of $237.9 million for the period from August 17, 2007 (commencement of operations) through December 31, 2007, primarily through net proceeds received from our August 2007 private offering. We expect to continue to borrow funds in the form of reverse repos as well as other types of financing. As of June 30, 2009, we had $352.1 million outstanding under our reverse repos, substantially all of which was collateralized by our Agency RMBS with a weighted average borrowing rate of 0.45%. As of June 30, 2009, our reverse repos had interest rates ranging from 0.35% to 2.32%. As of June 30, 2009, the remaining terms on our reverse repos ranged from 6 to 71 days. The Agency RMBS pledged as collateral under the reverse repos had an estimated fair value of $384.2 million as of June 30, 2009. The interest rates of the reverse repos are generally indexed to the one-month LIBOR rate and reset accordingly. As of December 31, 2008, the remaining terms on our reverse repos ranged from 6 to 26 days and our reverse repos had interest rates ranging from 1.20% to 4.50%. The RMBS pledged as collateral under our reverse repos had an estimated fair value of $299.0 million as of December 31, 2008. It is expected that amounts due upon maturity of our reverse repos will be funded primarily through the rollover/re-initiation of reverse repos and, if we are unable or unwilling to rollover/re-initiate our reverse repos, through free cash and proceeds from the sale of securities.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

Contractual Obligations and Commitments

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a base management fee, an incentive fee, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see "Management—Management Agreement."

We enter into reverse repos with third-party broker-dealers whereby we sell securities to such broker-dealers at an agreed-upon purchase price at the initiation of the reverse repos and agree to repurchase such securities at predetermined repurchase prices and termination dates, thus providing the broker-dealers with an implied interest rate on the funds initially transferred to us by the broker-dealers. When we enter into a reverse repo, the lender establishes and maintains an account containing securities having a value not less than the repurchase price, including accrued interest, of the reverse repo. We enter into repos with third-party broker-dealers whereby we purchase securities under agreements to resell at an agreed-upon price and date. In general, we most often enter into repo transactions, in order to effectively borrow securities that we can then deliver to counterparties to whom we have made short sales of the same securities. The implied interest rates on the repos and reverse repos we enter into are based upon market rates at the time of initiation. Repos and reverse repos that are conducted with the same counterparty may be reported net if they meet the requirements of FASB Interpretation No. 41 Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.

As of June 30, 2009 we had an aggregate amount at risk under our reverse repos with four counterparties of approximately $32.1 million. As of December 31, 2008, we had an aggregate amount at risk on repos and reverse repos with four counterparties of approximately $38.4 million. Amounts at risk represent the aggregate excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repos and reverse repos. If the amounts outstanding under repos and reverse repos with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty.

Our swap contracts are governed by ISDA trading agreements, which are separately negotiated agreements with dealer counterparties. Changes in the relative value of the swap transactions may require us or the counterparty to post or receive collateral. Typically, a collateral payment or receipt is triggered based on the net change in the value of all contracts governed by a particular ISDA trading agreement. Entering into swap contracts involves market risk in excess of amounts recorded on our balance sheet.

As of June 30, 2009, we had an aggregate amount at risk with six counterparties of approximately $4.2 million. As of December 31, 2008, we had an aggregate amount at risk with four counterparties of approximately $8.8 million.

As of December 31, 2007, we had an aggregate amount at risk with one counterparty of approximately $70,000. Amounts at risk with respect to our derivatives contracts represents the aggregate excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

Off-Balance Sheet Arrangements

As of June 30, 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Quantitative and Qualitative Disclosures About Market Risk

The primary components of our market risk are related to credit risk, prepayment risk and interest rate risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Credit Risk

We are subject to credit risk in connection with our assets, especially our non-Agency RMBS. Credit losses on real estate loans can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, businesses or commercial properties, special hazards, earthquakes and other natural events, over-leveraging of the borrower or on the property, reduction in market rents and occupancies and poor property management services, changes in legal protections for lenders, reduction in personal income, job loss and personal events such as divorce or health problems. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors and retroactive changes to building or similar codes. For mortgage-related instruments, the two primary components of credit risk are default risk and severity risk. Market conditions since August 2007 have demonstrated substantial increase in both of these risks which has had a negative impact on the value of non-Agency RMBS. Recent months have seen some perceived stabilization in default risk and severity risk which has led to an increase in values of certain non-Agency RMBS; however should these factors resume their negative trend, some or all of the increase in value of these non-Agency RMBS may be reversed.

Default Risk

Default risk is the risk that borrowers will fail to make principal and interest payments on their mortgage loans. We may attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps on individual RMBS or RMBS indices, whereby we would receive payments upon the occurrence of a credit event on the underlying reference asset or assets. We also rely on third-party mortgage servicers to mitigate our default risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan default rates. Although default risk, as measured by mortgage loans which are sixty days or greater delinquent, has not increased materially in recent months, there has not been material improvement and current delinquency levels remain the same as or worse than levels in the second half of 2008.

Severity Risk

Severity risk is the risk of loss upon a borrower default on a mortgage loan underlying our RMBS. Severity risk includes the risk of loss of value of the property underlying the mortgage loan as well as the risk of loss associated with taking over the property, including foreclosure costs. We rely on third-party mortgage servicers to mitigate our severity risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan loss severities. Such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default. Severity risk increased consistently throughout the first half of 2009 due to, among other things, increased servicing costs, delays in loan foreclosure, continuing home price declines and lack of incentive for mortgage servicers to minimize costs. Recent stabilization in loss severities may prove temporary should the pace of property liquidations increase in the coming months.

Prepayment Risk

Prepayment risk is the risk of change, either an increase or a decrease, in the rate at which principal is returned in respect of mortgage loans underlying RMBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Change in prepayment rates will have varying affects on the different types of securities in our portfolio. We attempt to take these effects into account in making asset management decisions with respect to our assets. Additionally, increases in prepayment rates may cause us to experience losses on our IOs and IIOs, as those securities are extremely sensitive to prepayment rates. Prepayment risk has remained at elevated levels throughout the second half of 2008 and the first half of 2009. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. Legislation directed at high loan-to-value borrowers has increased prepayments over several classes of mortgage loans; however, we believe heightened prepayment levels are unlikely to continue as many borrowers who are eligible to refinance have already done so.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. We are subject to interest rate risk in connection with certain of our assets and liabilities. For some securities in our portfolio, the coupon yields on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates, or certain deep discount floating rate RMBS, which benefit from rising interest rates. We selectively hedge our interest rate risk by entering into interest rate swaps, Eurodollar futures, and other instruments. In general, such hedging instruments are used to offset the large majority of the interest rate risk we estimate to arise from our Agency RMBS positions. Hedging instruments may also be used to offset a portion of the interest rate risk arising from certain non-Agency RMBS positions.

The following sensitivity analysis table shows the estimated impact on the fair value of our portfolio segregated by certain identified categories as of June 30, 2009, assuming a static portfolio and immediate shifts in interest rates from current levels as indicated below.

	Estimated Change in Fair Value for a Decrease in Interest Rates by		Estimated Change in Fair Value for an Increase in Interest Rates by	
Category of Instruments	**100 Basis Points**	**50 Basis Points**	**50 Basis Points**	**100 Basis Points**
Non-Agency CMOs	$	$	$	$
Interest Rate Swaps and Eurodollar Futures				
Agency Passthroughs (including TBAs)				
Total	$	$	$	$

The preceding analysis does not show sensitivity to changes in interest rates for our reverse repo liabilities, our credit default swaps on MBS or MBS indices, or our derivatives on corporate securities (whether debt or equity-related). We believe that the effect of a change in interest rates on such categories of instruments in our portfolio cannot be accurately estimated and/or is not material to the value of the overall portfolio.

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third party information and analytics. The estimated changes in fair value for our non-Agency CMOs are calculated assuming that changes in interest rates affect the related securitization's variable-rate bond and variable-rate collateral coupons and the market discount rates applied to the projected cash flows of our CMOs, but do not affect the projected prepayment or default rates of the underlying collateral. If, instead, such prepayment or default rates were projected to vary with interest rates, the resulting estimated changes in fair value could deviate significantly from the estimates set forth in the table above. The estimated changes in fair value for our Agency passthroughs are calculated assuming that changes in interest rates affect not only the related securitization's variable-rate bond and variable-rate collateral coupons and the market discount rates applied to the projected cash flows of our Agency passthroughs, but also the prepayment rates of the underlying collateral. In all cases, changes in fair value for a given shift in interest rates are estimated by averaging over a wide range of possible future interest rate scenarios consistent with such shift.

Our portfolio is subject to many risks other than interest rate risks. Furthermore, many simplifying assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, simplifying assumptions have been made concerning the shape of the yield curve and market volatilities of interest rates, each of which can significantly and adversely affect the fair value of our interest rate-sensitive instruments.

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate interest rate increases and decreases on specific categories of instruments in our portfolio, we actively trade many of the instruments in our portfolio, and therefore our current or future portfolios may have risks that differ significantly from those of our June 30, 2009 portfolio estimated above. Furthermore, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. For all of the foregoing reasons and others, the table above is for illustrative purposes only, and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "Special Note Regarding Forward-Looking Statements."

BUSINESS

Our Company

Ellington Financial LLC is a specialty finance company formed in August 2007 to specialize in acquiring and managing mortgage-related assets. Our primary objective is to generate attractive, risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by utilizing an opportunistic strategy. Our targeted assets currently include non-Agency RMBS, Agency RMBS, mortgage-related derivatives, both for acquisition and hedging purposes and derivatives on corporate debt and equity securities for hedging purposes. We also may opportunistically acquire and manage other types of mortgage-related and financial asset classes, such as residential whole mortgage loans, CMBS, commercial mortgages or other commercial real estate debt, ABS backed by consumer and commercial assets and non-mortgage-related derivatives. As of June 30, 2009, we had an aggregate portfolio of RMBS with a net value of approximately $460.0 million, derivatives contracts with a net value of approximately $117.6 million and total shareholders' equity of approximately $284.1 million.

The members of our management team are Michael Vranos, founder and Chief Executive Officer of Ellington, who serves as our Co-Chief Investment Officer, Laurence Penn, Vice Chairman of Ellington, who serves as our Chief Executive Officer and President, Mark Tecotzky, a Managing Director of Ellington, who serves as our Co-Chief Investment Officer, Lisa Mumford, who serves as our dedicated Chief Financial Officer, Paul Saltzman, General Counsel of Ellington, who serves as our Secretary, and Eric Bothwell, Managing Director of Ellington, who serves as our Chief Operating Officer. Each of these individuals is an officer of our Manager. We currently do not have any employees.

Our Manager and Ellington

We are externally managed and advised by our Manager, an affiliate of Ellington, pursuant to a management agreement. Our Manager was formed solely to serve as our Manager and does not have any other clients. In addition, our Manager does not have any employees of its own and instead relies on the employees of Ellington to perform its obligations to us. Ellington is a private investment management firm and registered investment advisor specializing in fixed income strategies, with an emphasis on the RMBS market.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. See "Certain Relationships and Related Party Transactions—Services Agreement" for a description of the terms of the services agreement between our Manager and Ellington. Ellington has established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington's highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database, and operational expertise. Ellington's analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS collateral and MBS market transactions. Ellington analyzes this data to identify possible trends and develops financial models used to support the investment and risk management process. In addition, throughout Ellington's 14-year history of investing in MBS and related derivatives, it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. In addition, our Manager provides us with access to a wide variety of asset acquisition and disposition opportunities and information that assist us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington's finance, accounting, operational, legal, compliance and administrative functions.

As of June 30, 2009, Ellington employed over 100 employees, and, including our company, various hedge funds, and various private accounts, had net assets under management of approximately $2.2 billion, in addition to approximately $578.0 million of net assets under management in certain hedge funds that have not been actively making new investments but rather have been returning capital to investors. In addition, Ellington, through its affiliates, manages CDOs collateralized by MBS or ABS and a traditional managed account.

Our Manager has an investment and risk management committee that advises and consults with our senior management team with respect to, among other things, our investment policies, portfolio holdings, financing and hedging strategies and investment guidelines. The members of the investment and risk management committee include Messrs. Vranos, Penn, Tecotzky and Bothwell.

Our Strategy

We utilize an opportunistic strategy to seek to provide investors with attractive, risk-adjusted total returns by:

- taking advantage of opportunities in the residential mortgage market by purchasing investment grade and non-investment grade non-Agency RMBS, including senior and subordinated securities;
- acquiring Agency RMBS on a more leveraged basis in order to take advantage of opportunities in that market sector and assist us in maintaining our exclusion from regulation as an investment company under the Investment Company Act;
- opportunistically entering into and managing a portfolio of mortgage-related derivatives;
- opportunistically acquiring and managing other mortgage-related and financial assets, such as residential whole mortgage loans, CMBS, commercial mortgages or other commercial real estate debt, ABS backed by consumer and commercial assets and non-mortgage-related derivatives; and
- opportunistically mitigating our credit and interest rate risk by using a variety of hedging instruments.

Our strategy is adaptable to changing market environments, subject to compliance with the income and other tests that will allow us to continue to be treated as a partnership for U.S. federal income tax purposes and to maintain our exclusion from regulation as an investment company under the Investment Company Act. As a result, although we focus on the assets described above, our acquisition and management decisions depend on prevailing market conditions and our targeted asset classes may vary over time in response to market conditions. To effect our strategy, we may engage in a high degree of trading volume. Our Manager is authorized to follow very broad investment guidelines and, as a result, we cannot predict our portfolio composition. We may change our strategy and policies without a vote of our shareholders. Moreover, although our independent directors periodically review our investment guidelines and our portfolio, they generally do not review our proposed asset acquisitions or asset management decisions.

Ellington's investment philosophy revolves around the pursuit of value across various types of MBS and related assets. Ellington seeks investments across a wide range of MBS sectors without any restriction as to ratings, structure or position in the capital structure. Over time and through market cycles, opportunities will present themselves in varying sectors and in varying forms. In current markets, for example, the liquidation of portfolios of MBS from structured vehicles and from distressed financial institutions have been significant sources of asset acquisition opportunities. By rotating between sectors of the MBS markets and adjusting the extent to which it hedges, Ellington believes that it is able to capitalize on the disparities between these sectors as well as on overall trends in the marketplace, and therefore provide better and more consistent returns for its investors. Disparities between MBS sectors vary from time to time and are driven by a combination of factors. For example, as various MBS sectors fall in and out of favor, the relative yields that the market demands for those sectors may vary. In addition, Ellington's performance projections for certain sectors may differ from those of other market participants and such disparities will naturally cause us, from time to time, to gravitate towards certain sectors and away from others. Disparities between MBS sectors may also be driven by differences in collateral performance (for example, seasoned subprime collateral may perform better than more recent subprime collateral) and in the structure of particular investments (for example, in the timing of cash flow or the level of credit enhancement), and our Manager may believe that other market participants are overestimating or underestimating the value of these differences. Furthermore, we believe that risk management, including opportunistic portfolio hedging and prudent financing and liquidity management, is essential for consistent generation of attractive, risk-adjusted total returns across market cycles.

Ellington's continued emphasis on and development of proprietary MBS credit, interest rate and prepayment models, as well as other proprietary research and analytics, underscores the importance it places on a disciplined and often analytical approach to fixed income investing, especially in MBS. Our Manager uses Ellington's proprietary models to identify attractive assets, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our credit and interest rate risk. We leverage these skills and resources to seek to meet our objectives.

We believe that our Manager is uniquely qualified to implement our strategy. Our strategy is consistent with Ellington's investment approach, which is based on its distinctive strengths in sourcing, analyzing, trading and hedging complex MBS. Furthermore, we believe that Ellington's extensive experience in buying, selling, analyzing and structuring fixed income securities, coupled with its broad access to market information and trading flows, provides us with a steady flow of opportunities to acquire assets with favorable trade executions.

We also employ a wide variety of hedging instruments and derivative contracts. See "—Risk Management."

Our Targeted Asset Classes

Our targeted asset classes currently include:

Asset Class	Principal Assets
Non-Agency RMBS	• RMBS backed by prime jumbo, Alt-A and subprime mortgages • RMBS backed by fixed rate mortgages, ARMs, Option-ARMs, Neg-Am ARMs and Hybrid ARMs • RMBS backed by first lien and second lien mortgages • Investment grade and non-investment grade securities • Senior and subordinated securities • IOs, POs, IIOs and inverse floaters
Agency RMBS	• Whole pool pass-through certificates • TBA mortgage pass-through certificates
Mortgage-Related Derivatives	• Credit default swaps on individual RMBS, on the ABX and CMBX indices and on other mortgage-related indices • Other mortgage-related derivatives

Asset Class	Principal Assets
Corporate Debt and Equity Securities and Derivatives	• Credit default swaps on corporations or on corporate indices • Corporate debt or equity securities • Options or total return swaps on corporate equity or on corporate equity indices
Other	• Residential whole mortgage loans • CMBS • Commercial mortgages and other commercial real estate debt • ABS • Other non-mortgage-related derivatives

The following briefly discusses the principal types of assets we purchase.

Non-Agency RMBS

We acquire non-Agency RMBS backed by prime jumbo, Alt-A and subprime residential mortgage loans.

Non-Agency RMBS are debt obligations issued by private originators of or investors in residential mortgage loans. Non-Agency RMBS generally are issued as CMOs, and are backed by pools of whole mortgage loans or by mortgage pass-through certificates. Non-Agency RMBS generally are securitized in senior/subordinated structures, or in excess spread/over-collateralization structures. In senior/subordinated structures, the subordinated tranches generally absorb all losses on the underlying mortgage loans before any losses are borne by the senior tranches. In excess spread/over-collateralization structures, losses are first absorbed by any existing over-collateralization, then borne by subordinated tranches and excess spread, which represents the difference between the interest payments received on the mortgage loans backing the RMBS and the interest due on the RMBS debt tranches, and finally by senior tranches and any remaining excess spread.

We currently acquire and may continue to acquire IOs, POs, IIOs and inverse floaters. IOs are RMBS that entitle the holder to receive interest payments, but not any principal payments, from either a collection of mortgage loans or a particular RMBS debt tranche. IIOs are IOs that entitle the holder to interest payments from an inverse floater. POs are RMBS that entitle the holder to receive principal payments, but not any interest payments, from either a collection of mortgage loans or a particular RMBS debt tranche. POs sell at a discount to par value and are in many respects similar to zero coupon bonds. Inverse floaters are RMBS that have coupon rates that move in the opposite direction of a designated reference interest rate.

Prime jumbo mortgage loans are mortgage loans that generally conform to Fannie Mae or Freddie Mac underwriting guidelines except that the mortgage balance exceeds the maximum amount permitted by Fannie Mae or Freddie Mac underwriting guidelines.

Alt-A mortgage loans generally have income verification and/or employment verification standards that are weaker than those standards employed in prime underwriting. Additionally, Alt-A mortgage loans are more frequently collateralized by non-primary residences than prime loans. The credit quality of Alt-A borrowers generally exceeds the credit quality of subprime borrowers.

Subprime mortgage loans are loans that are originated using underwriting standards that are less restrictive than those used for other first and junior lien mortgage loan origination programs, such as the programs of Fannie Mae and Freddie Mac. These lower standards permit loans to be made to borrowers having low credit scores and/ or imperfect or impaired credit histories (including outstanding judgments or prior bankruptcies), loans with no income disclosure or verification, and loans with high loan-to-value ratios.

The residential mortgage loans securing our RMBS are either fixed-rate mortgages, ARMs, option-ARMs, Neg-Am ARMs or hybrid ARMs. ARMs have interest rates that reset periodically, typically every six or twelve months. Because the interest rates on ARMs adjust periodically based on market conditions, ARMs tend to have interest rates that do not significantly deviate from current market rates. This, in turn, can cause ARMs to have less price sensitivity to interest rates.

A second lien mortgage loan is a mortgage loan that is subordinate to the primary mortgage loan on a property. The second lien mortgage loan can be in the form of a revolving home equity line of credit or in a closed-end non-revolving loan. In the event of a default or a bankruptcy of the borrower, the second lien mortgage loan will not be paid off until the first lien mortgage loan is paid off. The subordination inherent in the second lien mortgage loan and the resulting difficulty in asset recovery following a bankruptcy makes this type of loan a greater risk to lenders, and consequently carries higher interest rates and has high costs associated with it.

Manufactured homes are housing units that are largely assembled in factories and then transported to sites of use. Manufactured housing loans include both manufactured housing installment sales contracts secured by security interests in manufactured homes (and, in some cases, by liens on the real estate on which the manufactured homes are located) and mortgage loans secured by first liens on the real estate on which manufactured homes are permanently affixed.

Neg-Am ARMs are ARMs that allow unpaid accrued interest to be capitalized monthly and added back to the loan's outstanding principal balance. This negative amortization only occurs in loans where the monthly payment does not cover the amount of interest due for that period. Such mortgage loans typically employ (i) a "recast date" before which the outstanding principal loan balance is permitted to negatively amortize but after which it is not, and (ii) a principal balance cap based on federal and state legislation. Neg-Am ARMs are typically made to borrowers in high-cost areas because monthly mortgage payments are relatively low for these loans, and are made for the purposes of cash management and increased payment flexibility.

Hybrid ARMs have interest rates that have an initial fixed period (typically two, three, five, seven or ten years) and thereafter reset at regular intervals in a manner similar to traditional ARMs.

The characteristics of RMBS differ from those of traditional fixed-income securities. The major differences include the monthly payment of interest and principal on the RMBS and the possibility that principal may be prepaid on the RMBS at any time due to prepayments on the underlying mortgage loans. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed-income securities.

Our non-Agency RMBS portfolio has significant quantities of RMBS collateralized by prime jumbo, Alt-A and subprime residential mortgage loans and generally consists of securities which ranked in the more senior classes of their respective securitizations, benefiting from the subordination provided by those securitization structures. Our portfolio also includes significant quantities of RMBS collateralized by manufactured housing loans. However, because we actively trade our portfolio and consider a wide range of potential investments without restriction as to ratings, structure or position in the capital structure, no assurance can be given that, in the future, our non-Agency RMBS will or will not be concentrated in these or other sectors, or consist of securities which rank lower in the capital structure or have lower ratings.

Agency RMBS

Our assets in this asset class consist primarily of whole-pool, pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae and which are backed by ARMs, hybrid ARMs or fixed-rate mortgages. Pass-through certificates are securities representing undivided interests in "pools" of mortgage loans secured by residential real property where payments of both interest and principal, plus pre-paid principal, on the securities are made monthly to holders of the security, in effect "passing through" monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. Whole pool pass-through certificates are pass-through certificates that represent the entire ownership of (as opposed to merely a partial undivided interest in) a pool of mortgage loans.

Mortgage-Related Derivatives

We take long and short positions in various mortgage-related derivative instruments, including credit default swaps. A credit default swap is a credit derivative contract in which one party (protection buyer) pays an ongoing periodic premium (and often an upfront payment as well) to another party (protection seller) in return for compensation for default (or similar credit event) by a reference entity. In this case, the reference entity can be an asset-backed security or an index of several ABS, such as an ABX Index or a CMBX Index. Payments from protection seller to protection buyer typically occur if a credit event takes place; a credit event may be triggered by, among other things, the reference entity's failure to pay its principal obligations or a severe ratings downgrade of the reference entity.

Legislators and market regulators are currently considering additional regulations pertaining to derivative transactions, including credit derivatives. Given the variety of potential regulations that have been proposed and the preliminary nature of most of the proposals, we are not able at this time to predict the impact any final regulations might have on our business. Proposed regulations could have positive, adverse or mixed consequences for our business. For example, some measures being considered would require that derivatives be traded on regulated exchanges or through clearinghouses. While such changes could benefit us by substantially reducing our derivatives counterparty-related risks, they might also reduce some of the market inefficiencies that we believe create opportunities for us. Such changes might also impact the amount of collateral that we are required to post against our derivatives positions, which could affect our liquidity and the amount of capital that we have available for our non-derivative investment activities. Such changes may lead us to re-evaluate our derivatives strategy in particular and our investment strategy overall. No assurance can be given that any final regulations will not impact our business in a material and adverse way.

Corporate Debt and Equity Securities and Derivatives

For hedging purposes, we take short positions in corporate debt and equity (including indices on corporate debt and equity) by entering into derivative contracts such as credit default swaps, total return swaps and options. These are generally not hedges against risks that are directly related to specific corporate entities. Rather, these hedges reference corporations or indices whose performance we believe may have a reasonable degree of correlation with the performance of our portfolio. Given this correlation, a short position with respect to such corporations or indices provides a hedge to our portfolio of RMBS as a whole.

A credit default swap is a derivative contract in which one party (protection buyer) pays an ongoing periodic premium (and often an upfront payment as well) to another party (protection seller) in return for compensation upon the occurrence of a credit event with respect to the corporation or index referenced by such derivative contract. A credit event relating to a credit default swap on an individual corporation or an index of corporate names would typically be triggered by a corporation's bankruptcy or failure to make scheduled payments in respect of debt obligations. A total return swap is a derivative whereby one party makes payments to the other representing the total return on a reference debt or equity security (or index of debt or equity securities) in exchange for an agreed upon ongoing periodic premium. An equity option is a derivative that gives the holder the option to buy or sell an equity security or index of securities at a predetermined price within a certain time period. The option may reference the equity of a publicly traded company or an equity index. In addition to general market risk, our derivatives on corporate debt and equity securities are subject to risks related to the underlying corporate entities.

Other Assets

We also may from time to time opportunistically acquire other mortgage-related and financial assets that may include, among others: residential whole mortgage loans, CMBS, commercial mortgages or other commercial real estate debt and ABS backed by consumer and commercial assets.

Our Portfolio

As of June 30, 2009, our RMBS portfolio consisted of the following assets:

Asset Class	Amortized Cost Basis	Estimated Fair Value	Estimated Fair Value as a Percentage of Total Shareholders' Equity
Non-Agency RMBS	$225,592,234	$188,002,122	66%
Agency RMBS	267,228,145	272,046,314	96%
Total	$492,820,379	$460,048,436	162%

As of June 30, 2009, our derivatives portfolio consisted substantially of the following derivatives:

Asset Class	Notional Amount	Estimated Fair Value	Estimated Fair Value as a Percentage of Total Shareholders' Equity
Long positions using credit default swaps on RMBS(1)	$ 15,977,810	$ (10,911,356)	(4)%
Short positions using credit default swaps on RMBS and on RMBS and CMBS Indices(2)	(175,779,400)	127,686,902	45 %
Short positions using credit default swaps on corporate bonds and corporate bond indices	(48,625,000)	5,440,874	2 %
Short positions in interest rate swaps(3)	(100,000,000)	(4,140,602)	(1)%
Total		$118,075,818	42 %

(1) Long positions using credit default swaps represent transactions where we sold credit protection to a counterparty.
(2) Short positions using credit default swaps represent transactions where we purchased credit protection from a counterparty.
(3) For short positions in interest rate swaps, a fixed rate is being paid and a floating rate is being received.

The table below shows the credit rating categories from Moody's, Standard & Poor's or Fitch Ratings Ltd., respectively, for our RMBS portfolio, excluding IOs, as of June 30, 2009; as well as our long investments that were unrated but affiliated with Fannie Mae, Freddie Mac or Ginnie Mae. Ratings tend to be a lagging credit indicator; as a result, the credit quality of our long investment holdings may be lower than the credit quality implied based on the ratings listed below. In situations where an investment has a split rating, the lowest provided rating is used.

Rating Description(1)	Current Principal	Estimated Fair Value	Average Price	Estimated Fair Value as a Percentage of Shareholders' Equity
Unrated but Agency Affiliated	$	$	$	%
Aaa/AAA/AAA				
Aa/AA/AA				
A/A/A				
Baa/BBB/BBB				
Ba/BB/BB and below				
Unrated				

(1) The rating descriptions include ratings qualified with a "+," "–," "1," "2" or "3."

As of June 30, 2009, a small portion of our portfolio consisted of depreciated futures, long and short positions in total return swaps and other swaps. As of June 30, 2009, the fair value of our long and short positions in total return swaps and other swaps was $(427,459).

As of June 30, 2009, in addition to our RMBS portfolio and our derivatives portfolio, a small portion of our investment portfolio consisted of put options purchased and trade claims with a fair value of $5.4 million.

Investment Process

Our investment process benefits from the resources and professionals of our Manager and Ellington. The process is managed by an investment and risk management committee, which includes the following four officers of our Manager: Messrs. Vranos, Penn, Tecotzky and Bothwell. These officers of our Manager also serve as our Co-Chief Investment Officer, Chief Executive Officer, Co-Chief Investment Officer and Chief Operating Officer, respectively. The investment and risk management committee operates under investment guidelines and meets periodically to develop a set of preferences for sectors and sub-sectors. The primary focus of the investment and risk management committee is to review and approve our investment policies and our portfolio holdings and related compliance with our investment policies and guidelines. Our investment and risk management committee has authority delegated by our board to authorize transactions consistent with our investment guidelines. Any transactions deviating in a material way from these guidelines must be approved by our board.

Ellington has a focused investment team for each of our targeted asset classes. Each team evaluates acquisition opportunities consistent with the guidelines developed and maintained by our Manager's investment and risk management committee. Our asset acquisition process includes sourcing and screening of asset acquisition opportunities, credit analysis, due diligence, structuring, financing and hedging, each as appropriate, to seek attractive total returns commensurate with our risk tolerance. We also screen and monitor all potential assets to determine their impact on maintaining our exclusion from regulation as an investment company under the Investment Company Act and our qualification as a partnership for U.S. federal income tax purposes.

Asset Surveillance

Our asset surveillance process benefits from the resources and professionals of our Manager and Ellington. Ellington performs security- and loan-level analysis of its holdings on a periodic and on-going basis by assessing collateral performance data, evaluating future expected performance, and observing market expectations. Such surveillance capabilities help identify securities or sectors that are performing anomalously. In addition, Ellington analyzes the collateral performance of a broad range of securities that it does not hold in order to monitor emerging trends across asset classes. For instance, Ellington performs surveillance on representative samples of actively traded securities, covering most residential MBS sectors and vintages. On a monthly basis, Ellington gathers data on each such representative sample from its third-party data providers, and produces detailed reports based on loan level information, including analyses of prepayment rates, flow rates, severities, delinquencies and loan modification effects. This process offers Ellington's trading and surveillance personnel additional insight into the Company's portfolio and potential asset acquisition opportunities. We believe that Ellington's surveillance capabilities provide it with a substantial advantage over most other market participants, and present a formidable barrier to entry for potential competitors.

Valuation of Assets

The value of our assets as used and reported in our financial statements is generally determined as follows:

If an asset is listed on a recognized exchange, such asset will be valued at its last available public sale price, or at the bid price for long positions and the offer price for short positions, as applicable. It is anticipated that only a small portion of our holdings may be so listed.

If a security is not listed on a recognized exchange, then such security will generally be valued using methodologies that include (i) the use of proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions, and (ii) the solicitation of valuations from third parties (typically, broker-dealers). Third party valuation providers often utilize proprietary models that are highly subjective and also require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions. Our Manager utilizes such information to assign a good faith valuation (the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the valuation date) to such financial instruments. Our Manager has been able to obtain third party valuations on the vast majority of our assets and expects to continue to solicit third party valuations on substantially all of our assets in the future to the extent practical. Our Manager uses its judgment, based on its own models, the assessments of its portfolio managers, and third party valuations it obtains, to determine and assign fair values to our Level 3 assets. We believe that third party valuations play an important role in ensuring that our Manager's valuation determinations are fair and reasonable. Our Manager's valuation process is subject to the oversight of the Manager's investment and risk management committee as well as the oversight of the independent members of our board of directors. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the consolidated financial statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations —Critical Accounting Policies—Valuation."

Risk Management

Risk management is a cornerstone of Ellington's portfolio management process. Ellington's risk management infrastructure system includes "ELLiN," a proprietary trading and portfolio management system that Ellington uses for all of its accounts, which provides real time and batch reporting to all departments at Ellington, including trading, research, finance, operations, and accounting. We benefit from Ellington's comprehensive risk management infrastructure and ongoing assessment of both portfolio and operational risks. In addition, we utilize derivatives and other hedging instruments to opportunistically hedge our credit and interest rate risk.

Credit Risk Hedging

We enter into short positions using credit default swaps to protect against adverse credit events with respect to our non-Agency RMBS. We may use credit default swaps to hedge non-Agency RMBS credit risk by buying protection on a single non-Agency RMBS or by buying protection on a basket of non-Agency RMBS assets. We may also enter into credit default swaps on the ABX index or CMBX index. We also enter into derivative contracts for hedging purposes referencing the unsecured corporate credit, or the equity of, certain corporations.

Interest Rate Hedging

We opportunistically hedge our interest rate risk by using various hedging strategies to mitigate such risks. The interest rate hedging instruments that we use and may use in the future include, without limitation:

- Treasury securities;
- interest rate swaps (floating-to-fixed, fixed-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable);
- swaptions, caps, floors and other derivatives on interest rates;
- futures and forward contracts; and
- options on any of the foregoing.

In particular, from time to time we enter into short positions in interest rate swaps to offset the potential adverse effects that changes in interest rates will have on the value of certain of our assets and our financing costs. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically one party pays a fixed interest rate and receives floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is never exchanged.

Liquidity Management

As part of the risk management and liquidity management functions that our Manager performs for us, our Manager computes a "cash buffer" which at any given point in time represents the amount of our free cash in excess of what our Manager estimates would conservatively be required, especially in times of market dislocation, to support our particular assets and liabilities at such time. Thus, rather than focusing solely on our leverage, our Manager typically seeks to maintain a positive cash buffer.

Our Financing Strategies and Use of Leverage

We finance our assets with what we believe to be a prudent amount of leverage, the level of which varies from time to time based upon the particular characteristics of our portfolio, availability of financing and market conditions. Our borrowings currently consist solely of reverse repos. Currently, the great majority of our reverse repo borrowings are collateralized by Agency RMBS; however, should the prospects for stable and reliable reverse repo financing for non-Agency RMBS continue to improve, we would expect to increase our reverse repo borrowings that are collateralized by non-Agency RMBS. In a reverse repo, we sell an asset to a counterparty at a discounted value, or the loan amount, and simultaneously agree to repurchase the same asset from such counterparty at a price equal to the loan amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, reverse repos are generally accounted for as debt secured by the underlying assets. During the term of a reverse repo, we generally receive the income and other payments distributed with respect to the underlying assets, and pay interest to the counterparty. While the proceeds of our reverse repo financings are generally used to finance the assets subject to the repo, our financing arrangements do not restrict our ability to use proceeds from these arrangements to support our other liquidity needs. Our reverse repo arrangements are typically documented under SIFMA's standard form Master Repurchase Agreement, with the ability for both parties to request margin. Given daily market volatility, we and our repo counterparties are required to post additional margin collateral to each other from time to time as part of the normal course of our business. Our reverse repo financing counterparties generally have the right to determine the value of the underlying collateral for margining purposes, subject to the terms and conditions of our agreement with the counterparty, including in certain cases our right to dispute the counterparty's valuation determination. As of June 30, 2009, we had approximately $352.1 million outstanding on reverse repos with four counterparties. These borrowings were the only debt financings we had outstanding as of June 30, 2009, and, given that we had approximately $284.1 million of shareholders' equity as of June 30, 2009, our debt-to-equity ratio was 1.24 to 1. Our debt-to-equity ratio does not account for liabilities other than debt financings.

Below is a list of our reverse repos by counterparty as of June 30, 2009:

Counterparty	Outstanding Borrowings	Range of Borrowing Rates	Range of Remaining Terms	Estimated Fair Value of Collateral
Bank of America	110,028,000	0.40% to 2.32%	6 to 22 Days	116,809,167
Morgan Stanley	94,718,700	0.40% to 2.25%	13 to 71 Days	101,456,026
Credit Suisse Group	74,603,000	0.35% to 2.00%	8 to 27 Days	86,163,449
Deutsche Bank AG	72,749,000	0.37% to 2.31%	6 to 27 Days	79,781,874
	$ 352,098,700			$ 384,210,516

We may utilize other types of borrowings in the future, including term facilities or other more complex financing structures. Additionally, we may also take advantage of available borrowings, if any, under new programs established by the U.S. Government such as the TALF to finance our assets. We also may raise capital by issuing unsecured debt, preferred or common shares, or trust preferred securities.

Our use of leverage, especially in order to increase the amount of assets supported by our capital base, may have the effect of increasing losses when these assets underperform. Our investment policies require no minimum or maximum leverage and our Manager's investment and risk management committee will have the discretion, without the need for further approval by our board of directors, to change both our overall leverage and the leverage used for individual asset classes. Because our strategy is flexible, dynamic and opportunistic, our overall leverage will vary over time. As a result, we do not have a targeted debt-to-equity ratio.

Conflicts of Interest; Equitable Allocation of Opportunities

Ellington manages, and expects to continue to manage, other funds, accounts and vehicles that have strategies that are similar to, or that overlap with, our strategy. As of June 30, 2009, Ellington managed various funds, accounts and other vehicles that have strategies that are similar to, or that overlap with, our strategy, that have aggregate net assets of approximately $1.9 billion (excluding our assets and excluding the assets of certain hedge funds that have not been actively making new investments but rather have been returning capital to investors). Ellington makes available to our Manager all opportunities to acquire assets that it determines, in its reasonable and good faith judgment, based on our objectives, policies and strategies, and other relevant factors, are appropriate for us in accordance with Ellington's written investment allocation procedures and policies, subject to the exception that we might not participate in each such opportunity, but will on an overall basis equitably participate with Ellington's other accounts in all such opportunities. Ellington's investment and risk management committee and its compliance committee (headed by its Chief Compliance Officer) are responsible for monitoring the administration of, and facilitating compliance with, Ellington's investment allocation procedures and policies.

Because many of our targeted assets are typically available only in specified quantities and because many of our targeted assets are also targeted assets for other Ellington accounts, Ellington often is not able to buy as much of any given asset as required to satisfy the needs of all its accounts. In these cases, Ellington's investment allocation procedures and policies typically allocate such assets to multiple accounts in proportion to their needs and available capital. As a result, accounts in start-up mode are given priority. The policies permit departure from such proportional allocation when such allocation would result in an inefficiently small amount of the security being purchased for an account. In that case, the policy allows for a protocol of allocating assets so that, on an overall basis, each account is treated equitably.

Other policies of Ellington that our Manager will apply to the management of our company include controls for:

- *Cross Transactions*—defined as transactions between us or one of our subsidiaries, on the one hand, and an account (other than us or one of our subsidiaries) managed by Ellington or our Manager, on the other hand. It is Ellington's policy to engage in a cross transaction only when the transaction is in the best interests of, and is consistent with the objectives and policies of, both accounts involved in the transaction. Ellington or our Manager may enter into cross transactions where it acts both on our behalf and on behalf of the other party to the transaction. Upon written notice to our Manager, we may at any time revoke our consent to our Manager's executing cross transactions. Additionally, unless approved in advance by a majority of our independent directors or pursuant to and in accordance with a policy that has been approved by a majority of our independent directors, all cross transactions must be effected at the then-prevailing market prices. Pursuant to our Manager's current policies and procedures, assets for which there are no readily observable market prices may be purchased or sold in cross transactions (i) at prices based upon third party bids received through auction, (ii) at the average of the highest bid and lowest offer quoted by third party dealers, or (iii) according to another pricing methodology approved by our Manager's chief compliance officer.
- *Principal Transactions*—defined as transactions between Ellington or our Manager (or any related party of Ellington or our Manager, which includes employees of Ellington and our Manager and their families), on the one hand, and us or one of our subsidiaries, on the other hand. Certain cross transactions may also be considered principal transactions whenever our Manager, Ellington (or any related party of Ellington or our Manager, which includes employees of Ellington and our Manager and their families) have a substantial ownership interest in one of the transacting parties. Our Manager is only authorized to execute

principal transactions with the prior approval of a majority of our independent directors and in accordance with applicable law. Such prior approval includes approval of the pricing methodology to be used, including with respect to assets for which there are no readily observable market prices.

- *Investment in other Ellington accounts*—pursuant to our management agreement, although we have not done so to date, if we invest at issuance in the equity of any CDO that is managed, structured or originated by Ellington or one of its affiliates, or if we invest in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination or structuring fees, the base management and incentive fees payable by us to our Manager will be reduced by an amount equal to the applicable portion (as described in the management agreement) of any related management fees, origination fees or structuring fees payable to our Manager.
- *Split price executions*—pursuant to our management agreement, our Manager is authorized to combine purchase or sale orders on our behalf together with orders for other accounts managed by Ellington, our Manager or their affiliates and allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts.

To date, we have not entered into any cross transactions with other Ellington-managed accounts, principal transactions with Ellington or invested in other Ellington accounts.

Our Manager is authorized to follow very broad investment guidelines. Our independent directors will periodically review our investment guidelines and our portfolio. However, our independent directors generally will not review our proposed asset acquisitions, dispositions or other management decisions. In addition, in conducting periodic reviews, the independent directors will rely primarily on information provided to them by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager has great latitude within our broad investment guidelines to determine the types of assets it may decide are proper for purchase by us. The management agreement with our Manager does not restrict the ability of its officers and employees from engaging in other business ventures of any nature, whether or not such ventures are competitive with our business. We may acquire assets from entities affiliated with our Manager, even where the assets were originated by such entities. Affiliates of our Manager may also provide services to entities in which we have invested.

Our executive officers and the officers and employees of our Manager are also officers and employees of Ellington, and, with the exception of those officers that are dedicated to us, we compete with other Ellington accounts for access to these individuals. We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any asset to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors, officers and employees, as well as employees of our Manager who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us, absent approval by the board of directors or except as expressly set forth above or as provided in the management agreement between us and our Manager. In addition, nothing in the management agreement binds or restricts our Manager or any of its affiliates, officers or employees from buying, selling or trading any securities or commodities for their own accounts or for the accounts of others for whom our Manager or any of its affiliates, officers or employees may be acting.

Policies with Respect to Certain Other Activities

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities, the retention of cash flow and other funds from debt financing, including reverse repos, or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it has the authority, without shareholder approval, to issue additional common shares or preferred shares in any manner and on such terms and for such consideration as it deems appropriate, at any time.

We have not in the past, but may in the future, offer equity or debt securities in exchange for assets.

We have not invested in the past in the securities of other issuers for the purpose of exercising control over such entities, but we may do so in the future.

We engage in the purchase and sale of assets. We have in limited circumstances in the past, and may in the future, make loans to third parties. We have not in the past and will not in the future underwrite the securities of other issuers.

We have furnished and intend to continue to furnish our shareholders with annual reports containing consolidated financial statements audited by our independent certified public accountants and with quarterly reports containing unaudited consolidated financial statements for each of the first three quarters of each fiscal year.

Our board of directors may change any of these policies without prior notice to you or a vote of our shareholders.

Competition

In acquiring our assets, we compete with mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. Many of our competitors are significantly larger than us, have greater access to capital and other resources and may have other advantages over us. In addition to existing companies, other companies may be organized for similar purposes, including companies focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market value of our common shares. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets and establish more relationships than us.

Additionally, we may also compete with (i) the Federal Reserve and the Treasury to the extent they purchase assets meeting our objectives pursuant to various purchase programs and (ii) companies that partner with and/or receive financing from the U.S. Government, including TALF and PPIP participants. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Trends and Recent Market Developments.”

In the face of this competition, we have access to our Manager’s and Ellington’s professionals and their industry expertise, which may provide us with a competitive advantage and help us assess risks and determine appropriate pricing for certain potential assets. In addition, we believe that these relationships enable us to compete more effectively for attractive asset acquisition opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

Operating and Regulatory Structure

Tax Requirements

We believe that we have been organized and have operated so that we have qualified, and will continue to qualify, to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In general, an entity that is treated as a partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax at the entity level. Consequently, as a holder of our common shares, you will be required to take into account your allocable share of items of our income, gain, loss, deduction and credit for our taxable year ending within or with your taxable year, regardless of whether we make cash distributions on a current basis with which to pay any resulting tax. We believe that we are treated, and will continue to be treated, as a publicly traded partnership. Publicly traded partnerships are generally treated as partnerships for U.S. federal income tax purposes as long as they satisfy certain income and other tests on an ongoing basis. We believe that we have satisfied and will continue to satisfy those requirements and that we have been and will continue to be treated as a partnership for U.S. federal income tax purposes. See "Material U.S. Federal Income Tax Considerations."

Investment Company Act Exclusions

Most of our business is conducted through various wholly-owned and majority-owned subsidiaries in a manner such that neither we nor our subsidiaries are subject to regulation under the Investment Company Act. Under Section 3(a)(1) of the Investment Company Act, a company is deemed to be an "investment company" if:

- it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities (Section 3(a)(1)(A)); or
- it is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and does own or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (other than U.S. Government securities and cash) on an unconsolidated basis, or the 40% Test. "Investment securities" excludes U.S. Government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for private funds under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We believe we will not be considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because we will not engage primarily or hold ourself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through wholly owned or majority-owned subsidiaries, we will be primarily engaged in the non-investment company businesses of these subsidiaries.

The 40% Test limits the types of businesses in which we may engage either directly or through our subsidiaries. Our wholly-owned subsidiary, EF Mortgage LLC, relies on the exclusion provided by Section 3(c)(5)(C) under the Investment Company Act. It, in turn, has a wholly-owned subsidiary, EF CMO LLC, which invests in mortgage-related securities and relies on Section 3(c)(7) of the Investment Company Act. EF Mortgage LLC treats its investment in EF CMO LLC as a real estate-related asset for purposes of its own exclusion under Section 3(c)(5)(C). Our other wholly-owned subsidiary, EF Securities LLC, owns securities, including various kinds of mortgage-related securities and relies on the exemption provided by Section 3(c)(7) of the Investment Company Act; therefore, we treat securities that we own and that were issued by EF Securities LLC as "investment securities" and are required to keep the value of these securities (together with any other investment securities we own) below 40% of our total assets (other than U.S. Government securities and cash) on an unconsolidated basis. Any subsidiaries we may form in the future may not be majority-owned or wholly-owned by us or might rely on the exemption provided by Section 3(c)(1) or 3(c)(7) of the Investment Company Act, in which case we would treat securities that we own and that were issued by these types of subsidiaries as "investment securities" and be required to keep the value of these securities (together with the value of our investment in EF Securities LLC and any other investment securities we own) below 40% of our total assets (other than U.S. Government securities and cash) on an unconsolidated basis.

Section 3(c)(5)(C), the Investment Company Act exclusion upon which EF Mortgage LLC relies, is designed for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exclusion generally requires that at least 55% of the entity's assets consist of qualifying real estate assets and at least 80% of the entity's assets consist of qualifying real estate assets or real estate-related assets. Qualifying real estate assets for this purpose include mortgage loans, whole pool Agency pass-through certificates and other assets that the SEC staff has determined in various no-action letters are the functional equivalent of mortgage loans for the purposes of the Investment Company Act. We intend to treat as real estate-related assets RMBS that do not satisfy the conditions set forth in those SEC staff no-action letters. In classifying the assets held by EF Mortgage LLC as qualifying real estate assets or real estate-related assets, we also will rely on any other guidance published by the SEC staff or on our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets to determine which assets are qualifying real estate assets and real estate-related assets.

Both the 40% Test and the requirements of the Section 3(c)(5)(C) exclusion limit the types of businesses in which we may engage and the types of assets we may hold, as well as the timing of sales and purchases of assets.

There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of EF Mortgage LLC regularly, there can be no assurance that EF Mortgage LLC will be able to maintain this exemption from registration. In that case, our investment in EF Mortgage LLC would be classified as an investment security, and we might not be able to maintain our overall exclusion from registering as an investment company under the Investment Company Act.

If we or our subsidiaries were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), and portfolio composition, including restrictions with respect to diversification and industry concentration and other matters. Compliance with the restrictions imposed by the Investment Company Act would require us to make material changes to our strategy which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our shareholders. Accordingly, to avoid that result, we may be required to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common shares, the sustainability of our business model and our ability to make distributions.

Investment Advisers Act of 1940

Both Ellington and our Manager are registered as investment advisers under the Advisers Act and are subject to the regulatory oversight of the Investment Management Division of the SEC.

Staffing

All of our executive officers, including our dedicated Chief Financial Officer and our dedicated in-house counsel, and a dedicated controller, if our Manager elects to provide such officer, are or will be employees of Ellington or one or more of its affiliates. See “Management—Management Agreement.”

Legal Proceedings

Neither we nor our Manager is currently subject to any legal proceedings that we or our Manager considers to be material. Nevertheless, we, our Manager and Ellington operate in highly regulated markets that currently are under intense regulatory scrutiny, and Ellington and its affiliates have received, and we expect in the future may receive, inquiries and requests for documents and information from various federal, state and foreign regulators. In the past these have included:

In June 2007, Ellington received an informal inquiry from the SEC requesting documents and other information relating to trading in credit default swaps on the ABX indices. Ellington provided documents to the SEC staff in August 2007 and Ellington has had no communication with the SEC on the matter since that time.

In November 2006, Ellington received a request from the SEC that it produce documents relating to trading of collateralized mortgage obligations, or CMOs, between Ellington and a third party broker-dealer as well as individuals associated with that broker-dealer, and Ellington produced documents to the SEC consistent with that request. In July 2007, Ellington received a subpoena from the SEC requesting documents relating to trading in CMOs by these individuals and firms they were affiliated with, including that broker-dealer. Ellington responded to that subpoena in August 2007, and has had no communication with the SEC on the matter since that time. In May 2009, the SEC filed a complaint against certain former employees of that broker-dealer, alleging fraud in their marketing of CMOs to their clients, and stated that its investigation is ongoing.

In August 2007, Ellington received a subpoena from the New York Attorney General, or the NYAG, requesting documents and other information from Ellington about its and its affiliates' mortgage loan servicing activities. Ellington informed the NYAG that it did not engage in mortgage loan servicing. Ellington subsequently received subpoenas for documents and information relating to Ellington's residual or equity interests in mortgage securitization trusts; communications with and information received from mortgage servicers relating to these trusts and their underlying mortgage loans; and trading in bonds of these trusts and related credit default swaps, and for documents and other information relating to communications with and information received from one of its vendors, which had performed asset surveillance for Ellington on these trusts. Ellington completed its response to the NYAG subpoenas in June 2008 and has had no communication with the NYAG since that time.

In March 2008, Ellington received a subpoena from the SEC requesting documents and other information relating primarily to CDOs underwritten during 2007 and 2008 by a particular investment bank and for which Ellington acted as collateral manager. Ellington provided an initial response to the subpoena in April 2008 and finished its production in May 2009. Ellington has had no communication with the SEC on the matter since that time.

In August 2009, Ellington and one of its affiliates received subpoenas from the SEC seeking documents and information regarding certain structuring, sales and marketing practices in the CDO market. The subpoenas seek documents and details regarding CDOs in which Ellington or its affiliates participated during 2006 and 2007. Ellington intends to cooperate fully with both of these subpoenas.

Ellington has advised us that, at the present time, it is not aware that any material legal proceeding against Ellington and its affiliates is contemplated in connection with any of the foregoing inquiries or requests; however, Ellington and we cannot provide any assurance that these inquiries and requests will not result in further investigation of or the initiation of a proceeding against Ellington or its affiliates or that, if any such investigation or proceeding were to arise, it would not materially adversely affect our company.

OUR MANAGER

Overview

Our Manager is an affiliate of Ellington. Ellington is a private investment management firm and registered investment advisor specializing in fixed income strategies, with an emphasis on the RMBS market.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. Ellington has established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington's highly analytical investment process, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database, and operational expertise. Ellington's analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS collateral and MBS market transactions. Ellington analyzes this data to identify possible trends and develops financial models used to support the investment and risk management process. In addition, throughout Ellington's 14-year history of investing in MBS and related derivatives it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. In addition, our Manager provides us with access to a wide variety of asset acquisition and disposition opportunities and information that assists us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington's finance, accounting, operational, legal, compliance and administrative functions.

As of June 30, 2009, Ellington employed over 100 employees, and, including our company, various hedge funds, and various private accounts, had net assets under management of approximately $2.2 billion, in addition to approximately $578.0 million of net assets under management in certain hedge funds that have not been actively making new investments but rather have been returning capital to investors. In addition, Ellington, through its affiliates, manages CDOs collateralized by MBS or ABS and a traditional managed account.

Throughout its 14-year history, Ellington has participated in virtually all sectors of the MBS and ABS markets. Early on in its history, Ellington invested primarily in CMO prepayment and interest rate derivatives such as IOs, IIOs, POs and inverse floaters. Since then, Ellington has dramatically broadened its investment scope and strategies to include a wide spectrum of asset-backed sectors, including RMBS and CMBS, and, within RMBS:

- RMBS representing all parts of the credit spectrum, from AAA securities down to unrated, first-loss securities;
- RMBS backed by fixed rate mortgages, ARMs and hybrid ARMs indexed to a wide variety of indices;
- Agency RMBS and non-Agency RMBS backed by prime jumbo, Alt-A and subprime mortgage loans; and
- credit default swaps on debt tranches of RMBS.

Ellington has extensive experience in, and actively seeks investment opportunities in, all of these sectors. By establishing and maintaining expertise in a wide variety of MBS sectors, Ellington believes that it can identify those sectors in which the greatest opportunities exists, and therefore be able to adapt and rotate its strategies over time to produce more consistent performance across market cycles.

Ellington's investment strategies, which we believe are applicable to us, rely on two key components:

- the ability to identify and purchase securities that are either fundamentally undervalued or provide relative value versus other fixed income instruments; and
- an intensive analytical approach to risk management.

Our Manager has an investment and risk management committee that advises and consults with our senior management team with respect to, among other things, our investment policies, portfolio holdings, financing and hedging strategies and investment guidelines. The members of the investment and risk management committee include Messrs. Vranos, Penn, Tecotzky and Bothwell.

Our Manager's and Ellington's Employees

Through 14 years of operational experience as an investment advisor, Ellington has built significant portfolio management and infrastructure resources to support its numerous funds and large asset base. Therefore, we believe that Ellington's portfolio management resources and infrastructure are scalable to service our activities.

Ellington's 14 principals have an average of over 20 years of industry experience; its Chief Executive Officer and three Vice Chairmen have an average of over 24 years of industry experience. One of the strengths of the Ellington portfolio management team is the strength of its senior management team; summary biographies of certain of these individuals are as follows:

Name/position at Ellington	Age	Background summary
Michael W. Vranos *Founder & Chief Executive Officer*	48	Mr. Vranos is the founder and Chief Executive Officer of Ellington. Mr. Vranos is also the Chief Executive Officer and President of our Manager and serves on our Manager's investment and risk management committee. Mr. Vranos has been our Co-Chief Investment Officer since June 2009. Mr. Vranos has served as a member of our board of directors since August 2007, and from August 2007 until October 2009 Mr. Vranos served as our Chairman. Mr. Vranos founded Ellington in December of 1994 to capitalize on distressed conditions in the MBS derivatives market. Until December 1994, Mr. Vranos was a Senior Managing Director at Kidder Peabody in charge of RMBS trading. Mr. Vranos graduated magna cum laude, Phi Beta Kappa with a B.A. in Mathematics from Harvard University.
Laurence Penn *Vice Chairman*	47	Mr. Penn is a Vice Chairman of Ellington, where he helps oversee many functions of the firm, including trading, risk management, and new business. Mr. Penn is also the Executive Vice President of our Manager and serves on our Manager's investment and risk management committee. Mr. Penn has been our Chief Executive Officer and has served as a member of our board of directors since August 2007. In Ellington's earlier years, Mr. Penn was the senior portfolio manager primarily responsible for investments in Agency RMBS and was also responsible for monitoring and updating the risk measures associated with all MBS assets in the funds. Prior to joining Ellington in 1995 shortly after its inception, Mr. Penn was at Lehman Brothers where he was a Managing Director and co-head of CMO origination and trading. Mr. Penn specialized in the trading and risk-management of CMO derivatives. Prior to trading CMOs and CMO derivatives, Mr. Penn was in charge of Lehman Brothers' structured transaction modeling group from 1987 to 1990, where he was responsible for the structuring, modeling and computer system design for MBS and ABS. Mr. Penn began his career at Lehman Brothers in 1984, after receiving a Certificate of Advance Study in Mathematics from Cambridge University, where he studied as both a National Science Foundation and Winston Churchill Fellow. Mr. Penn graduated summa cum laude, Phi Beta Kappa with a B.A. in Mathematics from Harvard University.

Name/position at Ellington	Age	Background summary
Richard Brounstein *Vice Chairman*	49	Mr. Brounstein is a Vice Chairman and the Director of Investor Relations at Ellington. Prior to joining Ellington in 2000, Mr. Brounstein was the Managing Director responsible for the Fixed Income Securities division at Société Générale Securities Corporation, later renamed S.G. Cowen Securities Corporation. In this capacity, Mr. Brounstein was responsible for supervising all aspects of risk management, market making, proprietary trading, distribution and finance related activities. In addition to his direct responsibilities for the Fixed Income Division, Mr. Brounstein was a member of the Risk Management committee at Société Générale Securities Corporation. Prior to joining Société Générale Securities Corporation, Mr. Brounstein was the Managing Director responsible for the Mortgage-Backed Securities Division at the Union Bank of Switzerland. Later he was given responsibilities for the supervision of distribution/placement of all Fixed Income Securities. Prior to joining the Union Bank of Switzerland, Mr. Brounstein worked with Messrs. Vranos and other Ellington employees at Kidder Peabody. Mr. Brounstein received a M.A. from Columbia University and a B.A. from Fairleigh Dickinson University.
Eric Bothwell *Managing Director*	41	Mr. Bothwell is a Managing Director of Ellington. Mr. Bothwell is also the Chief Operating Officer of our Manager and serves on our Manager's investment and risk management committee. Mr. Bothwell has been our Chief Operating Officer since July 2008. Mr. Bothwell joined Ellington in June 2006. Prior to Ellington, Mr. Bothwell was a Vice President on the CDO team at Goldman, Sachs & Co., or Goldman. After joining Goldman in July 1997, Mr. Bothwell was one of the founding members of Goldman's CDO business and at the time of his departure in January 2006 was co-head of the business, specifically focusing on the collateralized loan obligation market. Prior to Goldman, Mr. Bothwell was an associate in the New York office of Orrick, Herrington & Sutcliffe, focusing on securitization, credit derivatives and CDOs. Mr. Bothwell received his B.S. in Business Administration from Pacific Union College and his J.D. from Columbia University.
John Geanakoplos *Managing Director*	54	Professor Geanakoplos is a Managing Director at Ellington, where he is the Head of Research and Development and is responsible for the design of computer models to evaluate and hedge the firm's portfolio. Professor Geanakoplos is largely responsible for the theoretical framework of Ellington's proprietary prepayment model and interest rate model. From 1992 until joining Ellington in 1995, Professor Geanakoplos was a Managing Director of Kidder Peabody, where he was head of the Fixed Income Research Department. In this capacity, he led the design of the firm's proprietary MBS analytical systems. He became a full Professor at Yale University in 1986, at the age of 30, and is currently the James Tobin Professor of Economics and Director of the Cowles Foundation for Research in Economics. He was elected a fellow of the Econometric Society in 1990 and of the American Academy of Arts and Sciences in 1999. He was awarded the Samuelson Prize in 1999, and was awarded the first Bodossaki Prize in economics in 1995. In 1990 and again in 2000, he directed the economics program at the Santa Fe Institute, where he remains an external professor. Professor Geanakoplos graduated summa cum laude, Phi Beta Kappa with a B.A. in Mathematics from Yale University and received a M.A. in Mathematics and a Ph.D. in economics from Harvard University.

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Name/position at Ellington	Age	Background summary
Robert Kinderman *Managing Director*	33	Mr. Kinderman is a Managing Director at Ellington where he is responsible for trading credit-sensitive securities, including CMBS, ABS, and subordinated RMBS. Mr. Kinderman also serves on our Manager's investment and risk management committee. He started full-time with Ellington in 1998, developing credit models as well as pieces of Ellington's proprietary portfolio management systems, and is currently the head trader for all credit-sensitive mortgage-backed and asset-backed investments at Ellington. He also helps direct the development of research, modeling and systems for credit-sensitive products. Mr. Kinderman earned a B.A. from Yale with distinction in Economics and in Mathematics.
Thomas Larkin *Chief Operating Officer &* *Managing Director*	45	Mr. Larkin is the Chief Operating Officer of Ellington, where he oversees most of the operational and financial functions of the firm. He has over 20 years of experience in the investment management industry with a primary focus in hedge funds and private equity funds. From 1997 until joining Ellington in 2004, Mr. Larkin served as Chief Financial Officer of Resurgence Asset Management, or Resurgence, a SEC-registered investment advisory firm specializing in securities of financially distressed companies. At Resurgence, Mr. Larkin oversaw accounting, reporting, taxation, operations, human resources and information systems. Prior to joining Resurgence, he was the Controller of Concord International Investments Group, a multinational investment management firm. Mr. Larkin started his career at Ernst & Young, where he provided auditing and consulting services to companies in a variety of industries, including private investment funds, commodity trading advisors, mutual funds, and oil and gas concerns. Mr. Larkin received a B.S. in Accounting from Boston College. He became a CPA in 1989.
Niko Nicopoulos *Managing Director*	48	Mr. Nicopoulos is a Managing Director at Ellington and is responsible for the mathematical modeling and computer implementation of Ellington's interest rate and hedging models, and their use in valuing, hedging and managing the risk of MBS. Mr. Nicopoulos joined Ellington from Oxford University in England, where he was an Assistant Professor in Theoretical Condensed Matter Physics. His work focused on the complex behavior of interacting electronic systems. He has had extensive experience in the simulation and analysis of complex stochastic systems on workstations and supercomputers and has built an international reputation for research relevant to real-world physics problems. Mr. Nicopoulos graduated magna cum laude, Phi Beta Kappa with a B.A. in Physics from Harvard University, and also holds M.A. and Ph.D. degrees in Theoretical Physics from Princeton University. Prior to his position at Oxford, he was a researcher and consultant at Los Alamos National Laboratory.

Name/position at Ellington	Age	Background summary
David Rice *Chief Compliance Officer*	40	Mr. Rice is Ellington's Chief Compliance Officer and chairs the firm's Compliance Committee. He is responsible for implementation of Ellington's compliance program. Prior to joining Ellington, he served as Associate General Counsel, Compliance at GSC Group. From 2002-2007 he served in the Division of Enforcement at the Securities and Exchange Commission in Washington, D.C., where he worked on investigations involving hedge funds, broker-dealers, investment companies, and public and private companies. He has a J.D. from Yale Law School, a Ph.D. in English from the University of California, Irvine, and graduated Phi Beta Kappa, summa cum laude, with a B.A. in English and Philosophy from the University of Southern California.
Paul Saltzman *Managing Director and General Counsel*	48	Mr. Saltzman is a Managing Director and General Counsel of Ellington. He is responsible for advising Ellington on all legal, regulatory, compliance, documentation and litigation matters. Mr. Saltzman also serves as the Secretary of our Manager, and has been our Secretary since June 2008. Prior to joining Ellington in February 2008, Mr. Saltzman served as Executive Vice President and Chief Operating Officer of Espeed, Inc. (formerly the public company affiliate of Cantor Fitzgerald), a leader in developing electronic marketplaces for the fixed income dealer community. Mr. Saltzman also served for nearly a decade as Executive Vice President and General Counsel of the Bond Market Association, which has since merged with the Securities Industry Association to form SIFMA, leading the organization's regulatory and market practice advocacy in Washington, D.C. and around the globe before legislators and regulators. Mr. Saltzman previously served in various capacities as in-house counsel at Kidder Peabody and Greenwich Capital Markets and as a structured finance transactional attorney with Skadden, Arps, Slate, Meagher & Flom LLP. Mr. Saltzman holds a B.A. from Clark University, where he graduated magna cum laude and Phi Beta Kappa, and a J.D. from Boston University School of Law. Mr. Saltzman is authorized to practice in the State of New York and is an Authorized House Counsel in the State of Connecticut. He is currently a member of the New York State Bar Association, the Connecticut Bar Association, the American Bar Association and the Bar of the Supreme Court of the United States. Mr. Saltzman has previously served as an advisory board member of The Institute for Financial Markets, the Securities and Exchange Commission Historical Society and the Global Capital Markets Center at Duke University. Mr. Saltzman recently joined the Board of Directors of the Pro Bono Partnership, a leading provider of free business legal resources to non-profit organizations serving disadvantaged communities in the New York, New Jersey and Connecticut area.

Name/position at Ellington	Age	Background summary
Mark Tecotzky *Managing Director*	47	Mr. Tecotzky is a Managing Director of Ellington, and head manager for all MBS/ABS credit, reporting directly to Mr. Vranos. Mr. Tecotzky also serves as the Chief Investment Officer of Ellington Global Asset Management LLC and our Manager and serves on our Manager's investment and risk management committee. Mr. Tecotzky has been our Co-Chief Investment Officer since March 2008. Prior to joining Ellington in July 2006, Mr. Tecotzky was the senior trader in the mortgage department at Credit Suisse. He developed and launched several of its securitization vehicles, including hybrid ARMs and second liens, and subsequently ran its hybrid ARM business, including conduit pricing, servicing sales, monthly securitization, trading of Agency/non-Agency hybrids of all ratings categories and managing and hedging the residual portfolio. Prior to joining Credit Suisse, Mr. Tecotzky worked with Mr. Vranos and many of the other Ellington principals at Kidder Peabody, where he traded Agency and non-Agency pass-throughs and structured CMOs as a Managing Director. Mr. Tecotzky holds a B.S. from Yale University, and received a National Science Foundation fellowship to study at MIT.

Name/position at Manager	Age	Background summary
Lisa Mumford *Chief Financial Officer*	46	Ms. Mumford has served as the Chief Financial Officer of our Manager and as our Chief Financial Officer since October 2009. Prior to joining our Manager, and since August 2008, Ms. Mumford was Chief Financial Officer of ACA Financial Guaranty Corporation ("ACA FG") where she oversaw all aspects of the finance and accounting operations. Prior to August 2008, ACA FG was an operating subsidiary of ACA Capital Holdings, Inc. ("ACA") and from 2003 until this period, Ms. Mumford served as the Chief Accounting Officer. While at ACA, Ms. Mumford oversaw all aspects of the accounting, internal control, and financial reporting process. Prior to joining ACA, and beginning in 1988, Ms. Mumford was with ACE Guaranty Corp., where over her tenure, she held the positions of Chief Financial Officer and Controller. She began her career as a staff accountant with Coopers & Lybrand in 1984, culminating in the role of Audit Supervisor at the time of her departure in 1988. Ms. Mumford is a member of the American Institute of Certified Public Accountants and holds a B.B.A. in Accounting from Hofstra University.

MANAGEMENT

Directors and Executive Officers

Our board of directors consists of five directors. Of these five directors, three are considered independent in accordance with the requirements of the New York Stock Exchange, Inc., or NYSE. See "—Corporate Governance—Board of Directors and Committees."

Each member of our board of directors serves for a one-year term expiring in May 2010. All of our executive officers, including our dedicated Chief Financial Officer, dedicated controller and dedicated in-house counsel are or will be employees of Ellington or one or more of its affiliates. The following table sets forth certain information about our directors and executive officers.

Name	Age	Position With Us
Michael W. Vranos	48	Co-Chief Investment Officer and Director
Laurence Penn	47	Chief Executive Officer, President and Director
Eric Bothwell	41	Chief Operating Officer
Lisa Mumford	46	Chief Financial Officer
Paul Saltzman	48	Secretary
Mark Tecotzky	47	Co-Chief Investment Officer
Edward Resendez	53	Director*
Thomas F. Robards	63	Chairman of the Board of Directors*
Ronald I. Simon, Ph.D.	70	Director*

* Independent director

For biographical information relating to our executive officers, see "Our Manager—Our Manager's and Ellington's Employees." Information for each of our directors is set forth below.

Edward Resendez—Mr. Resendez has served as a member of our board of directors since August 2007. From 2007 to September 2009 Mr. Resendez was Senior Vice President-Chief Lending Officer of Kinecta Federal Credit Union and President of Kinecta Alternative Financial Solutions, Inc. From 2002 to 2007 Mr. Resendez was Chief Executive Officer, Board Member and Co-Founder of ResMAE Financial Corporation and its wholly-owned subsidiary ResMAE Mortgage Corporation, or ResMAE. In February 2007, ResMAE filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, District of Delaware. From 1995 through 2000, Mr. Resendez was the President of Long Beach Mortgage Company. During that timeframe he was also appointed as President and a Management Member of the board of directors for both Long Beach Financial Corporation, when that company went public in 1997 (formerly NASDAQ symbol: LBFC), and its wholly-owned operating subsidiary, Long Beach Mortgage Company, a subprime mortgage company, or, collectively with Long Beach Financial Corporation, Long Beach. Long Beach was an originator, purchaser, seller and servicer of subprime mortgages. When Long Beach Financial Corporation was sold to Washington Mutual, Mr. Resendez semi-retired between May 2000 and December 2001. From 1987 to 1995, Mr. Resendez held various management positions at Long Beach, including Executive Vice President—Loan Administration, First Vice President—Risk Management, Vice President—REO Loan Servicing, and Vice President—Retail Origination. Prior to joining Long Beach in 1987, Mr. Resendez held several managerial positions with Transamerica Financial Services from 1977 to 1987. Mr. Resendez earned a B.B.A. from Loyola Marymount University in Los Angeles in 1978, and is a licensed real estate broker in California.

Thomas F. Robards—Mr. Robards has served as a member of our board of directors since August 2007 and as our Chairman since October 2009. Mr. Robards is a principal in Robards & Co, LLC, a private investment and advisory company. He currently serves as a Trustee and is Audit Committee Chair for the HSBC Investor Funds, a mutual fund complex. He is a Director and is Audit Committee Chair of Overseas Shipholding Group, Inc., and until December of 2006 was a Director and on the Audit Committee of Financial Federal Corporation, both NYSE-listed companies. From 2003 to 2004, he was the Senior Vice President and Chief Financial Officer of the American Museum of Natural History in New York, New York. He was the Chief Financial Officer for Datek Online Holding Corporation from 2000 until its acquisition by Ameritrade in 2002. Prior to that, Mr. Robards was employed at Republic New York Corporation for 24 years, including as Chief Financial Officer and Executive Vice President, and from 1997-1999 served on its board of directors. During his tenure his responsibilities at Republic included leading its Asset/Liability and Finance Committees as well as managing Republic National Bank treasury and investment portfolio activities. He currently serves on the Board of Trustees and is Chairman of the Finance Committee of the Big Apple Circus. Mr. Robards earned his B.A. from Brown University and an M.B.A. from Harvard Business School.

Ronald I. Simon, Ph.D.—Dr. Simon has served as a member of our board of directors since August 2007. Dr. Simon is a private investor and financial consultant to businesses. From March 2003 through February 2006, when it was acquired by Wachovia Corp., Dr. Simon was a Director of WFS Financial Inc., a publicly-traded financial services company specializing in automobile finance. He was a director of Collateral Therapeutics from 1998 until its acquisition by Schering A.G. in 2002. From January 2006 to January 2009, he was a director of Cardium Therapeutics, a company formed to acquire and carry on the research and development of gene therapy to treat heart disease, which was originally developed by Collateral Therapeutics and then continued by Schering. From 1995 through 2002, Dr. Simon was a director of SoftNet Systems, Inc., and since 2002, has been a director of its successor company, American Independence Corp., a holding company engaged principally in the health insurance and reinsurance business. He was a director of BDI Investment Corporation, a closely held regulated investment company, from February 2003 until its liquidation in early 2005, and served as Chief Financial Officer for Wingcast, LLC, a developer of automotive telematics from 2001 to 2002. During 2001, Dr. Simon served as Acting Chairman, Chief Executive Officer and Chief Financial Officer for SoftNet Systems, Inc. He also served as Executive Vice President and Chief Financial Officer of Western Water Company from 1997 to 2000, and a director of Western Water Company from 1999 through 2001. Dr. Simon earned a B.A. from Harvard University, an M.A. from Columbia University, and a Ph.D. from Columbia University Graduate School of Business.

Promoters

We consider Mr. Vranos, our Co-Chief Investment Officer, and Mr. Penn, our Chief Executive Officer and President, as our promoters, which means that they have taken initiative in funding and organizing our business.

Corporate Governance—Board of Directors and Committees

Our business is managed through the oversight and direction of our board of directors, which has established investment guidelines for our Manager to follow in its day-to-day management of our business. At least a majority of our board of directors is “independent,” as defined by the rules of the NYSE. Our independent directors are nominated by our nominating and corporate governance committee.

Our board consists of five directors, two of whom are affiliated with our Manager and three of whom are independent directors (Messrs. Resendez, Robards and Simon). The directors are informed about our business at meetings of our board and its committees and through supplemental reports and communications. Our independent directors meet regularly in executive sessions without the presence of our corporate officers.

Our board has established three committees consisting solely of independent directors, the principal functions of which are briefly described below. Matters put to a vote at any one of our three committees must be approved by a majority of the directors on the committee who are present at a meeting at which there is a quorum or by unanimous written consent of the directors on that committee.

Audit Committee

Our board of directors has established an audit committee, which is composed of Messrs. Robards, Simon and Resendez. Mr. Robards chairs the committee. Our audit committee assists the board in overseeing (i) our accounting and financial reporting processes; (ii) the integrity and audits of our consolidated financial statements; (iii) our compliance with legal and regulatory requirements; (iv) the qualifications and independence of our independent auditors; and (v) the performance of our independent auditors.

Compensation Committee

Our board of directors has established a compensation committee, which is composed of Messrs. Resendez, Robards and Simon. Mr. Resendez chairs the committee. The compensation committee's principal functions are to (i) evaluate the performance of our officers, (ii) review the compensation payable to our dedicated Chief Financial Officer, dedicated controller, if any, and dedicated in-house counsel, (iii) evaluate the performance of our Manager, (iv) review the compensation and fees payable to our Manager under our management agreement and (v) administer the issuance of any LTIP units and other share-based awards issued to our officers, our Manager or the employees of our Manager who provide services to us.

Nominating and Corporate Governance Committee

Our board of directors has established nominating and corporate governance committee, which is comprised of Messrs. Simon, Robards and Resendez. Mr. Simon chairs the committee. The nominating and corporate governance committee is responsible for seeking, considering and recommending to the board qualified candidates for election as directors and recommending a slate of nominees for election as directors at the annual meeting. It also periodically prepares and submits to the board for adoption the committee's selection criteria for director nominees. It reviews and makes recommendations on matters involving general operation of the board and our corporate governance, and annually recommends to the board nominees for each committee of the board. In addition, the committee annually facilitates the assessment of the board of directors' performance as a whole and of the individual directors and reports thereon to the board.

Investment and Risk Management Committee

Our Manager has established an investment and risk management committee, which includes Messrs. Penn, Vranos, Tecotzky and Bothwell. The investment and risk management committee advises and consults with our Manager with respect to (i) our investment policies, portfolio holdings, financing and leveraging strategies and our investment guidelines and (ii) our risk management policies and procedures.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has been employed by us. None of our executive officers currently serves, or in the past three years has served, as a member of the board of directors or compensation committee of another entity that has one or more executive officers serving on our board of directors or compensation committee.

Compensation of Directors

Any member of our board of directors who is also an employee of our Manager or Ellington or their respective affiliates does not receive additional compensation for serving on our board of directors. Each independent director currently receives an annual cash retainer of $40,000 and a fee of $1,000 for each board and committee meeting attended ($500 if the meeting is attended telephonically). The chairman of each of the audit committee, compensation committee and nominating and corporate governance committee of our board of directors also receives an additional annual cash retainer of $15,000, $7,500 and $7,500, respectively. We also reimburse our directors for their travel expenses incurred in connection with their attendance at full board and committee meetings.

Our independent directors currently receive annual awards of 1,250 LTIP units and are eligible to receive LTIP units and other share-based awards under our individual incentive plan. On October 1, 2009, we granted 1,250 LTIP units to each of our independent directors in connection with the 2009 annual award of LTIP units to our independent directors. See "—2007 Long-Term Incentive Plans."

Compensation of Our Directors in 2008

The table below describes the compensation earned by our independent directors in 2008. We compensated only those directors who are independent under the NYSE listing standards.

Name	Fees Earned or Paid in Cash	Share-Based Awards[1]	All other Compensation	Total Compensation
Thomas F. Robards	$ 64,500	$24,088[2]	—	$ 88,588
Ronald I. Simon	$ 57,000	$24,088[3]	—	$ 81,088
Edward Resendez	$ 57,000	$24,088[4]	—	$ 81,088

(1) All share-based awards were granted pursuant to the Ellington Incentive Plan for Individuals.
(2) Mr. Robards received 1,250 LTIP units with a grant date fair value of $24,088. These LTIP units were granted on December 31, 2008, and vest on September 30, 2009. As of December 31, 2008, Mr. Robards had outstanding an aggregate of 2,500 LTIP units.
(3) Mr. Simon received 1,250 LTIP units with a grant date fair value of $24,088. These LTIP units were granted on December 31, 2008, and vest on September 30, 2009. As of December 31, 2008, Mr. Simon had outstanding an aggregate of 1,250 LTIP units.
(4) Mr. Resendez received 1,250 LTIP units with a grant date fair value of $24,088. These LTIP units were granted on December 31, 2008, and vest on September 30, 2009. As of December 31, 2008, Mr. Resendez had outstanding an aggregate of 2,500 LTIP units.

Executive Compensation

We do not pay any annual cash compensation to our executive officers, although we are required to reimburse the costs of the wages, salaries and benefits incurred by our Manager or Ellington with respect to our dedicated Chief Financial Officer, subject to the approval of these reimbursements by the compensation committee of our board of directors. As of October 8, 2009, our Manager has provided us with a dedicated Chief Financial Officer. The annual base salary of our dedicated Chief Financial Officer is $250,000. Her cash bonus for 2009 is expected to be $85,000. Thereafter, she is eligible to receive an annual bonus at the discretion of and in an amount determined by our compensation committee. In addition, as of September 16, 2009, our Manager has provided us with a dedicated in-house legal counsel and has the right to provide us with a dedicated controller, and we are required to reimburse the costs of the wages, salaries and benefits incurred by our Manager or Ellington with respect to these additional dedicated officers, subject to the approval of these wages, salaries and benefits by the compensation committee of our board of directors. It is our understanding that the compensation paid to our executive officers by our Manager or Ellington, other than to the dedicated Chief Financial Officer, the dedicated in-house counsel and any dedicated controller provided by our Manager, is not allocated in a manner that would allow us to determine that portion of their compensation that is related to the services performed for us and that portion that is related to services performed for other entities.

2007 Long-Term Incentive Plans

In connection with our August 2007 private offering, our board adopted the Ellington Incentive Plan for Individuals, or the individual incentive plan, and the Ellington Incentive Plan for Entities, or the entity incentive plan, referred to collectively in this prospectus as the incentive plans, to provide incentives to attract and retain the highest qualified directors, officers, employees, advisors, consultants and other personnel. Our Manager's directors, officers, employees and affiliates who provide services to us and our officers, directors, employees, consultants and advisors who are natural persons are eligible to receive awards under the individual incentive plan. Our Manager, consultants and advisors who are not natural persons are eligible to receive awards under the entity incentive plan.

The incentive plans are administered by our compensation committee. The incentive plans each have a term of ten years from the date of adoption.

Currently, under the incentive plans, a combined total of 363,750 LTIP units remain available for issuance. Upon vesting, LTIP units are transferable on a one-for-one basis into common shares. In each subsequent calendar year, the maximum limit on the number of common shares and LTIP units issuable under both incentive plans shall increase by an amount equal to six percent (6%) of the difference, if any (but not less than zero) between (i) the number of common shares that are outstanding as of the last day of such calendar year and (ii) the number of common shares that are outstanding as of the last day of the immediately preceding calendar year. The individual incentive plan requires that of the number of common shares and LTIP units available for awards under both plans, 62,500 common shares be reserved for awards to be made to our independent directors. As of June 30, 2009, 7,500 LTIP units had been issued to our independent directors. In no event shall the number of common shares and LTIP units issued pursuant to both incentive plans exceed 10,000,000. In the event that an award expires, or is forfeited, cancelled or otherwise terminates without the issuance of shares, such common shares subject to such award will again be available for subsequent awards, except as prohibited by law. In addition, common shares that we withhold in satisfaction of the holder's obligation to remit an exercise price or withholding taxes will be available for future awards.

Upon the occurrence of any event that affects our common shares in such a way that an adjustment of outstanding awards is appropriate in order to prevent the dilution or enlargement of rights under the awards (including, without limitation, any extraordinary dividend or other distribution (whether in cash or in kind), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event), the compensation committee shall make appropriate equitable adjustments, which may include, without limitation, adjustments to any or all of the number and kind of common shares (or other securities) which may thereafter be issued in connection with such outstanding awards and adjustments to any exercise price specified in the outstanding awards and shall also make appropriate equitable adjustments to the number and kind of common shares (or other securities) authorized by or to be granted under the incentive plans. Such other substitutions or adjustments shall be made respecting awards granted under the incentive plans as may be determined by the compensation committee, in its sole discretion. In connection with any event described in this paragraph, the compensation committee may provide, in its discretion, for the cancellation of any outstanding award and payment in cash or other property in exchange therefor, equal to the difference, if any, between the fair market value of our common shares or other property subject to the award, and the exercise price, if any.

The compensation committee has the authority under the incentive plans to determine the terms and conditions of any awards thereunder, including the terms of any LTIP units. In general, LTIP units will comprise a separate class or classes of our limited liability company interests. Each LTIP unit awarded will typically be deemed to be the equivalent of one common share under the incentive plans. In connection with each grant of LTIP units, the compensation committee sets the relevant terms of such grant, including the number, vesting schedule (including any performance-based vesting conditions) and forfeiture provisions, rights to distributions, allocations of income and capital accounts, required capital contributions, if any, voting rights and conversion features, among other things. As equity interests, the LTIP units are also subject to the terms of our operating agreement. LTIP units may be granted either as free-standing awards or in tandem with other awards under our incentive plans.

In addition to LTIP units, the incentive plans also permit awards of restricted common shares. A restricted common share award is an award of our common shares that may be subject to forfeiture (vesting), restrictions on transferability and such other restrictions, if any, as the compensation committee may impose at the date of grant. The restrictions may lapse at such times and under such circumstances, including, without limitation, a specified period of employment or the satisfaction of pre-established criteria, in such installments or otherwise, as our compensation committee may determine. Except to the extent restricted under an award agreement, the holder of a restricted common share has all of the rights of a shareholder, including, without limitation, the right to vote and the right to receive distributions on the restricted common shares. Although distributions are paid on all restricted common shares, whether or not vested, at the same rate and on the same date as common shares, the award agreement may prohibit holders of restricted common shares from transferring such restricted common shares until they vest. All restrictions on restricted common shares granted under the incentive plans will be removed immediately and fully upon a change of control of us.

The compensation committee may also grant share appreciation rights, performance awards and other share and non-share-based awards under the incentive plans. These awards may be subject to such conditions and restrictions as the compensation committee may determine, including, but not limited to, the achievement of certain performance goals or continued employment with us through a specific period.

Generally, holders are not permitted to sell, transfer, pledge or assign any award, and all awards shall be exercisable, during the holder's lifetime, only by the holder; provided, however, that the compensation committee may, in its sole discretion, provide that certain awards may be transferable subject to certain restrictions.

Our compensation committee may at any time amend, alter, suspend or discontinue the incentive plans, but cannot, without a participant's consent, take any action that would impair the rights of such participant under any award granted under the plans. To the extent required by law, the compensation committee will obtain approval of the shareholders for any amendment that would:

- increase the total number of common shares reserved for issuance under the incentive plans (other than through adjustment as provided in the incentive plan);
- change the class of eligible participants under the incentive plans; or
- otherwise require such approval.

Outstanding Awards

In connection with our August 2007 private offering, we issued 375,000 LTIP units to our Manager under our entity incentive plan, which are convertible into 375,000 common shares. Currently, 250,000 of these LTIP units have vested. As of June 30, 2009, our independent directors have, in the aggregate, been issued 7,500 LTIP units under our individual incentive plan, 3,750 of which have vested and 1,250 of which have been converted into common shares (excludes 1,250 common shares converted by one of our independent directors in August 2009 and 1,250 common shares converted by one of our independent directors in October 2009). In addition, on October 1, 2009 we issued 1,250 LTIP units to each of our independent directors in connection with the 2009 annual LTIP unit awards to our independent directors.

These LTIP units comprise a separate non-voting class of our limited liability company interests. They are structured as profits interests that do not require any capital contribution by the grantee, and, unlike common shares, they initially had no associated capital account. Each of the LTIP units is generally entitled to distributions, and to allocations of our income, in amounts that correspond to distributions and allocations for one common share.

The LTIP units issued to our Manager are subject to forfeiture restrictions that began lapsing in three equal annual installments beginning on the first anniversary of the closing date of our August 2007 private offering, while the LTIP units issued to our independent directors will be subject to forfeiture restrictions that lapse one year after the date of grant. To the extent that distributions are received in respect of an LTIP unit that is subsequently forfeited, the recipient of the distribution will have no obligation to repay us the amount distributed. However, upon forfeiture, the former holder of the LTIP unit will lose the right to any future distributions or allocations of income in respect of such LTIP unit, and will forfeit any capital account that is associated with such LTIP unit at the time of forfeiture.

A holder of an LTIP unit has a right, which will generally be exercisable by the holder at any time after vesting, to convert the LTIP unit into one common share. Prior to the effectiveness of the conversion, and upon the occurrence of certain other specified events, our income will be specially allocated to the holder of the LTIP unit in an amount necessary to equalize the capital account associated with the LTIP units with that of common shares, such that the LTIP Unit is economically identical to, and fungible with, the common shares.

The grant, vesting and conversion of LTIP units, and the payment of distributions with respect thereto, will not give rise to a tax deduction to us or the holders of common shares. Allocations of income to holders of LTIP units, however, reduces the amount of our income that would otherwise be allocable and taxable to the holders of our common shares.

Management Agreement

We entered into a management agreement with our Manager upon our inception in August 2007, pursuant to which our Manager provides for the day-to-day management of our operations.

The management agreement, which was amended and restated effective July 1, 2009, requires our Manager to manage our assets, operations and affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. Our Manager is under the supervision and direction of our board of directors. Our Manager is responsible for:

- the selection, purchase and sale of assets in our portfolio;
- our financing activities; and
- providing us with advisory services.

Our Manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to the management, operation and administration of our assets and liabilities and business as may be appropriate, which may include, without limitation, the following:

- serving as our consultant with respect to the periodic review of our investment guidelines and other policies and criteria for our other borrowings and operations for the approval of our board of directors;
- investigating, analyzing and selecting possible asset acquisition opportunities and originating, acquiring, structuring, financing, retaining, selling, negotiating for prepayment, restructuring or disposing of our assets in a manner consistent with our investment guidelines;
- with respect to any of our prospective asset acquisitions and any sale, exchange or other disposition of any investment by us, conducting negotiations on our behalf with sellers and purchasers and their respective agents, representatives and investment bankers and owners of privately and publicly held real estate companies;
- engaging and supervising, on our behalf and at our sole cost and expense, third-party service providers that are not affiliated with Ellington who provide, among other services, investment banking, mortgage brokerage, securities brokerage, legal, accounting, due diligence and such other services as may be required relating to our assets or potential assets and to our other business and operations;
- coordinating and managing operations of any joint venture or co-investment interests held by us and conducting all matters with any joint venture or co-investment partners;
- coordinating and supervising, on our behalf and at our sole cost and expense, other third-party service providers;
- providing executive and administrative personnel, office space and office services required in rendering services to us;
- administering our day-to-day operations and performing and supervising the performance of such other administrative functions necessary for our management as may be agreed upon by our Manager and our

board of directors, including, without limitation, the collection of revenues and the payment of our debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

- engaging and supervising, on our behalf and at our sole cost and expense, consultants and other service providers that are not affiliated with Ellington, to assist us in complying with the requirements of Sarbanes Oxley and the Exchange Act;
- communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;
- counseling us in connection with policy decisions to be made by our board of directors;
- counseling us, and when appropriate, evaluating and recommending to our board of directors hedging, financing and securitization strategies, and engaging in hedging, financing, borrowing and securitization activities on our behalf, consistent with the investment guidelines;
- counseling us regarding the maintenance of our exclusion from regulation as an investment company under the Investment Company Act and monitoring compliance with the requirements for maintaining such exclusion and using commercially reasonable efforts to cause us to maintain such exclusion from regulation as an investment company under the Investment Company Act;
- assisting us in developing criteria for asset purchase or commitments that are specifically tailored to our objectives and making available to us its knowledge and experience with respect to mortgage loans, real estate, real estate related securities, other real estate-related assets, ABS, non-real estate-related assets and real estate operating companies;
- furnishing such reports to us or our board of directors that our Manager reasonably determines to be responsive to reasonable requests for information from us or our board of directors regarding our activities and services performed for us or any of our subsidiaries by our Manager;
- monitoring the operating performance of our assets and providing periodic reports with respect thereto to our board of directors, including comparative information with respect to such operating performance and budgeted or projected operating results;
- purchasing assets (including short-term investments pending the purchase of other assets, payment of fees, costs and expenses, or distributions to our shareholders), and advising us as to our capital structure and capital raising;
- causing us, at our sole cost and expense, to retain qualified independent accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations including soliciting shareholders for required information to the extent provided by the provision of the Code and the Treasury Regulations applicable to us and to conduct quarterly compliance reviews with respect thereto;
- causing us to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;
- assisting us in complying with all regulatory requirements applicable to us in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act and the Securities Act;
- taking all necessary actions to enable us to make required tax filings and reports and compliance with the Code and the Treasury Regulations applicable to us, including, without limitation, the provisions applicable to the treatment of us as a partnership, and not an association or publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes;

- handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day-to-day operations, subject to such limitations or parameters as may be imposed from time to time by our board of directors;
- using commercially reasonable efforts to cause expenses incurred by or on our behalf to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by our board of directors from time to time;
- advising on, and obtaining on our behalf, appropriate credit facilities or other financings for our assets consistent with our investment guidelines;
- advising us with respect to and structuring long-term financing vehicles for our portfolio of assets, and offering and selling securities publicly or privately in connection with any such structured financing;
- performing such other services as may be required from time to time for management and other activities relating to our assets as our board of directors shall reasonably request or our Manager shall deem appropriate under the particular circumstances; and
- using commercially reasonable efforts to cause us to comply with all applicable laws.

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in following or declining to follow our Manager's advice or recommendations.

Our Manager, Ellington, EMG Holdings, L.P. and their affiliates who provide services to us under the management agreement or the services agreement, their directors, officers, members, shareholders, managers, investment and risk management committee members, employees, agents, successors and assigns are not liable to us, any subsidiary of ours, any of our or our subsidiaries' directors, officers, shareholders, managers, owners or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except by reason of acts or omissions constituting bad faith, willful misconduct, gross negligence, or reckless disregard of our Manager's duties under the management agreement, as determined by a final non-appealable order of a court of competent jurisdiction. We have agreed to indemnify our Manager, Ellington, EMG Holdings, L.P. and their affiliates, directors, officers, members, shareholders, managers, investment and risk management committee members, employees, agents, successors and assigns with respect to all liabilities, judgments, costs, charges, losses, expenses and claims, including attorney's fees, charges and expenses and expert witness fees, of any nature, kind or description, arising from claims by third parties caused by acts or omissions of our Manager, Ellington, EMG Holdings, L.P. or their affiliates not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of our Manager's duties under the management agreement or claims by our Manager's employees relating to the terms and conditions of their employment. Our Manager and its affiliates will not be liable for acts or omissions made or taken in accordance with written advice of professional advisors that are engaged by our Manager with commercially reasonable care, absent bad faith, gross negligence, willful misconduct or fraud by our Manager, Ellington, EMG Holdings, L.P. or their affiliates or their personnel.

Our Manager has agreed to indemnify us and our directors and officers with respect to all liabilities, judgments, costs, charges, losses, expenses and claims, including attorney's fees, charges and expenses and expert witness fees, of any nature, kind or description, arising out of (i) claims by third parties based on acts or omissions of our Manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under the management agreement, as determined pursuant to a final, non-appealable order of a court of competent jurisdiction or (ii) claims by our Manager's employees relating to the terms and conditions of their employment with our Manager. Our Manager intends to obtain errors and omissions and other insurance which is customarily carried by property and investment managers.

Pursuant to the terms of the management agreement, our Manager is required through Ellington and its affiliates to provide a management team (including, without limitation, a Chief Executive Officer and President, Chief Operating Officer, a Chief Investment Officer and a Chief Financial Officer) along with appropriate support personnel, to deliver the management services to us, with the members of such management team, other than those that are dedicated to us, devoting such of their time to the management of us as our Manager deems reasonably necessary and appropriate for the proper performance of all of our Manager's duties, commensurate with the level of our activity from time to time. Our Manager currently provides us with a dedicated Chief Financial Officer and a dedicated in-house counsel, who devote all or substantially all of their time to the management of us and the performance of their duties as our Chief Financial Officer and in-house counsel. We are responsible for the entire cost of the dedicated Chief Financial Officer and in-house counsel and reimburse our Manager or Ellington for such costs. Our management agreement also permits our Manager to appoint a dedicated controller to our company and to be reimbursed by us for the entire cost incurred by our Manager or Ellington to employ such individual. The dedicated controller will be required by our Manager to dedicate all or substantially all of his or her business time and efforts to us. We have the benefit of our Manager's reasonable judgment and effort in rendering services and, in furtherance of the foregoing, our Manager shall not undertake activities which, in its reasonable judgment, will materially adversely affect the performance of its obligations under the management agreement.

Term and Termination

The management agreement has a current term that expires on December 31, 2011, and will be automatically renewed for a one year term each anniversary date thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. Our independent directors will review our Manager's performance annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding common shares, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the base management and incentive fees payable to our Manager are not fair, subject to our Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. In the event we terminate the management agreement without cause or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of (i) the average annual base management fee earned by our Manager during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination and (ii) the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination.

We may also terminate the management agreement without payment of the termination fee with 30 days prior written notice from our board of directors for cause, which is defined as:

- our Manager's continued material breach of any provision of the management agreement following a period of 30 days after written notice of such breach;
- our Manager's fraud, misappropriation of funds, or embezzlement against us;
- our Manager's gross negligence in performance of its duties under the management agreement;
- the occurrence of certain events with respect to the bankruptcy or insolvency of our Manager, including, but not limited to, an order for relief in an involuntary bankruptcy case or our Manager authorizing or filing a voluntary bankruptcy petition;
- the dissolution of our Manager; and
- certain changes of control of our Manager, including but not limited to the departure of Mr. Vranos from senior management of Ellington, whether through resignation, retirement, withdrawal, long-term disability, death or termination of employment with or without cause or for any other reason.

Our Manager may terminate the management agreement effective upon 60 days' prior written notice of termination to us in the event that we default in the performance or observance of any material term, condition or covenant in the management agreement and the default continues for a period of 30 days after written notice to us specifying the default and requesting that the default be remedied in such 30-day period. In the event our Manager terminates the management agreement due to our default in the performance or observance of any material term, condition or covenant in the management agreement, we will be required to pay our Manager the termination fee.

Our Manager may also terminate the management agreement in the event we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event; provided, however, that in the case of such termination, if our Manager was not at fault for our becoming regulated as an investment company under the Investment Company Act, we will be required to pay a termination fee.

Our Manager may generally only assign the management agreement with the written approval of a majority of our independent directors. However, our Manager may assign to one or more of its affiliates the performance of any of its responsibilities under the management agreement without the approval of our independent directors so long as our Manager remains liable for any such affiliates performance and such assignment does not require our approval under the Advisers Act.

License to use the Name "Ellington"

Pursuant to the management agreement, our Manager has granted us a non-exclusive, royalty-free license to use the name "Ellington." We have a right to use the "Ellington" name for so long as our Manager remains our manager. In the event the management agreement is terminated, we would be required to change our name to eliminate the use of the word "Ellington."

Base Management Fees, Incentive Fees and Reimbursement of Expenses

We do not maintain an office or employ personnel. Instead we rely on the facilities and resources of our Manager to conduct our operations. Expense reimbursements to our Manager are made within 60 days following delivery of the expense statement by our Manager.

Base Management Fees

Under the management agreement, we pay our Manager a base management fee quarterly in arrears in an amount equal to 1.50% per annum of our shareholders' equity (calculated in accordance with GAAP) as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that shareholders' equity will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

In the event that our Manager, Ellington or any of their affiliates receives any management fees, origination fees or structuring fees from any CDO, investment fund, issuer of debt or other investment in which our company has invested or participated, then the quarterly base management fees and any incentive fees payable by us to our Manager will be reduced by, or our Manager will otherwise rebate to us, an amount equal to the portion of such fees payable to our Manager, Ellington or their affiliates that is allocable to our investment or participating interest in such CDO, investment fund, other investment or debt securities during the same period.

Our Manager calculates the base management fee within 45 days after the end of each fiscal quarter and such calculation is promptly delivered to us. We are obligated to pay the base management fee within 15 business days after receipt of the calculation from our Manager.

Our Manager will earn a larger base management fee as a result of this offering to the extent our shareholders' equity increases.

As stated above, we and our Manager amended and restated the management agreement between us and our Manager effective July 1, 2009. Under the amended and restated management agreement, among other things, we reduced the base management fee rate from 1.75% of shareholders' equity per annum to 1.50% of shareholders' equity per annum, and we eliminated a provision pursuant to which, with respect to our common shares held by our Manager, our Manager was paid a special distribution in lieu of being paid base management fees. Under the management agreement that was in effect prior to the July 1, 2009 effective date of these amendments, for the three and six month periods ended June 30, 2009, and the year ended December 31, 2008, we paid actual base management fees to our Manager of $, $ and $, respectively, and we paid special distributions in lieu of base management fees to our Manager for these periods of $, $ and $, respectively, resulting in a total amount of base management fees and special distributions in lieu of base management fees for these periods of $, $, and $, respectively. Had the amendments that became effective on July 1, 2009 been in effect since our inception, we would have paid our Manager base management fees for these periods of $, $ and $, respectively, and we would not have paid any special distributions in lieu of base management fees to our Manager.

Incentive Fees

In addition to the base management fee, with respect to each fiscal quarter we pay our Manager an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) our Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters (but excluding any fiscal quarters prior to July 1, 2009)) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

For purposes of calculating the incentive fee, "Adjusted Net Income" for the Incentive Calculation Period means our net increase in shareholders' equity from operations (or such equivalent GAAP measure based on the basis of presentation of our consolidated financial statements), after all base management fees but before any incentives fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) as of the end of the fiscal quarter preceding the Incentive Calculation Period. Adjusted Net Income will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) our net increase in shareholders' equity from operations (expressed as a positive number) or net decrease in shareholders' equity from operations (expressed as a negative number) for such fiscal quarter (or such equivalent GAAP measures as may be appropriate depending on the basis of presentation of our consolidated financial statements), as the case may be, calculated in accordance with GAAP, adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

For purposes of calculating the incentive fee, the "Hurdle Amount" means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the ten-year Treasury rate for such fiscal quarter, (ii) the sum of (A) the weighted average gross proceeds per share of all our common share issuances (excluding issuances of our common shares (a) as equity incentive awards, (b) to our Manager as part of its base management fee or incentive fee and (c) to our Manager or any of its Affiliates in privately negotiated transactions) up to the end of such fiscal quarter (with each such issuance weighted by both the number of shares issued in such issuance and the number of days that such issued shares were outstanding during such fiscal quarter) and (B) the result obtained by dividing (I) retained earnings attributable to our common shares at the beginning of such fiscal quarter by (II) the average number of our common shares outstanding for each day during such fiscal quarter, and (iii) the average number of our common shares and LTIP units outstanding for each day during such fiscal quarter.

Our manager calculates the incentive fee within 45 days after the end of each fiscal quarter, and we pay the incentive fee with respect to such fiscal quarter within 15 business days following the delivery to us of our Manager's written statement setting forth the computation of the incentive fee for such fiscal quarter.

The management agreement provides that a minimum of 10% of each incentive fee payable to our Manager is to be paid in common shares, with the balance paid in cash. Our Manager may, in its sole discretion, elect to receive a greater percentage of any incentive fee in the form of common shares. Our management agreement further provides that our Manager may not elect to receive common shares as payment of its incentive fee, other than in accordance with all applicable securities exchange rules and securities laws (including prohibitions on insider trading). The number of our common shares to be received by our Manager is based on the fair market value of those common shares. Common shares delivered as payment of the incentive fee are immediately vested, provided that our Manager has agreed not to sell the common shares prior to one year after the date they are issued to our Manager. These common shares are subject to the registration rights as described elsewhere in this prospectus. Our manager's transfer restriction will lapse if the management agreement is terminated.

As stated above, we and our Manager amended and restated the management agreement between us and our Manager effective July 1, 2009. Under the amended and restated management agreement, among other things, we modified the incentive fee calculation so that performance is measured against the applicable hurdle rate based on a rolling four quarter basis rather than on a individual quarter-by-quarter basis, and we eliminated a provision pursuant to which, with respect to our common shares held by our Manager, our Manager was paid a special distribution in lieu of being paid incentive fees. Under the management agreement that was in effect prior to the July 1, 2009 effective date of these amendments, for the three and six month periods ended June 30, 2009, and the year ended December 31, 2008, we paid actual incentive fees to our Manager of $, $ and $, respectively, and we paid special distributions in lieu of incentive fees to our Manager for these periods of $, $ and $, respectively, resulting in a total amount of incentive fees and special distributions in lieu of incentive fees for these periods of $, $, and $, respectively. Had the amendments that became effective on July 1, 2009, been in effect since our inception, we would have paid our Manager incentive fees for these periods of $, $ and $, respectively, and we would not have paid any special distributions in lieu of incentive fees to our Manager.

Reimbursement of Expenses

Our Manager's employees perform certain legal, regulatory, compliance, accounting, due diligence tasks and other services; however, we do not pay our Manager additional fees for these services or reimburse our Manager the cost of performing such services.

We also do pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the management agreement. Our Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of our Manager's employees and other related expenses, other than the costs incurred by our Manager for a dedicated Chief Financial Officer, controller, if any, and in-house counsel. The expenses required to be paid by us include, but are not limited to:

- issuance and transaction costs incident to the acquisition, disposition and financing of our assets;
- legal, regulatory, compliance, tax, accounting, consulting, auditing and administrative fees and expenses and fees and expenses for other similar services rendered by third-party service providers;
- the compensation and expenses of our directors and the cost of liability insurance to indemnify our directors and officers;
- the costs associated with the establishment and maintenance of any credit facilities and our other indebtedness (including commitment fees, accounting fees, legal fees, closing costs, etc.);

- expenses associated with our other securities offerings;
- expenses relating to the payment of distributions;
- expenses connected with communications to holders of our securities and in complying with the continuous reporting and other requirements of the Exchange Act, the SEC and other governmental bodies;
- transfer agent, registrar and exchange listing fees;
- the costs of printing and mailing proxies, reports and other materials to our shareholders;
- costs associated with any computer software or hardware, electronic equipment, or purchased information technology services from third-party vendors that is used solely by us;
- costs and out-of-pocket expenses incurred by directors, officers, employees or other agents of our Manager for travel on our behalf;
- costs associated with the dedicated Chief Financial Officer and in-house counsel and, if utilized, a dedicated controller to be provided by our Manager;
- the portion of any costs and expenses incurred by our Manager or its affiliates with respect to market information systems and publications, research publications and materials that are allocable to us in accordance with the expense allocation policies of Ellington;
- settlement, clearing, and custodial fees and expenses;
- all taxes and license fees;
- all insurance costs incurred with respect to insurance policies obtained in connection with the operation of our business including, but not limited to, insurance covering activities of our Manager and its employees relating to the performance of our Manager's duties and obligations under the management agreement;
- costs and expenses incurred in contracting third parties for the servicing and special servicing of our assets;
- all other actual out of pocket costs and expenses relating to our business and operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of investments, including appraisal, reporting, audit and legal fees;
- any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against us or any subsidiary, or against any of our trustees, directors or officers in his capacity as such or of any subsidiary for which we or any subsidiary are required to indemnify such trustee, director or officer by any court or governmental agency, or settlement of pending or threatened proceedings;
- the costs of maintaining compliance with all federal, state and local rules and regulations, including securities regulations, or any other regulatory agency, all taxes and license fees and all insurance costs incurred on our behalf;
- expenses relating to any office or office facilities, including disaster backup recovery sites and facilities, maintained expressly for us and separate from offices of our Manager
- the costs of the wages, salaries and benefits incurred by our Manager with respect to our dedicated officers; and
- all other costs and expenses approved by the board of directors.

In addition, other than as expressly described above, we are not required to pay any portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our Manager and its affiliates.

Since our inception and through June 30, 2009, we have not been invoiced for and we have not reimbursed our Manager or Ellington for any expenses other than direct third-party expenses of our company (including in certain situations our allocable share of such third-party expenses) that our Manager or Ellington advanced on our behalf.

Distributions to Manager

Prior to July 1, 2009, the management agreement contained provisions requiring that we reduce the base management and incentive fees payable to our Manager by an amount equal to the portion of those fees attributable to our common shares held by our Manager and that we pay those amounts to our Manager as a distribution instead.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions Effected by Ellington and its Affiliates in Respect of Our Portfolio

We may from time to time enter into certain “related party transactions” with Ellington and its affiliates including, subject to certain conditions and limitations, cross transactions, principal transactions and the purchase of securities in other Ellington accounts. See “Business—Conflicts of Interest; Equitable Allocation of Opportunities” for a description of theses types of transactions.

Management Agreement

We have entered into a management agreement with our Manager, pursuant to which our Manager provides for the day-to-day management of our operations. The management agreement requires our Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. All of our officers also serve as officers, employees and/or directors of Ellington, our Manager or one of their other affiliates. As a result, the management agreement between us and our Manager was negotiated between related parties, and the terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. See “Management—Management Agreement—Base Management Fees, Incentive Fees and Reimbursement of Expenses,” “Business—Conflicts of Interest; Equitable Allocation of Opportunities” and “Risk Factors—Risks Related to our Relationship with our Manager and Ellington.”

Services Agreement

Our Manager has entered into a services agreement with Ellington Management Group, L.L.C. pursuant to which Ellington Management Group, L.L.C. and its affiliates provide to our Manager the personnel, services and resources as needed by our Manager to enable our Manager to carry out its obligations and responsibilities under the management agreement, including due diligence, asset management and credit risk management. We are a named third-party beneficiary to the service agreement and, as a result, have, as a non-exclusive remedy, a direct right of action against Ellington in the event of any breach by the Manager of any of its duties, obligations or agreements under the management agreement that arise out of or result from any breach by Ellington of its obligations under the services agreement. The services agreement will terminate upon the termination of the management agreement. Pursuant to the services agreement, our Manager makes certain payments to Ellington in connection with the services provided. However, as described under “Summary—Our Formation and Structure,” our Manager and Ellington are under common ownership and control. As a result, all management fee compensation earned by our Manager and all service agreement fees earned by Ellington accrue to the common benefit of the owners of our Manager and Ellington, namely EMG Holdings, L.P. and VC Investments L.L.C.

Compensation of Directors

Our non-independent directors do not receive additional compensation for serving on our board of directors. Each independent director currently receives an annual cash retainer of $40,000 and a fee of $1,000 for each board and committee meeting attended ($500 if the meeting is attended telephonically). The chairman of each of the audit committee, compensation committee and nominating and corporate governance committee of our board of directors also receives an additional annual cash retainer of $15,000, $7,500 and $7,500, respectively. We also reimburse our directors for their travel expenses incurred in connection with their attendance at full board and committee meetings.

We currently award our independent directors annual grants of 1,250 LTIP units under our individual incentive plan and they are eligible to receive LTIP units and other share-based awards under our individual incentive plan. On October 1, 2009, we issued 1,250 LTIP units to each of our independent directors in connection with the 2009 annual award of LTIP units to our independent directors. See “Management—2007 Long-Term Incentive Plans.”

Registration Rights

Our and our Manager's executive officers, directors, partners, members and other affiliates (as such term is defined in the Exchange Act), including but not limited to Ellington-managed funds, and any of their permitted transferees and including (i) any executive officer, director, trustee, or general partner of such affiliate and (ii) any legal entity for which such affiliate acts as an executive officer, director, trustee or general partner, or the Covered Persons, are entitled to the benefits of a registration rights agreement with respect to the common shares they purchased in our August 2007 private offering and, in the case of our Manager, any common shares issued to our Manager as part of its incentive fee. Pursuant to such registration rights agreement, we are required to file within 60 days after the closing of this offering a resale shelf registration statement providing for the registered resale of these shares. In addition, to the extent any of these shares are no longer eligible for the treatment in the preceding sentence, the registration rights agreement provides the Covered Persons with (i) customary piggy-back registration rights with respect to any registration statement we file with the SEC (subject to underwriter cut-back rights with respect to underwritten offerings) and (ii) upon the request of Covered Persons holding a certain percentage of common shares covered under the registration rights agreement, the right to require us to file up to three registration statements on Form S-3 once we become eligible to use such form or, if we have been subject to regulation under the Exchange Act and have filed all material required to be filed pursuant to Section 13, 14 or 15(d) of the Exchange Act for at least 12 months and are not then eligible to use Form S-3, a single registration on such other form that we are eligible to use.

Indemnification Agreements

We have entered into indemnification agreements with our directors and officers that obligate us to indemnify them to the maximum extent permitted by Delaware law and pay such persons' expenses in defending any civil or criminal proceedings in advance of final disposition of such proceeding.

SELLING SHAREHOLDERS

The following table sets forth information, as of November 2, 2009, with respect to the selling shareholders and common shares beneficially owned by selling shareholders that they propose to offer pursuant to this prospectus. In accordance with the rules of the SEC, each listed person's beneficial ownership includes:

- all shares the person actually owns beneficially or of record;
- all shares over which the person has or shares voting or dispositive control (such as in the capacity as a general partner of an investment fund); and
- all shares the person has the right to acquire within 60 days (such as upon exercise of options that are currently vested or which are scheduled to vest within 60 days).

The common shares offered by the selling shareholders pursuant to this prospectus were originally issued and sold by us in our August 2007 private offering. Pursuant to a registration rights agreement between us and our existing shareholders, the shareholders named below have the right to sell in this offering all or a portion of their common shares.

The term "selling shareholders" includes the holders of our common shares listed below and the beneficial owners of the common shares and their transferees, pledgees, donees or other successors.

	Common Shares Beneficially Owned Prior to this Offering and the Concurrent Private Placement		Common Shares Being Offered by this Prospectus	Common Shares Beneficially Owned After this Offering and the Concurrent Private Placement	
Selling Shareholder	**Number**	**Percent**		**Number**	**Percent[1]**
Ellington Mortgage Partners LP[2]	380,000	3.18%	380,000	0	0%
New Ellington Credit Partners LP[2]	750,000	6.28	750,000	0	0
Total	1,130,000	9.46%	1,130,000	0	0%

(1) Assumes that each named selling shareholder sells all of the common shares it is offering for sale under this prospectus and neither acquires nor disposes of any other common shares, nor has the right to purchase other common shares, subsequent to the date as of which we obtained information regarding its holdings. The percentage of common shares beneficially owned is based on the aggregate of 11,939,254 common shares outstanding as of November 2, 2009.

(2) Ellington Mortgage Partners LP and New Ellington Credit Partners LP are hedge funds that are managed by Ellington. Certain principals, employees and related parties of Ellington beneficially own in aggregate, through their investments in these two funds, 9.71% of the 1,130,000 common shares collectively held by these two funds, representing approximately 109,679 common shares.

One other Ellington-managed hedge fund, New Ellington Partners LP, holds 120,000 of our common shares. Certain principals, employees and related parties of Ellington beneficially own, through their investments in this fund, 75.16% of the common shares held by the fund, representing approximately 90,196 common shares. This fund is not a selling shareholder in this offering and is subject to a lock-up agreement with respect to our common shares for a period of 60 days following the date of this prospectus.

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PRINCIPAL SHAREHOLDERS

The following table sets forth, as of November 2, 2009 and before giving effect to this offering and the concurrent private placement, certain ownership information with respect to our common shares for those persons known to us who directly or indirectly own, control or hold with the power to vote 5% or more of our outstanding common shares and all of our executive officers and directors, individually and as a group. In accordance with SEC rules, each listed person's beneficial ownership includes:

- all shares the investor actually owns beneficially or of record;
- all shares over which the investor has or shares voting or dispositive control (such as in the capacity as a general partner of a fund); and
- all shares the investor has the right to acquire within 60 days (such as upon exercise of options that are currently vested or which are scheduled to vest within 60 days).

Name and Address	Shares Beneficially Owned Number	Percent
5% Shareholders:		
EMG Holdings, L.P.(1)	3,294,004	27.0%
VC Investments L.L.C.(1)	3,294,004	27.0%
American Financial Group, Inc.(2)	750,000	6.2%
FBR Capital Markets Corporation(3)	1,438,750	11.8%
Legg Mason Opportunity Trust(4)	2,500,000	20.5%
Zweig-DiMenna Partners, L.P.(5)	1,000,000	8.2%
Directors and Executive Officers:(6)		
Michael W. Vranos(7)(8)	3,294,004	27.0%
Laurence Penn(8)	3,294,004	27.0%
Paul Asaro(8)(9)	3,294,004	27.0%
Mark Tecotzky(8)	3,294,004	27.0%
Eric Bothwell	—	—
Lisa Mumford(9)	—	—
Paul Saltzman	—	—
Thomas Robards(10)	2,500	*
Ronald I. Simon, Ph.D(11)	6,250	*
Edward Resendez(12)	2,500	*
All officers and directors as a group	3,305,254	27.1%

* Less than 1%.

(1) Includes (a) 1,258,783 shares and 250,000 LTIP units held by EMG Holdings, L.P., (b) 500,000 shares held by a trust as to which Mr. Vranos is the settlor and (c) 35,221 shares held by our Manager. LTIP units are convertible into common shares on a one-for-one basis, subject to certain conditions. The members of our Manager are VC Investments L.L.C. and EMG Holdings, L.P. VC Investments L.L.C. is the managing member of our manager and the general partner of EMG Holdings, L.P. VC Investments L.L.C. and EMG Holdings, L.P. collectively own the beneficial interest in the common shares held by our Manager and 100% of the voting interest in our Manager. Mr. Vranos beneficially owns a controlling interest in VC Investments L.L.C. Accordingly, Mr. Vranos, VC Investments L.L.C. and EMG Holdings L.P. may be deemed to beneficially own common shares owned by our Manager. Also includes 1,250,000 shares held by three hedge funds that are managed by Ellington, of which 1,130,000 shares are being offered by the selling shareholders named in this prospectus. The address for EMG Holdings, L.P. is 53 Forest Avenue, Old Greenwich, CT 06870.

(2) The address for American Financial Group, Inc. is One East Fourth Street, Cincinnati, OH 45202.

(3) The address for FBR Capital Markets Corporation is 1001 Nineteenth Street North, 18th Floor, Arlington, VA 22209.

(4) The address for Legg Mason Opportunity Trust, a series of Legg Mason Investment Trust, Inc., is 100 Light Street, Baltimore, MD 21202.

(5) Includes 372,500 common shares owned by Zweig-DiMenna Partners, L.P. and 627,500 common shares owned by accounts for which Zweig-DiMenna International Managers, Inc. is the investment manager. Zweig-DiMenna International Managers, Inc. may be deemed to be affiliated with the general partners of Zweig-DiMenna Partners, L.P. Each entity disclaims beneficial ownership of all common shares in excess of its pecuniary interest. The address for Zweig-DiMenna Associates, Inc. is 900 3rd Avenue, 31st Floor, New York, NY 10022.

(6) The address for all officers and directors is Ellington Financial LLC, 53 Forest Avenue, Old Greenwich, CT 06870.
(7) Mr. Vranos is the settlor of a trust that owns 500,000 of our common shares. Mr. Vranos disclaims beneficial ownership of our common shares held by this trust.
(8) Each of Messrs. Vranos, Penn, Tecotzky and Asaro is a beneficial owner of our Manager and EMG Holdings, L.P. Accordingly, such individuals may be deemed to beneficially own common shares and LTIP units owned by our Manager and EMG Holdings, L.P. Each such individual member disclaims beneficial ownership of any such common shares and LTIP units in which they do not have a pecuniary interest.
(9) Mr. Asaro served as our interim Chief Financial Officer during the fiscal year ended December 31, 2009. In October 2009, Ms. Mumford was appointed as our dedicated Chief Financial Officer.
(10) Includes 1,250 LTIP units which are convertible into common shares on a one-for-one basis, subject to certain conditions.
(11) Mr. Simon and his spouse are beneficiaries of a trust that holds all of Mr. Simon’s common shares.
(12) Includes 2,500 LTIP units which are convertible into common shares on a one-for-one basis, subject to certain conditions.

DESCRIPTION OF SHARES

The following is a summary of some of the terms of the common shares representing limited liability company interests in our company. Our operating agreement provides for the issuance of our common shares, as well as certain terms of our common shares. The following is a summary of some of the terms of our common shares, our operating agreement and the Delaware LLC Act, and is not complete and is subject to, and qualified in its entirety by reference to, all of the provisions of our operating agreement and the Delaware LLC Act.

Authorized Shares

Each of our common shares represents a limited liability company interest in Ellington Financial LLC. We are authorized to issue, pursuant to action by our board of directors and without action by our shareholders, up to 100,000,000 common shares, up to 100,000,000 preferred shares and up to 10,000,000 LTIP units. Upon consummation of this offering and the concurrent private placement, there will be   common shares and   LTIP Units outstanding.

Common shares

Upon payment in full of the consideration payable with respect to the common shares, as determined by our board of directors, such shareholders shall not be liable to us to make any additional capital contributions with respect to such shares (except as otherwise required by Sections 18-607 and 18-804 of the Delaware LLC Act). No holder of common shares is entitled to preemptive, redemption or conversion rights.

Voting Rights

The holders of common shares are entitled to one vote per share held of record on all matters submitted to a vote of our shareholders. Generally, all matters to be voted on by our shareholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all common shares present in person or represented by proxy, voting together as a group.

Distribution Rights

In general, holders of common shares will share ratably (based on the number of common shares held) in any distribution declared by our board of directors out of funds legally available, therefore, subject to any statutory or contractual restrictions on the payment of distributions and to any restrictions on the payment of distributions imposed by the terms of any outstanding preferred shares. Distributions consisting of common shares may be paid only as follows: (i) common shares may be paid only to holders of common shares; and (ii) shares shall be paid proportionally with respect to each outstanding common share.

Manager's Shares

Prior to July 1, 2009, the amount of base management fees and incentive fees that we paid to our Manager was reduced to exclude from the calculation amounts that was otherwise payable in respect of equity and net income that was attributable to common shares and LTIP units owned by our Manager. Pursuant to our operating agreement, the base management fee and incentive fee was reduced in the manner described in the preceding sentence, was specially allocated to holders of common shares other than our Manager, and an amount of cash equal to such reduction was distributed to our Manager. The amounts paid to our Manager as distributions in lieu of base management and incentive fees that were otherwise payable in respect of common shares held by our

Manager were approximately $0.1 million for the period from August 17, 2007 (commencement of operations) through December 31, 2007, approximately $0.9 million for the year ended December 31, 2008 and $0.3 million for the six month period ended June 30, 2009.

Liquidation Rights

Upon our dissolution, liquidation or winding up, after payment in full of all amounts required to be paid to creditors and to the holders of preferred shares having liquidation preferences, if any, the holders of our common shares will be entitled to receive our remaining assets available for distribution (only to the extent such assets are converted to cash) in accordance with and to the extent of positive balances in the respective capital accounts after taking into account certain adjustments. If our assets remaining after payment or discharge of our debts or liabilities are insufficient to return their capital contributions, the holders of our common shares shall have no recourse against us or any other holder of our common shares or our Manager.

Other Matters

In the event of our merger or consolidation with or into another entity in connection with which our common shares are converted into or exchangeable for shares of stock, other securities or property (including cash), all holders of common shares will thereafter be entitled to receive the same kind and amount of shares of stock and other securities and property (including cash). Under our operating agreement, in the event of an inadvertent termination of partnership status in which the IRS has granted us limited relief each holder of our common shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership for U.S. federal (and applicable state) income tax purposes.

Preferred Shares

Our operating agreement authorizes our board of directors to establish one or more series of preferred shares. Unless required by law or by any stock exchange, the authorized preferred shares will be available for issuance without further action by common shareholders. Our board of directors is able to determine, with respect to any series of preferred shares, the holders of terms and rights of that series, including:

- the designation of the series;
- the amount of preferred shares of the series, which our board may, except where otherwise provided in the preferred shares designation, increase or decrease, but not below the number of preferred shares of the series then outstanding;
- whether distributions, if any, will be cumulative or non-cumulative and the dividend rate of the series;
- the dates at which distributions, if any, will be payable;
- the redemption rights and price or prices, if any, for preferred shares of the series;
- the terms and amounts of any sinking fund provided for the purchase or redemption of the preferred shares of the series;
- the amounts payable on preferred shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;
- whether the preferred shares of the series will be convertible into or exchangeable for interests of any other class or series, or any other security, of our company or any other entity, and, if so, the specification of the other class or series or other security, the conversion or exchange price or prices or rate or rates, any rate adjustments, the date or dates on which, the period or periods during which, the shares will be convertible or exchangeable and all other terms and conditions upon which the conversion or exchange may be made;

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- restrictions on the issuance of preferred shares of the series or of any shares of any other class or series; and
- the voting rights, if any, of the holders of the preferred shares of the series.

We could issue a series of preferred shares that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority, of holders of common shares might believe to be in their best interests or in which holders of common shares might receive a premium for their common shares over the market value of the common shares.

LTIP Units

For a description of our LTIP units see “Management—2007 Long-Term Incentive Plans.”

Operating Agreement

Organization and Duration

We were formed in Delaware in July 2007, and will remain in existence until dissolved in accordance with our operating agreement.

Purpose

Under our operating agreement, we are permitted to engage in any business activity that lawfully may be conducted by a limited liability company organized under Delaware law and, in connection therewith, to exercise all of the rights and powers conferred upon us pursuant to the agreements relating to such business activity; provided, however, that, except if our board of directors determines that it is no longer in our best interests, our management shall not cause us to engage, directly or indirectly, in any business activity that our board of directors determines would require us to register as an investment company under the Investment Company Act or cause us to be treated as an association or publicly traded partnership taxable as a corporation or otherwise taxable at the entity level for federal income tax purposes.

Agreement to be Bound by our Operating Agreement; Power of Attorney

By purchasing a common share, you will be admitted as a member of our limited liability company and will be deemed to have agreed to be bound by the terms of our operating agreement. Pursuant to this agreement, each shareholder and each person who acquires a common share from a shareholder grants to certain of our officers (and, if appointed, a liquidator) a power of attorney to, among other things, execute and file documents required for our qualification, continuance or dissolution. The power of attorney also grants certain of our officers the authority to make certain amendments to, and to make consents under and in accordance with, our operating agreement.

Duties of Officers and Directors

Our operating agreement provides that our business and affairs shall be managed under the direction of our board of directors, which shall have the power to appoint our officers. Our operating agreement further provides that the authority and function of our board of directors and officers shall be identical to the authority and functions of a board of directors and officers of a corporation organized under the Delaware General Corporation Law, or DGCL, except as expressly modified by the terms of the operating agreement. Finally, our operating agreement provides that except as specifically provided therein, the fiduciary duties and obligations of our board of directors owed to us and to our members shall be the same as the respective duties and obligations owed by officers and directors of a corporation organized under the DGCL to their corporation and stockholders, respectively.

Our operating agreement does not expressly modify the duties and obligations owed by officers and directors under the DGCL. However, there are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the DGCL. First, our operating agreement provides that to the fullest extent permitted by applicable law our directors will not be liable to us. Under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders; (ii) intentional misconduct or knowing violations of the law that are not done in good faith; (iii) improper redemption of stock or declaration of a dividend; or (iv) a transaction from which the director derived an improper personal benefit.

Second, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent permitted by law. Under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in a criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful.

Third, our operating agreement provides that in the event a potential conflict of interest exists or arises between any of our principals, our directors or their respective affiliates, on the one hand, and us, any of our subsidiaries or any of our shareholders, on the other hand, a resolution or course of action by our board of directors shall be deemed approved by all of our shareholders, and shall not constitute a breach of the fiduciary duties of members of the board to us or our shareholders, if such resolution or course of action is (i) approved by our nominating and corporate governance committee, which is composed of independent directors, (ii) approved by shareholders holding a majority of our shares that are disinterested parties, (iii) on terms no less favorable than those generally provided to or available from unrelated third parties, or (iv) fair and reasonable to us. Under the DGCL, a corporation is not permitted to automatically exempt board members from claims of breach of fiduciary duty under such circumstances.

In addition, our operating agreement provides that all conflicts of interest described in this prospectus are deemed to have been specifically approved by all of our shareholders.

Election of Members of Our Board of Directors

Since our first annual meeting of shareholders, members of our board of directors have been elected by a plurality of our shareholders. Each member of our board of directors currently serves for a one-year term expiring in 2010.

Removal of Members of Our Board of Directors

Any director or the entire board of directors may be removed, only for cause (as defined in the operating agreement) and then only by a vote of at least two-thirds of the votes entitled to be cast in the election of directors. The vacancy in the board of directors caused by any such removal will be filled by a vote of the majority of directors then in office even if the remaining directors do not constitute a quorum.

Shareholder Meetings

Under our operating agreement, we are required to hold an annual meeting of shareholders for the election of directors and other business during the month of May of each year on a date and time to be set by the board of directors. In addition, our operating agreement provides that a special meeting of shareholders may be called by our board of directors and certain of our officers. Our operating agreement further provides that, subject to the satisfaction of certain procedural and information requirements, a special meeting of shareholders shall be called by the Secretary of the company upon written request of shareholders entitled to cast not less than a majority of all of the votes entitled to be cast at such meeting.

Advance Notice of Nominations and Shareholder Business

Our operating agreement establishes advance notice procedures with respect to shareholder proposals and the nomination of persons for election as directors at annual meeting of our shareholders.

Limited Liability

The Delaware LLC Act provides that a member who receives a distribution from a Delaware limited liability company and knew at the time of the distribution that the distribution was in violation of the Delaware LLC Act shall be liable to the company for the amount of the distribution for three years. Under the Delaware LLC Act, a limited liability company may not make a distribution to a member if, after the distribution, all liabilities of the company, other than liabilities to members on account of their shares and liabilities for which the recourse of creditors is limited to specific property of the company, would exceed the fair value of the assets of the company. For the purpose of determining the fair value of the assets of a company, the Delaware LLC Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the company only to the extent that the fair value of that property exceeds the nonrecourse liability. Under the Delaware LLC Act, an assignee who becomes a substituted member of a company is liable for the obligations of his assignor to make contributions to the company, except the assignee is not obligated for liabilities unknown to him at the time the assignee became a member and that could not be ascertained from the operating agreement.

Limitations on Liability and Indemnification of Our Directors and Officers

Our operating agreement provides that our directors will not be liable to us, or any subsidiary of ours, or any holder of shares, for monetary damages for any acts or omissions arising from the performance of any of such director’s obligations or duties in connection with us, including breach of fiduciary duty, except as follows: (i) for any breach of the director’s duty of loyalty to us or the holders of the shares; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (iii) for any transaction from which the director derived an improper personal benefit. The operating agreement provides that, to the fullest extent permitted by law, we will indemnify our directors and officers or any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of us) by reason of the fact that the person is or was our director, officer, employee, tax matters member or agent, or is or was serving at our request as a director, officer, employee or agent of another company, to the fullest extent permitted by law against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person’s conduct was unlawful.

Each of the persons entitled to be indemnified for expenses and liabilities as contemplated above may, in the performance of his, her or its duties, consult with legal counsel and accountants, and any act or omission by such person on our behalf in furtherance of our interests in good faith in reliance upon, and in accordance with, the advice of such legal counsel or accountants will be full justification for any such act or omission, and such person will be fully protected for such acts and omissions; provided that such legal counsel or accountants were selected with reasonable care by or on our behalf.

Amendment of Our Operating Agreement

Amendments to our operating agreement may be proposed only by or with the consent of our board of directors. To adopt a proposed amendment, our board of directors is required to seek written approval of the holders of the number of shares required to approve the amendment or call a meeting of our shareholders to consider and vote upon the proposed amendment. Except as set forth below, an amendment must be approved by holders of a majority of the total voting power of our outstanding common shares and, to the extent that such amendment would have a material adverse effect on the holders of any class or series of shares, by the holders of a majority of the holders of such class or series.

Prohibited Amendments. No amendment may be made that would:

- enlarge the obligations of any shareholder without such shareholder's consent, unless approved by at least a majority of the type or class of shares so affected;
- provide that we are not dissolved upon an election to dissolve our limited liability company by our board of directors that is approved by holders of a majority of the total voting power of our outstanding common shares;
- change the term of existence of our company; or
- give any person the right to dissolve our limited liability company other than our board of directors' right to dissolve our limited liability company with the approval of holders of a majority of the total voting power of our outstanding common shares.

The provision of our operating agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of holders of at least two-thirds of the total voting power of our outstanding common shares.

No Shareholder Approval. Our board of directors may generally make amendments to our operating agreement without the approval of any shareholder or assignee to reflect:

- a change in our name, the location of our principal place of our business, our registered agent or our registered office;
- the admission, substitution, withdrawal or removal of shareholders in accordance with our operating agreement;
- the merger of our company or any of its subsidiaries into, or the conveyance of all of our assets to, a newly-formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our legal form into another limited liability entity;
- a change that our board of directors determines to be necessary or appropriate for us to qualify or continue our qualification as a company in which our members have limited liability under the laws of any state or to ensure that we will not be treated as an association taxable as a corporation or otherwise taxed at the entity level for U.S. federal income tax purposes other than as our board of directors specifically so designate;
- an amendment that our board of directors determines, based upon the advice of counsel, to be necessary or appropriate to prevent us, members of our board, or our officers, agents or trustees from in any manner being subjected to the provisions of the Investment Company Act, the Advisers Act, or "plan asset" regulations adopted under ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;
- an amendment or issuance that our board of directors determines to be necessary or appropriate for the authorization of additional securities;
- any amendment expressly permitted in our operating agreement to be made by our board of directors acting alone;
- an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of our operating agreement;

- any amendment that our board of directors determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by our operating agreement;
- a change in our fiscal year or taxable year and related changes; and
- any other amendments substantially similar to any of the matters described above.

In addition, our board of directors may make amendments to our operating agreement without the approval of any shareholder or assignee if our board of directors determines that those amendments:

- do not adversely affect the shareholders (including any particular class or series of shares as compared to other classes or series of shares) in any material respect;
- are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;
- are necessary or appropriate to facilitate the trading of shares or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the shares are or will be listed for trading, compliance with any of which our board of directors deems to be in the best interests of us and our shareholders;
- are necessary or appropriate for any action taken by our board of directors relating to splits or combinations of shares under the provisions of our operating agreement; or
- are required to effect the intent expressed in our operating agreement or are otherwise contemplated by our operating agreement.

Merger, Sale or Other Disposition of Assets

Our board of directors is generally prohibited, without the prior approval of holders of a majority of the total voting power of all of our outstanding common shares, from causing us to, among other things, sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, or approving on our behalf the sale, exchange or other disposition of all or substantially all of our assets, provided that our board of directors may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without the approval of any shareholder. Our board of directors may also sell all or substantially all of our assets under a foreclosure or other realization upon the encumbrances above without that approval.

If the conditions specified in our operating agreement are satisfied, our board of directors may merge our company or any of its subsidiaries into, or convey all of our assets to, a newly-formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our legal form into another limited liability entity, in each case without any approval of our shareholders. The shareholders are not entitled to dissenters' rights of appraisal under the operating agreement or applicable Delaware law in the event of a merger or consolidation, a sale of all or substantially all of our assets or any other similar transaction or event.

Termination and Dissolution

We will continue as a limited liability company until terminated under our operating agreement. We will dissolve upon: (1) the election of our board of directors to dissolve us, if approved by holders of a majority of the total voting power of all of our outstanding common shares; (2) the sale, exchange or other disposition of all or substantially all of our assets and those of our subsidiaries; (3) the entry of a decree of judicial dissolution of our limited liability company; or (4) at any time that we no longer have any shareholders, unless our business is continued in accordance with the Delaware LLC Act.

Election to be Treated as a Corporation

If the board of directors determines that it is no longer in our best interests to continue as a partnership for U.S. federal income tax purposes, the board of directors may elect to cause us to be treated as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes.

In the event that the board of directors determines the company should seek relief pursuant to Section 7704(e) of the Code to preserve the treatment of the company as a partnership for U.S. federal (and applicable state) income tax purposes, the company and each shareholder shall agree to adjustments required by the tax authorities, and the company shall pay such amounts as required by the tax authorities.

Books and Reports

We are required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For financial reporting and tax purposes, our fiscal year is the calendar year. We have agreed to use reasonable efforts to furnish to you tax information (including Schedule K-1) as promptly as possible, which describes your allocable share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, we will use various accounting and reporting conventions to determine your allocable share of income, gain, loss and deduction. Delivery of this information by us may be subject to delay as a result of the late receipt of any necessary tax information from an investment in which we hold an interest. It is therefore possible that, in any taxable year, our shareholders will need to apply for extensions of time to file their tax returns.

Provisions in the Operating Agreement that may have an Anti-Takeover Effect

Some of the provisions in the operating agreement described above could make it more difficult for a third party to acquire, or may discourage a third party from acquiring, control of us. These provisions include, among others:

- allowing only our board of directors to fill newly created directorships,
- requiring advance notice for our shareholders to nominate candidates for election to our board of directors or to propose business to be considered by our shareholders at a meeting of our shareholders;
- our ability to issue additional securities, including, but not limited to, preferred shares, without approval by our shareholders;
- the ability of our board of directors to amend the operating agreement without the approval of the shareholders except under certain specified circumstances;
- requiring that (subject to certain exceptions) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares (See “—Restrictions on Ownership and Transfer;”) and
- limitations on the ability of our shareholders to call special meetings of our shareholders or to act by written consent.

Certain provisions of the management agreement also could make it more difficult for third parties to acquire control of us by various means, including limitations on our right to terminate the management agreement and a requirement that, under certain circumstances, we make a substantial payment to our Manager in the event of a termination.

Restrictions on Ownership and Transfer

Our operating agreement, subject to certain exceptions, contains restrictions on the amount of our shares that a person may own and may prohibit certain entities from owning our shares. Our operating agreement provides that (subject to certain exceptions described below) no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares.

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of our common shares which are transferred to the trust (as described below), will be required to give notice immediately to us, or in the case of proposed or attempted transactions will be required to give at least 15 days written notice to us, and provide us with such other information as we may request in order to determine the effect of such transfer, including, without limitation, the effect on the qualification of any of our potential REIT subsidiaries as a REIT.

Our board of directors, in its sole discretion, may exempt a person from the foregoing restrictions. The person seeking an exemption must provide to our board of directors such representations, covenants and undertakings as our board of directors may deem appropriate. Our board of directors may also condition any such exemption on the receipt of a ruling from the IRS or an opinion of counsel as it deems appropriate. Our board of directors has granted an exemption from this limitation to Ellington, certain affiliated entities of Ellington and certain non-affiliates, subject to certain conditions.

Any attempted transfer of our securities which, if effective, would result in a violation of the foregoing restrictions (other than those described in the preceding paragraph) will cause the number of securities causing the violation (rounded to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such securities. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our operating agreement) prior to the date of the transfer. If, for any reason, the transfer to the trust does not occur, our operating agreement provides that the purported transfer in violation of the restrictions will be void ab initio. Common shares held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any securities held in the trust, will have no rights to distributions and no rights to vote or other rights attributable to the common shares held in the trust. The trustee of the trust will have all voting rights and rights to distributions with respect to common shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our discovery that common shares of stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or other distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Delaware law and pursuant to our operating agreement, the trustee will have the authority (i) to rescind as void any vote cast by the proposed transferee prior to our discovery that the common shares have been transferred to the trust and (ii) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that the securities have been transferred to the trust, the trustee will sell the securities to a person designated by the trustee, whose ownership of the securities will not violate the above ownership limitations. Upon such sale, the interest of the charitable beneficiary in the securities sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (i) the price paid by the proposed transferee for the securities or, if the proposed transferee did not give value for the securities in connection with the event causing the securities to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our operating agreement) of the securities on the day of the event causing the securities to be held in the trust and (ii) the price received by the trustee from the sale or other disposition of the securities. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to our discovery that the securities have been transferred to the trust, the securities are sold by the proposed transferee, then (i) the securities shall be deemed to have been sold on behalf of the trust and (ii) to the extent that the proposed transferee received an amount for the securities that exceeds the amount the proposed transferee was entitled to receive, the excess shall be paid to the trustee upon demand.

In addition, the securities held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and (ii) the market price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the trustee has sold the securities. Upon a sale to us, the interest of the charitable beneficiary in the securities sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

All certificates representing the securities bear a legend referring to the restrictions described above.

These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the common shares or might otherwise be in the best interests of our shareholders.

Transfer Agent and Registrar

The transfer agent and registrar for the common shares is American Stock Transfer and Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common shares. We cannot predict the effect, if any, that sales of shares or the availability of shares for sale will have on the market price of our common shares prevailing from time to time. Sales of substantial amounts of our common shares in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of our common shares.

Prior to this offering and the concurrent private placement, we had 11,939,254 common shares outstanding, excluding 382,500 LTIP units. Upon completion of this offering and the concurrent private placement, we will have outstanding an aggregate of common shares, excluding LTIP units. This assumes that the selling shareholders named in this prospectus sell an aggregate of 1,130,000 of our common shares in this offering. In addition, we have 363,750 LTIP units available for future issuance under our 2007 incentive plans. Upon vesting, LTIP units are transferable on a one-for-one basis into common shares.

With the exception of common shares held by any of our "affiliates," as that term is defined in Rule 144 under the Securities Act, the 8,887,750 common shares sold in our August 2007 private offering and still outstanding are freely tradeable without restriction or registration under the Securities Act. As defined in Rule 144, an "affiliate" of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the issuer. The common shares held by our affiliates, including our officers and directors, are restricted securities as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered under the securities laws or if they qualify for an exemption from registration under Rule 144, as described below. Pursuant to the registration rights agreement entered into in connection with our August 2007 private offering, our and our Manager's executive officers, directors, partners, members and other affiliates were granted certain registration rights. See "Certain Relationships and Related Party Transactions—Registration Rights," for a description of these registration rights. Our directors and executive officers and the Manager Group have indicated that they intend to enter into lock-up agreements covering a period of 180 days after the date of this prospectus with respect to our common shares. The number of shares, including vested LTIP units and the common shares purchased by EMG Holdings, L.P., an affiliate of our Manager, in the concurrent private placement, that will be subject to lock-up agreements covering a period of 180 days after the date of this prospectus is . One Ellington-managed hedge fund, which owns 120,000 of our common shares, will be subject to a lock-up agreement covering a period of 60 days after the date of this prospectus. Two other Ellington-managed hedge funds, which collectively own 1,130,000 of our common shares, are selling shareholders named in this prospectus, and do not at the present time intend to be subject to lock-up agreements in the event the number of shares offered by such selling shareholders is reduced. In addition, unaffiliated shareholders that beneficially hold common shares have entered into lock up agreements covering a period of 60 days after the date of this prospectus.

In general, under Rule 144, a person (or persons whose shares are aggregated) who is not an affiliate of ours and has not been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the restricted securities proposed to be sold for at least one year, including the holding period of any prior owner other than an affiliate, is entitled to sell his or her securities without registration and without complying with the manner of sale, current public information, volume limitation or notice provisions of Rule 144. In addition, under Rule 144, once we have been subject to the reporting requirements of the Exchange Act for at least 90 days, a person (or persons whose securities are aggregated) who is not an affiliate of ours and has not been one of our affiliates at any time during the three months preceding a sale, may sell his or her securities without registration after only a six-month holding period, subject only to the continued availability of current public information about us. Any sales by affiliates under Rule 144, even after the applicable holding periods described above, are subject to requirements and or limitations with respect to volume, manner of sale, notice and the availability of current public information about us.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

Introduction

The following summary discusses the material U.S. federal income tax and, for certain non-U.S. holders (as defined below), estate tax consequences of the acquisition, ownership and disposition of our common shares. This summary is based on current law, is for general information only and is not tax advice. This discussion is based on the Code, applicable Treasury Regulations, judicial authority, and administrative rulings and practice, all as currently in effect and which are subject to change or differing interpretations, possibly with retroactive effect. This summary assumes that our common shares will be held as capital assets for U.S. federal income tax purposes. This summary is not intended to be a complete description of all of the U.S. federal income tax consequences of the acquisition, ownership and disposition of our common shares. In addition, except as specifically set forth below, this summary does not discuss any state or local income taxation or foreign income taxation or other tax consequences. This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to a particular holder of our common shares in light of its personal circumstances, or to holders of our common shares that are subject to special treatment under U.S. federal income tax laws, including but not limited to:

- dealers in securities or foreign currencies;
- financial institutions;
- insurance companies;
- tax-exempt organizations (except to the extent discussed in "—Taxation of Holders of Our Common Shares—Unrelated Business Taxable Income");
- RICs (except to the extent discussed in "—Taxation of Holders of Our Common Shares—Mutual Fund Holders");
- REITs;
- non-U.S. individuals and foreign corporations (except to the extent discussed in "—Taxation of Non-U.S. Holders of Our Common Shares");
- controlled foreign corporations, or CFCs;
- passive foreign investment companies, or PFICs;
- persons who are subject to the alternative minimum tax;
- traders in securities who elect to apply a mark-to-market method of accounting;
- persons that hold our common shares as part of a hedge, straddle, constructive sale, or integrated or conversion transaction;
- persons whose functional currency is not the U.S. dollar;
- persons who are, or who hold our common shares through, partnerships or other pass-through entities; or
- holders of options granted by us or persons who acquired our common shares as compensation.

The tax treatment of partners in a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that holds our common shares generally depends on both the status of the partner (rather than the partnership) and the activities of the partnership and is not specifically addressed herein. Partners in partnerships that hold our common shares should consult their tax advisors.

As used below, a "U.S. holder" is a beneficial holder of our common shares who is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if the trust was in existence on August 20, 1996 and has elected to continue to be treated as a U.S. person.

The term “non-U.S. holder” means a beneficial owner of our common shares that is not a U.S. holder or a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes). The term “holders” includes both a U.S. holder and a non-U.S. holder.

The U.S. federal income tax laws are complex, and your circumstances may affect your tax consequences. Consequently, you are urged to consult your own tax advisors as to the specific tax consequences to you of the acquisition, ownership and disposition of our common shares, including the applicability and effect of federal, state and local or foreign income and other tax laws to your particular circumstances.

Our Taxation

Classification of Ellington Financial LLC

In connection with this offering, Hunton & Williams LLP, or “Hunton & Williams,” is rendering an opinion that we have been and will be treated, for U.S. federal income tax purposes, as a partnership, and not as an association or a publicly traded partnership taxable as a corporation. It must be emphasized that the opinion of Hunton & Williams speaks as of the date issued and will be based on various assumptions and representations relating to our organization, operations, assets, activities and income, including that all factual representations and statements set forth in all relevant documents, records and instruments are true and correct, and that we, at all times, have operated and will continue to operate in accordance with the method of operation described in our organizational documents and this prospectus, and is conditioned upon factual representations and covenants regarding our organization, assets, income, and present and future conduct of our activities and operations, and assumes that such representations and covenants are accurate and complete.

There is limited statutory, administrative and judicial authority addressing certain aspects of the treatment of instruments similar to our common shares for U.S. federal income tax purposes. No assurance can be given that the IRS would not successfully assert a position contrary to any of the tax aspects set forth below. Moreover, no advance rulings have been sought from the IRS regarding any matter discussed in this prospectus. Accordingly, you are urged to consult your tax advisors with regard to the U.S. federal income tax consequences to you of acquiring, owning and disposing of our common shares, as well as the effects of state, local and non-U.S. tax laws, including potential state tax filing requirements.

While we believe that we have been organized and have operated so that we have qualified, and will continue to qualify, to be treated for U.S. federal income tax purposes as a partnership, and not as an association or a publicly traded partnership taxable as a corporation, given the highly complex nature of the rules governing partnerships, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given by Hunton & Williams or us that we will so qualify for any particular year. Hunton & Williams will have no obligation to advise us or you of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. Our taxation as a partnership that is not a publicly traded partnership taxable as a corporation will depend on our ability to meet, on a continuing basis, through actual operating results, the “qualifying income exception” (as described below), the compliance with which will not be reviewed by Hunton & Williams on an ongoing basis. Accordingly, no assurance can be given that the actual results of our operations for any taxable year will satisfy the qualifying income exception. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions.

If, for any reason, including our failure to meet the qualifying income exception, we were treated as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes, we would be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates, without deduction for any distributions to holders of our common shares, thereby materially reducing the amount of any cash available for distribution to holders of our common shares.

Under Section 7704 of the Code, unless certain exceptions apply, a publicly traded partnership is generally treated and taxed as a corporation, and not as a partnership, for U.S. federal income tax purposes. A partnership is a publicly traded partnership if (i) interests in the partnership are traded on an established securities market or (ii) interests in the partnership are readily tradable on a secondary market or the substantial equivalent thereof. We believe that we are treated, and will continue to be treated, as a publicly traded partnership.

A publicly traded partnership will be treated as a partnership, and not as a corporation, for U.S. federal income tax purposes if (i) 90% or more of the income of such publicly traded partnership during each taxable year consists of "qualifying income," and (ii) such publicly traded partnership would not be included in the definition of a RIC in Section 851(a) of the Code if it were a domestic corporation (which generally applies to entities required to register under the Investment Company Act). We refer to this exception as the "qualifying income exception." Qualifying income generally includes rents, dividends, interest, and capital gains from the sale or other disposition of stocks, bonds and real property. Qualifying income also includes other income derived from the business of investing in, among other things, stocks and securities. Interest is not qualifying income if it is derived in the "conduct of a financial or insurance business" or is based, directly or indirectly, on the income or profits of any person. Our income currently consists primarily of interest income, income and gain from interest rate, credit risk and other derivatives, gain from sale of securities (including income from the short sale of securities) all of which is generally qualifying income for purposes of the qualifying income exception.

We believe we satisfy the qualifying income exception and we intend to continue to conduct our activities and operations so that we will continue to qualify for this exception in each taxable year. There can be no assurance, however, that the IRS will not challenge our compliance with the qualifying income exception requirements and, therefore, assert that we are taxable as a corporation for U.S. federal income tax purposes. In such event, the amount of cash available for distribution to holders of our common shares would likely be reduced materially.

If at the end of any year we fail to meet the qualifying income exception, we may still qualify as a partnership if we are entitled to relief under the Code for an inadvertent termination of partnership status. This relief will be available if (i) the failure to meet the qualifying income exception is cured within a reasonable time after discovery, (ii) the failure is determined by the IRS to be inadvertent, and (iii) we and each of the holders of our common shares (during the failure period) agree to make such adjustments or to pay such amounts as are required by the IRS. Under our operating agreement, each holder of our common shares is obligated to make such adjustments or to pay such amounts as are required by the IRS to maintain our status as a partnership. It is not possible to state whether we would be entitled to this relief in any or all circumstances. If this relief provision is inapplicable to a particular set of circumstances involving us, we will not qualify as a partnership for U.S. federal income tax purposes. Even if this relief provision applies and we retain our partnership status, we or the holders of the common shares (during the failure period) will be required to pay such amounts as are determined by the IRS.

Certain State, Local and Non-U.S. Tax Matters

We and any subsidiary of ours may be subject to state, local or non-U.S. taxation in various jurisdictions, including those in which we or they transact business, own property, or reside. We may be required to file tax returns in some or all of those jurisdictions. The state, local or non-U.S. tax treatment of us and of the holders of our common shares may not conform to the U.S. federal income tax treatment discussed herein. We may pay non-U.S. taxes, and dispositions of foreign property or operations involving, or investments in, foreign property may give rise to non-U.S. income or other tax liability in amounts that could be substantial. Any non-U.S. taxes incurred by us may not pass through to holders of our common shares as a credit against their federal income tax liability.

Taxation of Holders of Our Common Shares

Taxation of Holders of Our Common Shares on Our Profits and Losses

As a partnership for U.S. federal income tax purposes, we are not subject to U.S. federal income tax. Rather, in computing your U.S. federal income tax liability for a taxable year, you will be required to take into account your allocable share of our items of income, gain, loss, deduction and credit for our taxable year ending within or with your taxable year, regardless of whether you have received any distributions. It is possible that your U.S. federal income tax liability with respect to your allocable share of our earnings in a particular taxable year could exceed the cash distributions to you, thus requiring an out-of-pocket tax payment by you. See "—Nature of Our Business Activities—Non-Cash Income from Our Investments." The characterization of an item of our income, gain, loss, deduction or credit generally will be determined at the partnership level (rather than at the shareholder level).

Allocation of Profits and Losses

For each of our fiscal years, items of income, gain, loss, deduction or credit recognized by us will be allocated among the holders of our common shares in accordance with their allocable shares of our items of income, gain, loss, deduction and credit. The allocable share of such items for a holder of our common shares will be determined by our operating agreement, provided such allocations either have "substantial economic effect" or are determined to be in accordance with such holder's interest in us. We believe that the allocations provided by our operating agreement have "substantial economic effect" although, as discussed below, it is possible that (i) our method for allocating partnership income and deductions between transferors and transferees of our common shares might not literally comply with certain proposed Treasury Regulations once they are finalized and (ii) if we make an election under Section 754 of the Code, the IRS may not respect our allocations to the extent attributable to certain conventions we will use for making tax basis adjustments pursuant to that election. See "—Administrative Matters—Section 754 Election." If the allocations provided by our operating agreement do not have "substantial economic effect" and were successfully challenged by the IRS, the redetermination of the allocations to a particular holder for U.S. federal income tax purposes could be less favorable than the allocations set forth in our operating agreement.

In accordance with recently proposed Treasury Regulations, on which existing publicly traded partnerships currently may rely, we will apply a monthly convention pursuant to which our taxable income and losses will be determined annually and will be prorated on a monthly basis. Then the income and losses will be apportioned among the holders in proportion to the shares owned by each of them as of the first business day of the month, or the "Allocation Date." However, certain "extraordinary items," such as income or gain realized on a sale or other disposition of our assets other than in the ordinary course of business, will be allocated among the holders owning our common shares on the Allocation Date in the month in which that gain or loss is recognized. It is not entirely clear whether certain items, such as the mark-to-market gains and losses recognized at the end of the year as a result of our election under Section 475(f) of the Code, will be treated as "extraordinary items." We do not intend to treat these mark-to-market gains and losses as "extraordinary items." If the IRS successfully asserted a contrary position, there would be a disproportionate allocation of our income to the month in which our mark-to-market gains and losses are recognized. As a result of the monthly convention for allocating items, holders transferring our common shares may be allocated items of income, gain, loss, deduction, and credit realized after the date of transfer. In addition, as a result of such allocation method, you may be allocated taxable income even if you do not receive any cash distributions. Moreover, you may be allocated differing amounts of our income, gain, loss, deduction and credit than other holders of our common shares as a result of Section 704(c) of the Code and the Treasury Regulations promulgated thereunder.

Section 706 of the Code generally requires that items of partnership income and deductions be allocated between transferors and transferees of partnership interests on a daily basis, and the proposed Treasury Regulations prescribing the allocation method described in the preceding paragraph will not be effective until finalized and may be changed prior to being finalized. Accordingly, it is possible that transfers of our common shares could be considered to occur for U.S. federal income tax purposes when the transfer is completed without regard to our monthly convention for allocating income and deductions. In that event, our allocation method might be considered a monthly convention that does not literally comply with that requirement. If our monthly convention is not allowed by the final Treasury Regulations, the IRS may contend that our taxable income or losses must be reallocated among the holders of our common shares. If such a contention were sustained, your income or loss allocation could be adjusted, possibly to your detriment. The board of directors is authorized to revise our method of allocation between transferors and transferees (as well as among holders whose interests otherwise could vary during a taxable period), which we may do if the final Treasury Regulations do not approve the allocation method described in the preceding paragraph.

Adjusted Tax Basis of Common Shares

Our distributions generally will not be taxable to you to the extent of your adjusted tax basis in our common shares. In addition, you will be allowed to deduct your allocable share of our losses (if any) only to the extent of your adjusted tax basis in your common shares at the end of the taxable year in which the losses occur. Your initial tax basis in your shares will be generally equal to the amount of cash you paid for your common shares and will be generally increased by your allocable share of our profits (and items of income and gain). Your adjusted tax basis in our common shares will be generally decreased (but not below zero) by your allocable share of our losses (and items of loss, deduction and expense), the amount of cash distributed to you and our tax basis in property (other than cash) distributed to you by us. Moreover, your adjusted tax basis will include your allocable share of our liabilities, if any.

To the extent your allocable share of our losses is not allowed because you had insufficient adjusted tax basis in your common shares, you would be able to carry over such disallowed losses to subsequent taxable years and such losses would be allowed if and to the extent of your adjusted tax basis in your common shares in subsequent taxable years.

Treatment of Distributions

Cash distributions by us with respect to our common shares or in redemption of less than all of your common shares generally will not be taxable to you. Instead, such distributions will reduce, but not below zero, your adjusted tax basis in your shares immediately before the distribution. If such distributions exceed your adjusted tax basis in your shares, the excess will be taxable to the holder as gain from a sale or exchange of shares (as described in "—Disposition of Our Common Shares" below). It is possible that partial redemptions made during the taxable year could result in taxable gain to you where no gain would otherwise have resulted if the same partial redemption were made at the end of the taxable year. A reduction in your allocable share of our liabilities, and certain distributions of marketable securities by us, are treated as cash distributions for U.S. federal income tax purposes.

Disposition of Our Common Shares

A sale or other taxable disposition of all or a part of your shares (including in redemption for cash of all of your common shares) generally will result in the recognition of gain or loss in an amount equal to the difference, if any, between the amount realized on the disposition (including any cash deemed received by reason of the reduction in your share of our liabilities) and your adjusted tax basis in your shares (as described in "—Adjusted Tax Basis of Common Shares" above). Your adjusted tax basis will be adjusted for this purpose by your allocable share of our income or loss for the year of such sale or other disposition. Any gain or loss recognized with respect to such sale or other disposition generally will be treated as capital gain or loss and will be long-term capital gain or loss if your holding period for your shares exceeds one year. A portion of such gain, however, will be treated as ordinary income under the Code to the extent attributable to your allocable share of unrealized gain or loss in our assets to the extent described in Section 751 of the Code. This would include, among other things, accrued market discount on debt securities having a stated redemption price at maturity that is greater than our tax basis in those debt securities and unremitted earnings of any CFC held by us, although in the case of a holder who is an individual, the amount treated as ordinary income may be limited pursuant to Section 1248 of the

Code. If you dispose of your common shares at a time when we hold stock in a PFIC that is not a qualified electing fund, or QEF, you would be treated as disposing of an interest in such PFIC to the extent of your pro rata share of such PFIC stock held by us. We do not currently hold, and do not currently intend to acquire, stock in a CFC or a PFIC.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that adjusted tax basis must be allocated to the interests sold using an “equitable apportionment” method, which generally means that the adjusted tax basis allocated to the interests sold equals an amount that bears the same relation to the partner’s adjusted tax basis in all of the partner’s interests in the partnership as the value of the interests sold bears to the value of all of the partner’s interests in the partnership. Treasury Regulations under Section 1223 of the Code allow a selling holder of our common shares who can identify common shares transferred with an ascertainable holding period to elect to use the actual holding period of the common shares transferred. Thus, according to the IRS ruling discussed above, a holder of our common shares will be unable to select high or low basis common shares to sell as would be the case with corporate stock but, according to the Treasury Regulations, such holder may designate specific common shares sold for purposes of determining the holding period of common shares transferred. A holder electing to use the actual holding period of common shares transferred must consistently use that identification method for all subsequent sales or exchanges of common shares. A holder considering the purchase of additional common shares or a sale of common shares purchased in separate transactions is urged to consult the holder’s own tax advisor as to the possible consequences of this IRS ruling and application of the Treasury Regulations.

Limitation on Deductibility of Capital Losses

If you are an individual, any capital losses generated by us (or upon a disposition of our common shares) generally will be deductible only to the extent of your capital gains for the taxable year plus up to $3,000 of ordinary income ($1,500 in the case of a married individual filing a separate return). Excess capital losses may be carried forward by individuals indefinitely. If you are a corporation, any capital losses generated by us (or upon a disposition of shares) generally will be deductible to the extent of your capital gains for the taxable year. Corporations generally may carry capital losses back three years and forward five years. You should consult your tax advisors regarding the deductibility of capital losses.

Limitation on Deductibility of Certain of Our Losses

Individuals and certain closely held subchapter C corporations will be allowed to deduct their allocable share of our losses (if any) only to the extent of each such holder’s “at risk” amount in us at the end of the taxable year in which the losses occur. The amount for which a holder is “at risk” with respect to its interest generally is equal to its adjusted tax basis for such interest, less any amounts borrowed (i) in connection with its acquisition of such interest for which it is not personally liable and for which it has pledged no property other than its interest; (ii) from persons who have a proprietary interest in us and from certain persons related to such persons; and (iii) for which the holder is protected against loss through nonrecourse financing, guarantees or similar arrangements. To the extent that a holder’s allocable share of our losses is not allowed because the holder has an insufficient amount at risk in us, such disallowed losses may be carried over by the holder to subsequent taxable years and will be allowed if and to the extent of the holder’s at risk amount in subsequent years.

We do not expect to generate any material amount of income or losses from “passive activities” for purposes of Section 469 of the Code. However, to the extent that we generate any income from passive activities, such income may not be used to offset your passive activity losses from other activities. To the extent that we generate any losses from passive activities, such losses will be suspended and will only be allowed as an offset to passive activity income from us in future years or allowed as a loss upon the complete disposition of a holder’s interest in us. Accordingly, income allocated by us to you generally will not be able to be offset by your other passive activity losses, and losses allocated to you generally will not be able to be used to offset your other passive activity income. You should consult your tax advisors regarding the possible application of the limitations on the deductibility of losses from certain passive activities contained in Section 469 of the Code.

Investment Interest Limitation

Individuals and other noncorporate holders of our common shares will be allowed to deduct their allocable share of our "investment interest" (within the meaning of Section 163(d) of the Code and the Treasury Regulations promulgated thereunder) only to the extent of each such holder's net investment income for the taxable year. A holder's net investment income generally is the excess, if any, of the holder's investment income from all sources (which is gross income from property held for investment) over investment expenses from all sources (which are deductions allowed that are directly connected with the production of investment income). Investment income excludes net capital gain attributable to the disposition of property held for investment, as well as "qualified dividend income" that is taxable as long-term capital gains, unless the holder elects to pay tax on such gain or income at ordinary income rates.

To the extent that your allocable share of our investment interest is not allowed as a deduction because you have insufficient net investment income, you may carry over such disallowed investment interest to subsequent taxable years and such disallowed investment interest will be allowed if and to the extent of your net investment income in subsequent years. If you borrow to finance the purchase of our common shares, any interest paid or accrued on the borrowing will be allocated among our assets for purposes of determining the portion of such interest that is investment interest subject to the foregoing limitations or passive activity interest subject to the passive activity rules under Section 469 of the Code. The portion of such interest allocated to property held for investment (such as bonds or other securities) will be treated as investment interest. You should consult your tax advisors regarding the application to you of the allocation of such interest among our assets. Because the amount of a holder's allocable share of our investment interest that is subject to this limitation will depend on the holder's aggregate investment interest and net investment income from all sources for any taxable year, the extent, if any, to which our investment interest will be disallowed under this rule will depend on your particular circumstances each year.

Limitation on Deduction of Certain Other Expenses

We believe that the expenses incurred by us, including base management fees and incentive fees paid to our Manager, will generally not be treated as "miscellaneous itemized deductions" and will be deductible as ordinary trade or business expenses. An individual, estate or trust may deduct so-called "miscellaneous itemized deductions," only to the extent that such deductions, in the aggregate, exceed 2% of the holder's adjusted gross income. The amount of a holder's allocable share of such expenses that is subject to this disallowance rule will depend on the holder's aggregate "miscellaneous itemized deductions" from all sources and adjusted gross income for any taxable year. There are also limitations on the deductibility of itemized deductions by individuals whose adjusted gross income exceeds a specified amount, adjusted annually for inflation. In addition, "miscellaneous itemized deductions" are not deductible in determining the alternative minimum tax liability of a U.S. holder. Although we believe that our expenses will not be treated as "miscellaneous itemized deductions," there can be no assurance that the IRS will not successfully challenge that treatment. In that event, a holder's inability to deduct all or a portion of such expenses could result in an amount of taxable income to such holder with respect to us that exceeds the amount of cash actually distributed to such holder for the year. You are urged to consult your tax advisors regarding your ability to deduct expenses incurred by us.

Our organizational expenses are not currently deductible, but must be amortized ratably over a period of 15 years. Our syndication expenses (i.e., expenditures made in connection with the marketing and issuance of shares) are neither deductible nor amortizable.

Mutual Fund Holders

U.S. mutual funds that are treated as RICs for U.S. federal income tax purposes are required, among other things, to meet an annual 90% gross income and quarterly 50% and 25% asset value tests under Section 851(b) of the Code to maintain their favorable U.S. federal income tax treatment. The treatment of an investment by a RIC in our common shares for purposes of these tests will depend on whether we will be treated as a "qualified publicly traded partnership." If we are so treated, then our common shares themselves are the relevant asset for purposes of the 50% and 25% asset value tests and the net income from our common shares is the relevant gross income for purposes of the 90% gross income test. In addition, the aggregate amount that a RIC can invest in the securities of one or more "qualified publicly traded partnerships" is limited to 25% of the RIC's total assets. If, however, we are not treated as a "qualified publicly traded partnership," then the relevant assets are the RIC's allocable share of the underlying assets held by us and the relevant gross income is the RIC's allocable share of the underlying gross income earned by us. However, the 25% limitation on a RIC's ability to invest in the securities of "qualified publicly traded partnerships" would not apply. We will qualify as a "qualified publicly traded partnership" if we derive less than 90% of our income from sources that are qualifying income for purposes of the RIC 90% gross income test. We believe that we have not been, and anticipate that we will not in the future be, treated as a "qualified publicly traded partnership." However, because such qualification will depend on the nature of our future investments, no complete assurance can be provided that we will or will not be treated as a "qualified publicly traded partnership" in any particular year. RICs should consult their own tax advisors regarding an investment in our common shares.

Unrelated Business Taxable Income

We expect that tax-exempt holders of our common shares will recognize a significant amount of UBTI as a result of our indebtedness with respect to our assets. A holder that is a tax-exempt organization for U.S. federal income tax purposes and, therefore, is generally exempt from U.S. federal income taxation, may nevertheless be subject to "unrelated business income tax" to the extent, if any, that its allocable share of our income consists of UBTI. A tax-exempt partner in a partnership (or an entity or arrangement treated as partnership for U.S. federal income tax purposes) that regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner must include, in computing its UBTI, its pro rata share (whether or not distributed) of such partnership's gross income derived from such unrelated trade or business. Moreover, such tax-exempt partner could be treated as earning UBTI to the extent that such entity derives income from "debt-financed property," or if the partnership interest itself is debt financed. Debt-financed property means property held to produce income with respect to which there is "acquisition indebtedness" (e.g., indebtedness incurred in acquiring or holding property). We expect that we will incur "acquisition indebtedness" with respect to certain of our assets.

To the extent we recognize income in the form of interest and dividends from securities with respect to which there is "acquisition indebtedness" during a taxable year, the percentage of the income that will be treated as UBTI generally will be equal to the amount of the income times a fraction, the numerator of which is the "average acquisition indebtedness" incurred with respect to the securities, and the denominator of which is the "average amount of the adjusted basis" of the securities during the period such securities are held by us during the taxable year.

To the extent we recognize gain from disposition of securities with respect to which there is "acquisition indebtedness," the portion of the gain that will be treated as UBTI will be equal to the amount of the gain times a fraction, the numerator of which is the highest amount of the "acquisition indebtedness" with respect to the securities during the twelve-month period ending with the date of their disposition, and the denominator of which is the "average amount of the adjusted basis" of the securities during the period such securities are held by us during the taxable year.

In addition, a portion of our income from any residual interest in a real estate mortgage investment conduit, or a REMIC, or a taxable mortgage pool arrangement could be treated as "excess inclusion income." See "—Nature of Our Business Activities—Excess Inclusion Income" below. Excess inclusion income is subject to tax as UBTI in the hands of most tax-exempt shareholders. We do not currently own residual interests in REMICs.

Tax-exempt holders are strongly urged to consult their tax advisors regarding the tax consequences of owning our common shares.

Alternative Minimum Tax

In certain circumstances, individuals, corporations and other taxpayers may be subject to an alternative minimum tax in addition to regular tax. Your potential alternative minimum tax liability may be affected by reason of an investment in our common shares in determining the alternative minimum tax liability of a U.S. holder. The extent, if any, to which the alternative minimum tax applies will depend on your particular circumstances for each taxable year.

Taxation of Non-U.S. Holders of Our Common Shares

A non-U.S. holder will generally be subject to U.S. federal withholding taxes at the rate of 30% (or such lower rate provided by an applicable tax treaty) on its share of our gross income from dividends, interest (other than interest that constitutes "portfolio interest" within the meaning of the Code) and certain other income that is not treated as effectively connected with a U.S. trade or business. Although the matter is not entirely clear, income from derivative transactions may also be subject to U.S. federal withholding taxes. We currently intend not to withhold on derivative income allocated to non-U.S. holders. We expect that most of our interest income will constitute "portfolio interest" that is not subject to this withholding tax. We expect that any dividend income that we earn will be subject to this withholding tax. In certain circumstances, the amount of any withholding tax could exceed the amount of cash that would have otherwise been distributed to you. Non-U.S. holders generally are not subject to U.S. federal income tax on capital gains if (i) such gains are not effectively connected income of such non-U.S. holder (or, if certain income tax treaties apply, such gains are not attributable to a permanent establishment in the United States maintained by such non-U.S. holder); and (ii) if such non-U.S. holder is an individual, such holder is not present in the United States for 183 or more days during the taxable year (provided that certain other conditions are met).

Non-U.S. holders treated as engaged in a U.S. trade or business are generally subject to U.S. federal income tax at the graduated rates applicable to U.S. holders on their net income that is considered to be effectively connected with such U.S. trade or business. Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax on such effectively connected income. The 30% rate applicable to branch profits may be reduced or eliminated under the provisions of an applicable income tax treaty between the United States and the country in which the non-U.S. person resides or is organized.

While we expect that our method of operation will not result in our generating significant amounts of income treated as effectively connected with the conduct of a U.S. trade or business with respect to non-U.S. holders, there can be no assurance that the IRS will not successfully assert that some portion of our income is properly treated as effectively connected income with respect to such non-U.S. holders. In addition, if any REIT subsidiary in which we may own an interest recognizes gain from the disposition of a "United States real property interest," such gain will be treated as income that is effectively connected with a U.S. trade or business. Although we do not currently own or have plans to invest in a REIT subsidiary, we do not expect any REIT subsidiary in which we invest to generate material amounts of gain from the disposition of United States real property interests, but no complete assurance can be provided that any such REIT subsidiaries will not generate gain from dispositions of United States real property interests. If a non-U.S. holder were treated as being engaged in a U.S. trade or business in any year because an investment by us in such year constituted a U.S. trade or business, such holder generally would be required to (i) file a U.S. federal income tax return for such year reporting its allocable share, if any, of our income or loss effectively connected with such trade or business and (ii) pay U.S. federal income tax at regular U.S. tax rates on any such income. Moreover, a corporate non-U.S. holder might be subject to a U.S. branch profits tax on its allocable share of our effectively connected income. In addition, a non-U.S. holder would be subject to withholding at the highest applicable tax rate to the extent of the non-U.S. holder's allocable share of our effectively connected income. Any amount so withheld would be creditable against such non-U.S. holder's U.S. federal income tax liability, and such non-U.S. holder could claim a refund to the extent that the amount withheld exceeded such non-U.S. person's U.S. federal income tax liability for the taxable year. Finally, if we are engaged in a U.S. trade or business, a portion of any gain recognized by an investor who is a non-U.S. holder on the sale or exchange of its shares may be treated for U.S. federal income tax purposes as effectively connected income, and hence such non-U.S. holder may be subject to U.S. federal income tax on the sale or exchange. To the extent our income is treated as effectively connected income, it may also be treated as non-qualifying income for purposes of the qualifying income exception discussed above under "—Our Taxation—Classification of Ellington Financial LLC."

In general, different rules from those described above apply in the case of non-U.S. holders subject to special treatment under U.S. federal income tax law, including a non-U.S. holder (i) who has an office or fixed place of business in the United States or is otherwise carrying on a U.S. trade or business; (ii) who is an individual present in the United States for 183 or more days and has a "tax home" in the United States for U.S. federal income tax purposes; or (iii) who is a former citizen or resident of the United States.

If you are a non-U.S. holder, you are urged to consult your tax advisors with regard to the U.S. federal income tax consequences to you of owning and disposing of your common shares, as well as the effects of state, local and non-U.S. tax laws.

U.S. Federal Estate Taxes for Non-U.S. Holders

Non-U.S. holders who are individuals will be subject to U.S. federal estate tax on the value of U.S.-situs property owned at the time of their death. It is unclear whether partnership interests (such as the common shares) will be considered to be U.S.-situs property. Accordingly, non-U.S. holders may be subject to U.S. federal estate tax on all or a portion of the value of the common shares owned at the time of their death. Prospective non-U.S. holders who are individuals are urged to consult their tax advisors concerning the potential U.S. federal estate tax consequences with regard to our common shares.

Nature of Our Business Activities

We have or may invest, directly or indirectly, in a variety of assets, including, but not limited to, debt and equity securities of various U.S. and foreign issuers (including short positions with respect to such securities) and interest rate, credit risk, and other derivatives. Such investments have different tax consequences, which may vary depending on their particular terms and your particular circumstances. Certain of our business activities are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) cause us (and thus you) to recognize income or gain without a corresponding receipt of cash, (ii) adversely affect the timing as to when a purchase or sale of stock or securities is deemed to occur, and (iii) adversely alter the tax characterization of certain financial transactions.

The discussion below describes the U.S. federal income tax considerations that may be relevant to some, but not to all, of our investments and contemplated investments, including the qualification of such income for purposes of the qualifying income exception. Accordingly, you are urged to consult your tax advisors with regard to the U.S. federal income tax consequences to you of our business activities.

Interest Income

Interest income derived by us will generally be qualifying income for purposes of the qualifying income exception provided the income is not derived from "the conduct of a financial or insurance business" and is not based, directly or indirectly, on the profits of any person. Although there is no direct authority defining what constitutes "the conduct of a financial or insurance business," we believe that our investment activities generally will not constitute "the conduct of a financial or insurance business" for purposes of the qualifying income exception. For example, we believe that we have not been engaged, and do not intend to engage, in the loan origination business, either directly or indirectly through our Manager and its affiliates. Despite such measures, there can be no assurance that the IRS will not successfully contend that all or a portion of our interest income is related to the "conduct of a financial or insurance business," in which case such interest income would not be treated as qualifying income for the qualifying income exception and we could fail to qualify for that exception. We intend to continue to conduct our operations so that at least 90% of our gross income in each taxable year is qualifying income for purposes of the qualifying income exception.

Derivative Income

From time to time, we enter into derivative transactions, such as interest rate swaps, caps and floors, credit default swaps, total rate of return swaps, options to purchase these items, and futures and forward contracts. We expect that many of our derivative transactions will be treated as “notional principal contracts” for U.S. federal income tax purposes. For purposes of the qualifying income exception, unless we are treated as a dealer in notional principal contracts, our income from a notional principal contract will be treated as qualifying income, provided the property, income, or cash flow that measures the amounts to which we are entitled under the contract would give rise to qualifying income if held or received directly by us or the notional principal contract is related to our business of investing in stock or securities. We do not anticipate that we would be treated as a dealer in notional principal contracts. We expect that, in general, payments under our derivative instruments will be measured by reference to an interest rate or interest rate index, with a cash flow that would be treated as interest income if received directly. As stated above, interest (other than interest derived from the “conduct of a financial or insurance business” or interest that is based, directly or indirectly, on the profits of any person) is qualifying income for purposes of the qualifying income exception. In addition, we expect that all income and gain from our notional principal contracts will be related to our business of investing in stock or securities. Accordingly, we expect that the income and gain from such derivative transactions will be qualifying income for purposes of the qualifying income exception. However, the rules regarding notional principal contracts are complex, and there can be no assurance that the IRS will not successfully challenge our characterization of a derivative transaction as a notional principal contract. In addition, we may enter into derivative transactions that do not produce qualifying income for the qualifying income exception. We intend to structure our derivative transactions in a manner that does not jeopardize our satisfaction of the qualifying income exception.

Qualified Dividends and Certain Capital Gains

Dividends and capital gains earned by us will generally be qualifying income for purposes of the qualifying income exception. We also believe that our income generated from short sales of securities generally constitutes qualifying income for purposes of the qualifying income exception. Tax legislation enacted in 2003 and 2006 reduced the U.S. federal income tax rates on (i) capital gains received by taxpayers taxed at individual rates and (ii) “qualified dividend income” received by taxpayers taxed at individual rates from certain domestic and foreign corporations. Subject to the discussion under “—Taxation of Holders of Our Common Shares—Disposition of Our Common Shares,” the reduced rates applicable to capital gains generally will also apply to capital gains recognized by holders of our shares who sell the shares that they have held for more than one year. The reduced rates, which do not apply to short-term capital gains and income generated from short sales of securities, generally apply to long-term capital gains from sales or exchanges recognized during taxable years beginning on or prior to December 31, 2010.

Domestic Corporate Subsidiaries

We may form domestic corporate subsidiaries to make certain investments that could generate income that would not be qualifying income if earned directly by us. For example, we may purchase whole loans through a domestic corporate subsidiary if we anticipate that our activities with respect to those loans could cause us to be treated as engaged in a “financial business” for purposes of the qualifying income exception. Any domestic corporate subsidiary would be subject to federal, state, and local corporate income tax on its income. To the extent that any such domestic corporate subsidiary pays any taxes, it will have less cash available for distribution to us, which would reduce the amount of cash available for distribution to holders of our common shares. Our dividend income from any domestic corporate subsidiary will be qualifying income for the qualifying income exception.

Foreign Corporate Subsidiaries

Although we currently have no plans to invest in foreign corporate subsidiaries, we may in the future acquire equity interests in foreign corporate subsidiaries that are treated as corporations for U.S. federal income tax purposes (each, a "foreign corporate subsidiary"), including foreign corporate subsidiaries formed to issue CDO securities. We anticipate that any such foreign corporate subsidiary in which we would own an interest would be treated as a CFC or PFIC for U.S. federal income tax purposes and, in the case of a PFIC, we would elect to treat the PFIC as a QEF. Our income from a CFC or PFIC generally will be qualifying income for purpose of the qualifying income exception. However, each holder of our common shares will generally be required to include in income a portion of the income earned by the CFC or PFIC regardless of whether we receive cash distributions from the CFC or PFIC or the holder receives a distribution from us. Moreover, such income inclusions from a CFC or PFIC will not be eligible for the favorable tax rate applicable to "qualified dividend income," and any gain allocated to you from a disposition of stock in a CFC by us would be treated as ordinary income to the extent of your allocable share of the current and/or accumulated earnings and profits of the CFC. Net losses (if any) of a non-U.S. entity owned by us that is treated as a CFC or PFIC will not pass through to the holders of our common shares.

The Code and the Treasury Regulations promulgated thereunder provide a specific exemption from U.S. federal income tax to non-U.S. corporations that restrict their activities in the United States to trading in stock and securities (or any activity closely related thereto) for their own account whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. We anticipate that any foreign corporate subsidiaries that we may hold in the future would either (i) rely on the exemption described above or (ii) otherwise operate in a manner so that they will not be subject to U.S. federal income tax on their net income at the entity level. There can be no assurance, however, that any foreign corporate subsidiaries in which we own an interest would be able to satisfy the requirements for such exemption and, therefore, would not be subject to U.S. federal income tax on their income on a net basis.

You are urged to consult your tax advisor regarding the consequences of our future investment in non-U.S. entities.

REIT Subsidiaries

We do not currently own an interest in any REIT subsidiaries. However, we may in the future invest in REITs. Under the Code, a REIT itself is generally not subject to tax to the extent that it currently distributes all of its income to its shareholders. To qualify as a REIT, an entity is required to satisfy a number of technical U.S. federal income tax requirements, including various tests regarding the sources of its income, the nature and diversification of its assets, the amounts it distributes to its shareholders and the ownership of its shares. Our dividend income from a REIT subsidiary will be qualifying income for the qualifying income exception.

Special rules apply to distributions paid by REITs. Dividends paid by any REIT subsidiary that are allocated to holders of our common shares will not be eligible for the dividends-received deduction for corporations or the reduced rate of U.S. federal income tax on "qualified dividend income" for taxpayers taxed at individual rates. Distributions by any REIT subsidiary that are allocated to tax-exempt holders of our common shares generally will not constitute UBTI, other than any amounts that represent excess inclusion income, assuming our common shares are not debt-financed or used in an unrelated business of such holder. In the case of a non-U.S. holder, allocations attributable to distributions from any REIT subsidiary that are not attributable to gains from the sale of "United States real property interests" would be subject to U.S. withholding tax at a 30% rate (subject to reduction by applicable treaty). REIT dividends attributable to gain from the sale of "United States real property interests" are subject to a withholding tax at a rate of 35% and would be considered income effectively connected with a U.S. trade or business (which would require the filing of U.S. federal income tax returns by non-U.S. persons and which would be subject to the branch profits tax for corporate non-U.S. holders). The term "United States real property interest" does not include mortgage loans or mortgage-backed securities. As a result, we do not anticipate that any REIT in which we would invest would generate material amounts of gain that would be subject to the 35% withholding rate. However, if a distribution is treated as effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the non-U.S. holder generally will be subject to U.S. federal income tax on the distribution at graduated rates, in the same manner as U.S. holders are taxed on distributions and may be subject to the 30% branch profits tax in the case of corporate non-U.S. holders.

You should consult your tax advisors regarding the tax consequences of the indirect investment in stock or other securities of any REIT in which we invest.

Non-U.S. Currency Gains or Losses

If we make an investment denominated in a currency other than the U.S. dollar, then we may recognize gain or loss attributable to fluctuations in such currency relative to the U.S. dollar. We may also recognize gain or loss on such fluctuations occurring between the time we obtain and dispose of non-U.S. currency, between the time we accrue and collect income denominated in a non-U.S. currency, or between the time we accrue and pay liabilities denominated in a non-U.S. currency. Such gains or losses generally will be treated as ordinary income or loss, and such gain generally will be treated as qualifying income under the qualifying income exception.

Non-Cash Income from Our Investments

As discussed below, we make investments that cause us (and thus you) to recognize income or gain without a corresponding receipt of cash. This so-called "non-cash" or "phantom income" could arise for a variety of reasons, including:

- We recognize taxable income in advance of the related cash flow if any debt security is deemed to have original issue discount. The accrued original issue discount is treated as interest income by us and an applicable portion will be passed-through to you, even though we generally do not receive payments corresponding to this income until the maturity of or the disposition of the debt security.
- We may recognize taxable income in advance of related cash flow on our assets as a result of our mark-to-market election. See "—Mark-to-Market Election". For example, we will recognize ordinary income at the end of each taxable year to the extent of any increase in unrealized gain on our assets.
- If we form foreign corporate subsidiaries in the future, we would be required to include in income on a current basis the earnings of certain foreign corporate subsidiaries regardless of whether there has been a cash distribution of such earnings.

You will be required to take such "non-cash" or "phantom income" income into account in determining your taxable income, regardless of whether you receive a cash distribution from us. Accordingly, you may not receive cash distributions equal to your tax liability attributable to your share of our taxable income.

Mark-to-Market Election

We intend to continue to qualify as a trader in securities and have elected to mark-to-market each year our positions in securities that we hold as a trader, in accordance with Section 475(f) of the Code. The election can only be revoked with the consent of the IRS. As a result of the election, we are required each year to mark-to-market certain securities that we hold, and thereby recognize gain or loss as if we had sold those securities for their fair market value. Our basis in the marked-to-market securities is adjusted accordingly. Our mark-to-market election also requires us to recognize any accrued market discount on our debt securities held at the end of each year. Any gain that we recognize from the mark-to-market deemed sale of the securities will be treated as qualifying income for purposes of the qualifying income exception. See "—Our Taxation—Classification of Ellington Financial LLC" above, for a discussion of this requirement.

There are limited authorities under Section 475(f) of the Code as to what constitutes a trader for U.S. federal income tax purposes. Under other sections of the Code, the status of a trader in securities depends on all of the facts and circumstances, including the nature of the income derived from the taxpayer's activities, the frequency, extent and regularity of the taxpayer's securities transactions, and the taxpayer's investment intent. Therefore, there can be no assurance that we have qualified or will continue to qualify as a trader in securities eligible for the mark-to-market election. We have not received, and in connection with this offering we will not receive, an opinion from counsel or a ruling from the IRS regarding our qualification as a trader. If our eligibility for, or our application of, the mark-to-market election were successfully challenged by the IRS, in whole or in part, it could, depending on the circumstances, result in retroactive (or prospective) changes in the amount of taxable income recognized by us and allocated to the holders of our common shares. An inability to utilize the mark-to-market election might also have an adverse effect on our ability to provide tax information to holders of our common shares on a timely basis. The IRS could also challenge any conventions that we use in computing, or in allocating among holders of our common shares, any gain or loss resulting from the mark-to-market election. See "—Taxation of Holders of Our Common Shares—Allocation of Profits and Losses" above.

In addition, we intend to take the position that our mark-to-market gain or loss, and any gain or loss on the actual disposition of marked-to-market assets, should be treated as ordinary income or loss. However, because the law is unclear as to the treatment of assets that are held for investment, and the determination of which assets are held for investment, the IRS could take the position that the mark-to-market gain or loss attributable to certain assets should be treated as capital gain or loss and not as ordinary gain or loss. In that case, we would not be able to offset our non-cash ordinary income with any resulting capital losses from such assets, which could increase the amount of our non-cash income.

Excess Inclusion Income

Excess inclusion income is generated by residual interests in REMICs and taxable mortgage pool arrangements owned by REITs. Although we do not currently own any residual interests in REMICs or interests in REITs, we may acquire such investments in the future. We would be taxable at the highest corporate income tax rate on any excess inclusion income from a REMIC residual interest that is allocable to the percentage of our common shares held in record name by disqualified organizations and, although the law is not clear, we may also be subject to that tax if excess inclusion income arises from a taxable mortgage pool arrangement owned by a REIT in which we invest. Disqualified organizations are generally certain cooperatives, governmental entities and tax-exempt organizations that are exempt from UBTI (including certain state pension plans and charitable remainder trusts). Disqualified organizations are permitted to own our common shares. Because this tax would be imposed on us, all of our investors, including investors that are not disqualified organizations, would bear a portion of the tax cost associated with our ownership of REMIC residual interests and with the classification of any REIT subsidiaries or a portion of the assets of any REIT subsidiaries in which we may invest as a taxable mortgage pool. A RIC or other pass-through entity owning our common shares may also be subject to tax at the highest corporate rate on any excess inclusion income allocated to their record name owners that are disqualified organizations. Nominees who hold our common shares on behalf of disqualified organizations also potentially may be subject to this tax. Excess inclusion income cannot be offset by losses of our holders. If the holder is a tax-exempt entity and not a disqualified organization, then this income would be fully taxable as UBTI. A non-U.S. holder would be subject to U.S. federal income tax withholding on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

"Anti-Stapling" Rules

If we were subject to the "anti-stapling" rules of Section 269B of the Code, we would incur a significant tax liability as a result of owning (i) more than 50% of the value of both a domestic corporate subsidiary and a foreign corporate subsidiary or (ii) more than 50% of both a REIT and a domestic or foreign subsidiary. When a foreign corporate subsidiary and a domestic corporate subsidiary are treated as "stapled entities," the foreign corporation is treated as a domestic corporation subject to U.S. federal corporate income tax. When a REIT and a domestic or foreign subsidiary are treated as "stapled entities," the REIT and the domestic or foreign subsidiary are treated as one entity for purposes of the tax requirements applicable to REITs, which could result in the REIT failing to qualify as a REIT for U.S. federal income tax purposes.

Currently, we do not have any domestic or foreign subsidiaries that are treated as regarded entities for U.S. federal income tax purposes or REIT subsidiaries, but we may acquire such subsidiaries in the future. Because we intend to continue to own a substantial proportion of our assets directly or through entities that are treated as disregarded entities for U.S. federal income tax purposes, we do not believe that the “anti-stapling” rules would apply if we were to acquire domestic or foreign subsidiaries or REIT subsidiaries in the future. However, there can be no assurance that the IRS would not successfully assert a contrary position.

Personal Holding Company Tax

We do not currently have any corporate subsidiaries, but we may acquire such subsidiaries in the future. Certain majority-owned corporate subsidiaries that we may acquire in the future could be treated as personal holding companies for U.S. federal income tax purposes. A personal holding company is a “closely-held” corporation at least 60% of whose income constitutes “personal holding company income,” which generally includes dividends, interest, certain royalties, annuities and rents. We anticipate that all of our majority-owned corporate subsidiaries will be treated as “closely-held” under the constructive ownership rules applicable to personal holding companies. In addition, substantially all of the income of certain of those subsidiaries will constitute personal holding company income. A personal holding company generally is subject to a 15% (or 35% starting January 1, 2011) corporate tax on its personal holding company income that is not distributed, or treated as distributed, during the year in which such income is earned. However, certain liquidating distributions are not treated as distributions for that purpose. We intend to cause any personal holding company subsidiaries to distribute their income so as to avoid the personal holding company tax.

Administrative Matters

Section 754 Election

We likely will elect under Section 754 of the Code to adjust the tax basis in all or a portion of our assets in the event of a distribution of property to a holder or in the event of a transfer of an interest in us, including our common shares, by sale or exchange or as a result of the death of a holder. We would also be required to reduce the tax basis in our assets in connection with certain redemptions and dispositions of our common shares. If we make an election under Section 754 of the Code, each holder that purchases our common shares will have an initial tax basis in our assets that reflects the fair market value of our assets at the time of the purchase. Because our holders are treated as having differing tax bases in our assets, a sale of an asset by us may cause holders to recognize different amounts of gain or loss or may cause some holders to recognize a gain and others to recognize a loss. Depending on when a holder purchases our common shares and the fair market value of our assets at that time, the holder may recognize gain for U.S. federal income tax purposes from the sale of certain of our assets even though the sale would cause us to recognize a loss for financial accounting purposes. An election under Section 754 of the Code, if made, can be revoked only with the consent of the IRS.

The calculations under Section 754 of the Code are complex, and there is little legal authority concerning the mechanics of the calculations in the context of publicly traded partnerships. If we make an election under Section 754, to help reduce the complexity of those calculations and the resulting administrative costs to us, we will apply certain conventions in determining and allocating basis adjustments. It is possible that the IRS will successfully assert that the conventions we intend to use do not satisfy the technical requirements of the Code or Treasury Regulations and, thus, will require different basis adjustments to be made. Such different basis adjustments could adversely affect the manner in which our income, gain, loss, deduction and credit is allocated to certain holders of our common shares.

Technical Terminations

Subject to the electing large partnership rules described below, we will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination for tax purposes would result in the closing of our taxable year for all holders of the common shares. In the case of a holder reporting on a taxable year other than a fiscal year ending on our year end, which is expected to continue to be the calendar year, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in the holder's taxable income for the year of termination. We would be required to satisfy the qualifying income exception for each tax period and to make new tax elections after a termination, including a new tax election under Section 754 of the Code. A termination could also result in penalties if we were unable to determine that the termination had occurred. In the event that we become aware of a termination, we will use commercially reasonable efforts to minimize any such penalties. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

Information Returns

We intend to use reasonable efforts to furnish to you tax information (including IRS Schedule K-1) as promptly as possible after the end of each taxable year, which describes your allocable share of our income, gain, loss, deduction and credit for the preceding taxable year. In preparing this information, we will use various accounting and reporting conventions to determine your allocable share of income, gain, loss, deduction and credit. Delivery of this information will be subject to delay in the event of, among other reasons, the late receipt of any necessary tax information from an investment in which we hold an interest. It is therefore possible that, in any taxable year, you will need to apply for extensions of time to file your tax returns. The IRS may successfully contend that certain of these reporting conventions are impermissible, which could result in an adjustment to your income or loss. If you are a non-U.S. holder, there can be no assurance that this information will meet your jurisdiction's tax compliance requirements.

It is possible that we may engage in transactions that subject us and, potentially, the holders of our common shares to other information reporting requirements with respect to an investment in us. You may be subject to substantial penalties if you fail to comply with such information reporting requirements. You should consult with your tax advisors regarding such information reporting requirements.

Nominee Reporting

Persons who hold our common shares as nominees for another person are required to furnish to us (i) the name, address and taxpayer identification number of the beneficial owner and the nominee; (ii) whether the beneficial owner is (1) a person that is not a U.S. person, (2) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or (3) a tax-exempt entity; (iii) the amount and description of shares held, acquired or transferred for the beneficial owner; and (iv) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition costs for purchases, as well as the amount of net proceeds from sales. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the Code for failure to report that information to us.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on shares they acquire, hold or transfer for their own account. The nominee is required to supply the beneficial owner of the shares with the information furnished to us.

Taxable Year

A partnership is required to have a tax year that is the same tax year as any partner, or group of partners, that owns a majority interest (more than 50%) in the partnership. Our taxable year is currently the calendar year. A partnership also is required to change its tax year every time a group of partners with a different tax year end acquires a majority interest, unless the partnership has been forced to change its tax year during the preceding two year period. In the event the majority interest in us changes to a group of holders with a different tax year and we have not been forced to change our tax year during the preceding two year period, we would be required to change our tax year to the tax year of that group of holders.

Elective Procedures for Large Partnerships

The Code allows large partnerships to elect streamlined procedures for income tax reporting. This election, if made, would reduce the number of items that must be separately stated on IRS Schedule K-1 that are issued to the holders of our common shares, and such IRS Schedules K-1 would have to be provided on or before March 15 following the close of each taxable year. In addition, this election would prevent us from suffering a "technical termination" (which would close our taxable year) if, within a 12-month period, there is a sale or exchange of 50% or more of our total interests. If an election is made, IRS audit adjustments will flow through to the holders of the common shares for the year in which the adjustments take effect, rather than the holders of the common shares in the year to which the adjustment relates. In addition, we, rather than the holders of our common shares individually, generally will be liable for any interest and penalties that result from an audit adjustment. We have not elected and do not currently anticipate that we will elect to be subject to the large partnership procedures.

Treatment of Amounts Withheld

If we are required to withhold any U.S. tax on distributions made to any holder of our common shares, we will pay such withheld amount to the IRS. That payment, if made, will be treated as a distribution of cash to the holder of the common shares with respect to whom the payment was made and will reduce the amount of cash to which such holder would otherwise be entitled.

Tax Audits

Adjustments in tax liability with respect to our items generally will be made at the Ellington Financial LLC level in a partnership proceeding rather than in separate proceedings with each holder. Ellington Financial Management LLC will represent us as our "tax matters partner" during any audit and in any dispute with the IRS. If Ellington Financial Management LLC ceases to own shares or ceases to be our Manager, our board of directors may designate a replacement tax matters partner. Each holder of our common shares will be informed of the commencement of an audit of us. In general, the tax matters partner may enter into a settlement agreement with the IRS on behalf of, and that is binding upon, the holders of our common shares.

Tax Shelter Regulations

In certain circumstances, a holder who disposes of our common shares resulting in the recognition by such holder of significant losses in excess of certain threshold amounts may be obligated to disclose its participation in such transaction, or a "reportable transaction," in accordance with regulations governing tax shelters and other potentially tax-motivated transactions, or the "Tax Shelter Regulations." In addition, an investment in us may be considered a "reportable transaction" if, for example, we recognize certain significant losses in the future. You should consult with your tax advisors concerning any possible disclosure obligation under the Tax Shelter Regulations with respect to the disposition of your common shares or your allocable share of certain losses incurred by us.

Backup Withholding

We will be required in certain circumstances to backup withhold on certain payments paid to noncorporate holders of our common shares who do not furnish us with their correct taxpayer identification number (or, in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

New Legislation or Administrative or Judicial Action

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process, the IRS and the Treasury, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. No assurance can be given as to whether, or in what form, any proposals affecting us or our shareholders will be enacted. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in our common shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made.

The U.S. federal income tax rules relating to publicly traded partnerships are currently under review by Congress, and certain legislative proposals have been made that would affect the tax treatment of publicly traded partnerships. While we believe that the current legislative proposals would not adversely affect the manner in which we will be taxed, no assurance can be given as to whether, or in what form, such proposals will ultimately be enacted, or whether they will have an effect on us.

We and holders of the common shares could be adversely affected by any such change in, or any new, tax law, regulation or interpretation. Our organizational documents and agreements permit the board of directors to modify the operating agreement from time to time, without the consent of the holders of common shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse effect on some or all of the holders of our common shares.

Certain State, Local and Non-U.S. Tax Matters

Holders of our common shares may be subject to various state, local and non-U.S. taxes and tax filing requirements. You are urged to consult your tax advisors with respect to the state, local and non-U.S. tax consequences of acquiring, owning and disposing of your common shares, including potential state tax filing requirements.

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UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , we and the selling shareholders have agreed to sell to the underwriters named below, for whom Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc. are acting as representatives, the following respective numbers of common shares:

Underwriter	Number of Shares
Credit Suisse Securities (USA) LLC	
Deutsche Bank Securities Inc.	
FBR Capital Markets & Co.	
Keefe, Bruyette & Woods, Inc.	
Cantor Fitzgerald & Co.	
Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the common shares in the offering if any are purchased, other than those shares covered by the over-allotment option described below.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to additional shares from us at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common shares.

The underwriters propose to offer the common shares initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. After the initial public offering the underwriters may change the public offering price and concession. The following table summarizes the compensation we and the selling shareholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts and Commissions paid by us	$	$	$	$
Underwriting Discounts and Commissions paid by Selling Shareholders	$	$	$	$

We estimate that the total expenses payable by us in connection with this offering will be approximately $ million.

The underwriters have informed us that they do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the common shares being offered.

We and our Manager have agreed that we and it will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any of our common shares or securities convertible into or exchangeable or exercisable for any of our common shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse Securities (USA) LLC, for a period of 180 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the “lock-up” period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the “lock-up” period, we announce that we will release earnings results during the 16-day period beginning on the last day of the “lock-up” period, then in either case the expiration of the “lock-up” will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc. waive, in writing, such an extension.

Our directors and executive officers, our Manager and certain of its affiliates, Ellington and certain of Ellington's affiliates (other than two Ellington-managed hedge funds, which do not at the present time intend to be subject to lock-up agreements in connection with this offering) have agreed that they will not offer, sell, contract to sell, pledge, or otherwise dispose of, directly or indirectly, any common shares or securities convertible into or exchangeable or exercisable for any of our common shares, enter into a transaction that would have the same effect, or enter into any swap, hedge, or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares, whether any of these transactions is to be settled by delivery of our common shares or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge, or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc. for a period of 180 days (60 days with respect to one Ellington-managed hedge fund) after the date of this prospectus. However, in the event that either (1) during the last 17 days of the "lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the "lock-up" period, then in either case the expiration of the "lock-up" will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc. waive, in writing, such an extension.

In addition, certain of our unaffiliated shareholders that beneficially hold common shares have agreed that they will not offer, sell, contract to sell, pledge, or otherwise dispose of, directly or indirectly, any common shares or securities convertible into or exchangeable or exercisable for any of our common shares, enter into a transaction that would have the same effect, or enter into any swap, hedge, or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares, whether any of these transactions is to be settled by delivery of our common shares or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge, or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc. for a period of 60 days after the date of this prospectus.

We and the selling shareholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our common shares have been approved for listing on the New York Stock Exchange under the symbol "EFC."

This offering is being conducted in accordance with Rule 2310 of the Financial Industry Regulatory Authority, Inc.

Affiliates of the underwriters have been, may be, or are lenders under one or more of our reverse repos, and we have entered into credit default and/or interest rate swaps with affiliates of the underwriters. In addition, the underwriters and their affiliates have been, may be, or are lenders to, and counterparties in securities, derivatives and other trading activities with, certain of our affiliates and us. In conjunction with services that affiliates of the underwriters have provided, may provide or are providing to us and our affiliates, commercial disputes may arise. An affiliate of ours is currently engaged as a plaintiff in a commercial legal proceeding in which an affiliate of Credit Suisse Securities (USA) LLC is a defendant.

Prior to the offering, there has been no market for our common shares. The initial public offering price was determined by negotiation between us and the underwriters and does not necessarily reflect the market price of the common shares following the offering. The principal factors that were considered in determining the initial public offering price included:

- the information presented in this prospectus and otherwise available to the underwriters;
- the history of and the prospects for the industry in which we compete;
- the ability of our management;

- the prospects for our future earnings;
- the present state of our development and our current financial condition;
- the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and
- the general condition of the securities markets at the time of the offering.

We offer no assurances that the initial public offering price corresponds to the price at which the common shares will trade in the public market subsequent to the offering or that an active trading market for the shares will develop and continue after the offering.

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters are not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of the common shares in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common shares originally sold by the syndicate members are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of the common shares. As a result the price of our common shares may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on a website maintained by the underwriters, or selling group members, if any, participating in this offering and the underwriters participating in this offering may distribute prospectuses electronically. The underwriters may agree to allocate a number of shares to selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Hunton & Williams LLP. Certain legal matters in connection with this offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

EXPERTS

The financial statements as of December 31, 2008 and December 31, 2007 and for the year ended December 31, 2008 and for the period from August 17, 2007 (commencement of operations) to December 31, 2007, included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-11, including exhibits and schedules filed with the registration statement of which this prospectus is a part, under the Securities Act with respect to the common shares to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and the common shares to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined without charge at the public reference room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. Copies of all or a portion of the registration statement may be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you on the SEC's website at www.sec.gov.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act, and will file periodic reports, proxy statements and will make available to our shareholders annual reports containing audited financial information for each fiscal year and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

ELLINGTON FINANCIAL LLC

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

* All other schedules called for by Form S-11 are omitted because they are inapplicable or the required information is shown in the consolidated financial statements, or notes thereto, included herein.

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ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY (UNAUDITED)

	June 30, 2009	December 31, 2008
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	$ 73,858,758	$ 61,400,254
Investments and financial derivatives:		
Investments at value (Cost—$594,481,361 and $508,888,292)	565,680,650	429,884,006
Financial derivatives—appreciated value (Cost—$126,566,342 and $126,786,798)	133,195,918	141,690,748
Repurchase agreements (Cost—$0 and $4,528,875)	—	4,528,875
Total investments and financial derivatives	698,876,568	576,103,629
Deposits with dealers held as collateral	19,695,134	22,950,008
Receivable for securities sold	120,339,003	31,491,051
Interest and principal receivable	9,300,539	7,722,116
Deferred offering costs	598,259	—
Prepaid insurance	90,889	309,022
Total Assets	$ 922,759,150	$ 699,976,080
LIABILITIES		
Investments and financial derivatives:		
Investments sold short at value (Proceeds—$99,984,962 and $37,593,749)	$ 100,239,532	$ 38,421,032
Financial derivatives—depreciated value (Proceeds—$6,666,250 and $7,681,250)	15,547,559	17,304,903
Total investments and financial derivatives	115,787,091	55,725,935
Reverse repurchase agreements	352,098,700	260,534,000
Due to brokers—margin accounts	123,308,194	124,820,088
Payable for securities purchased	33,871,937	15,509,694
Accrued incentive fees	8,407,373	—
Accounts payable and accrued expenses	2,373,789	1,299,022
Due to Ellington Financial Management LLC	1,577,737	50,283
Accrued base management fee	713,486	307,551
Interest and dividends payable	476,310	651,863
Total Liabilities	638,614,617	458,898,436
SHAREHOLDERS' EQUITY	284,144,533	241,077,644
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 922,759,150	$ 699,976,080
ANALYSIS OF SHAREHOLDERS' EQUITY:		
Common shares, no par value, 100,000,000 shares authorized; (11,901,533 and 12,510,033 shares issued and outstanding)	$ 279,050,124	$ 237,806,235
Additional paid-in capital—LTIP units	5,094,409	3,271,409
Total Shareholders' Equity	$ 284,144,533	$ 241,077,644
PER SHARE INFORMATION:		
Common shares, no par value, 100,000,000 shares authorized; (11,901,533 and 12,510,033 shares issued and outstanding)	$ 23.87	$ 19.27

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2009
(UNAUDITED)**

Current Principal/ Notional Amount/ Number of Contracts	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Long Investments (199.08%)(a)(b)(l)				
Mortgage-Backed Securities (197.19%)				
Agency Securities (131.02%)				
Fixed Rate Agency Securities (41.30%)				
Principal and Interest—Fixed Rate Agency Securities (34.40%)				
$34,547,438	Federal National Mortgage Corporation 933458 Pool	5.50%	2/38	$ 35,681,026
18,106,715	Federal National Mortgage Corporation AA7151 Pool	5.50%	5/39	18,703,671
13,017,316	Federal National Mortgage Corporation 993554 Pool	5.50%	4/39	13,452,583
11,204,436	Federal National Mortgage Corporation 991126 Pool	6.00%	1/39	11,716,514
9,265,215	Federal Home Loan Mortgage Corporation A85728 Pool	6.00%	4/39	9,709,655
8,090,556	Federal National Mortgage Corporation 970853 Pool	6.00%	12/38	8,471,697
				97,735,146
TBA—Fixed Rate Agency Securities (6.90%)				
19,000,000	Federal National Mortgage Association (30 Year)	5.50%	7/09	19,611,563
Total Fixed Rate Agency Securities (Cost $117,084,750)				117,346,709

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2009 (CONTINUED)
(UNAUDITED)

Current Principal/ Notional Amount/ Number of Contracts	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Floating Rate Agency Securities (89.72%)				
Principal and Interest—Floating Rate Agency Securities (89.72%)				
$30,409,821	Federal Home Loan Mortgage Corporation 1J1558 Pool	6.21%	1/37	$ 31,908,075
26,521,828	Federal Home Loan Mortgage Corporation 1N1428 Pool	5.74%	2/37	27,547,210
21,411,672	Federal National Mortgage Corporation 946842 Pool	5.77%	9/37	22,440,967
20,599,101	Federal National Mortgage Corporation 840243 Pool	5.46%	8/35	21,243,734
18,483,605	Federal National Mortgage Corporation 968454 Pool	5.11%	5/38	18,972,880
18,232,426	Federal National Mortgage Corporation 988674 Pool	5.51%	9/38	18,812,095
17,732,943	Federal National Mortgage Corporation 918119 Pool	5.60%	5/37	18,312,005
16,698,160	Federal National Mortgage Corporation 909945 Pool	5.85%	2/37	17,522,632
13,009,394	Federal National Mortgage Corporation 959755 Pool	5.69%	11/37	13,789,958
11,646,951	Federal Home Loan Mortgage Corporation 1N0186 Pool	6.55%	8/36	12,287,533
11,555,848	Federal Home Loan Mortgage Corporation 1N1460 Pool	5.94%	1/37	12,009,926
11,344,138	Federal Home Loan Mortgage Corporation 1G1675 Pool	5.29%	4/37	11,541,015
11,122,453	Federal National Mortgage Corporation 840238 Pool	5.18%	7/35	11,452,365
8,813,783	Federal National Mortgage Corporation 886455 Pool	6.13%	8/36	9,175,651
7,726,702	Federal Home Loan Mortgage Corporation 1J1652 Pool	5.79%	5/37	7,923,091
Total Floating Rate Agency Securities (Cost $250,128,357)				254,939,137
Total Agency Securities (Cost $367,213,107)				372,285,846
Private Label Securities (66.17%)				
Fixed Rate Private Label Securities (11.68%)				
Principal and Interest—Fixed Rate Private Label Securities (10.61%)				
52,725,580	Various	4.50% - 7.75%	5/26 - 6/47	30,135,936
Interest Only—Fixed Rate Private Label Securities (1.07%)				
231,024,789	Various	0.50% - 3.65%	1/45 - 9/47	3,037,059
Total Fixed Rate Private Label Securities (Cost $31,925,759)				33,172,995

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2009 (CONTINUED)
(UNAUDITED)

Current Principal/ Notional Amount/ Number of Contracts	Description	Rate	Maturity	Value
				Expressed in U.S. Dollars
Floating Rate Private Label Securities (54.49%)				
Principal and Interest—Floating Rate Private Label Securities (51.27%)				
$348,158,164	Various	0.00% - 110.19%	4/26 - 5/47	$ 145,683,769
Interest Only—Floating Rate Private Label Securities (3.22%)				
156,676,362	Various	3.20% - 6.44%	4/35 - 8/37	9,144,906
Total Floating Rate Private Label Securities (Cost $192,901,589)				154,828,675
Residual Certificates—Private Label Securities (0.00%)				
282,292,460	Bear Stearns Structured Product 2007-N6 2C Pool	—	6/37	452
Total Residual Certificates—Private Label Securities (Cost $764,886)				452
Total Private Label Securities (Cost $225,592,234)				188,002,122
Total Mortgage-Backed Securities (Cost $592,805,341)				560,287,968
Options (0.26%)				
517	S&P 500 Index Put Options Purchased	—	9/09	751,850
Total Options (Cost $1,676,020)				751,850
Trade Claims (1.63%)				
	Lehman Brothers Special Financing, Inc.	—	—	4,640,832
Total Trade Claims				4,640,832
Total Long Investments (Cost $594,481,361)				$ 565,680,650
Investments Sold Short (-35.28%)				
TBA—Fixed Rate Agency Securities Sold Short (-35.28%)				
(34,000,000)	Federal National Mortgage Association (30 Year)	6.00%	7/09	$ (35,532,656)
(22,000,000)	Federal National Mortgage Association (30 Year)	5.00%	7/09	(22,395,313)
(19,000,000)	Federal National Mortgage Association (30 Year)	5.50%	7/09	(19,611,563)
(18,000,000)	Federal Home Loan Mortgage Corporation (30 Year)	5.50%	7/09	(18,585,000)
(4,000,000)	Federal National Mortgage Association (30 Year)	5.50%	8/09	(4,115,000)
Total TBA—Fixed Rate Agency Securities Sold Short (Proceeds -$99,984,962)				(100,239,532)
Total Investments Sold Short (Proceeds -$99,984,962)				$ (100,239,532)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2009 (CONTINUED)
(UNAUDITED)**

	Primary Risk Exposure	Notional or Number of Contracts	Range of Expiration Dates	Value
				Expressed in U.S. Dollars
Financial Derivatives (41.41%)				
Financial Derivatives—Appreciated (46.88%)				
Swaps—Appreciated (46.88%)(c)				
Long Swaps—Appreciated				
Other Swaps	Credit	8,700,000	9/13 - 6/14	$ 22,000
Short Swaps—Appreciated				
Credit Default Swaps on Asset Backed Securities(d)	Credit	(130,982,012)	6/34 - 12/36	109,243,278
Credit Default Swaps on Asset Backed Indices(e)	Credit	(44,797,388)	7/45 - 10/52	18,443,624
Credit Default Swaps on Corporate Bonds(f)	Credit	(28,925,000)	3/13 - 6/14	5,308,817
Credit Default Swaps on Corporate Bond Indices(g)	Credit	(19,700,000)	12/13	132,057
Total Return Swaps	Credit	(84,840)	4/10 - 5/10	46,142
Total Swaps—Appreciated (Cost $126,566,342)				133,195,918
Total Financial Derivatives—Appreciated (Cost $126,566,342)				$ 133,195,918
Financial Derivatives—Depreciated (-5.47%)				
Swaps—Depreciated (-5.31%)(h)				
Long Swaps—Depreciated				
Credit Default Swaps on Asset Backed Securities (Proceeds -$6,666,250) (i)	Credit	15,977,810	5/34 - 9/36	$ (10,911,356)
Short Swaps—Depreciated				
Interest Rate Swaps(j)	Interest Rates	(100,000,000)	9/11	(4,140,602)
Total Return Swaps	Credit	(224,720)	4/10 - 5/10	(45,751)
Total Swaps—Depreciated (Proceeds -$6,666,250)				(15,097,709)
Futures—Depreciated (-0.16%)(k)				
Depreciated Futures				
Euro-Dollar contracts sold short	Interest Rates	(889)	9/09 - 3/11	$ (449,850)
Total Futures—Depreciated				(449,850)
Total Financial Derivatives—Depreciated (Proceeds -$6,666,250)				$ (15,547,559)
Total Financial Derivatives				$ 117,648,359

(a) See Note 2 and Note 6 in Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2009 (CONCLUDED)
(UNAUDITED)**

(b) At June 30, 2009, the Company's long investments issued by the Federal Home Loan Corporation and the Federal National Mortgage Association represented 39.75% and 91.28% of shareholders' equity, respectively.

(c) The following table shows the appreciated value of the Company's swap contracts by dealer as a percentage of shareholders' equity.

Dealer/Parent Company	Percent of Shareholders' Equity
Affiliates of Morgan Stanley	29.38%
Affiliates of Credit Suisse	15.15%

(d) For short credit default swaps on asset backed securities, the Company purchased protection.

(e) For short credit default swaps on asset backed indices, the Company purchased protection.

(f) For short credit default swaps on corporate bonds, the Company purchased protection.

(g) For short credit default swaps on corporate bond indices, the Company purchased protection.

(h) At June 30, 2009, the Company held depreciated swap contracts with affiliates of Morgan Stanley, the value of which represented -3.84% of shareholders' equity.

(i) For long credit default swaps on asset backed securities, the Company sold protection.

(j) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.

(k) Each contract represents a notional amount of $1,000,000.

(l) The table below shows the Company's long investment ratings from Moody's, Standard & Poor's, or Fitch, respectively; as well as the Company's long investments that were unrated but affiliated with Fannie Mae, Freddie Mac, or Ginnie Mae. Ratings tend to be a lagging credit indicator; as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below. In situations where an investment has a split rating, the lowest provided rating is used.

Rating Description	Percentage of Shareholders' Equity
Unrated but Agency Affiliated	131.02%
Rated Above Ba or BB	29.16%
Rated At or Below Ba or BB	37.01%
Unrated	0.00%

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS AT DECEMBER 31, 2008

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Long Investments (178.32%)(a)(b)(n)				
U.S. Treasury Securities (1.34%)				
$2,800,000	U.S. Treasury Note	4.00%	8/18	$ 3,240,944
Total U.S. Treasury Securities (Cost $2,820,142)				3,240,944
Auction Rate Securities (7.45%)(c)				
25,650,000	Sallie Mae Student Loan Trust 2003-5A A8 Pool	4.50%	6/30	17,955,000
Total Auction Rate Securities (Cost $25,650,000)				17,955,000
Mortgage-Backed Securities (169.53%)				
Agency Securities (117.75%)				
Fixed Rate Agency Securities (6.41%)				
TBA—Fixed Rate Agency Securities (6.41%)				
15,000,000	Federal National Mortgage Association (30 year)	6.00%	1/09	15,451,172
Total Fixed Rate Agency Securities (Cost $15,426,563)				15,451,172

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONTINUED)

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Floating Rate Agency Securities (111.34%)				
Principal and Interest—Floating Rate Agency Securities (111.34%)				
$29,207,750	Federal Home Loan Mortgage Corporation 1N1428 Pool	5.73%	2/37	$ 29,735,479
24,952,600	Federal Home Loan Mortgage Corporation 1B4134 Pool	4.88%	6/38	25,201,146
21,445,110	Federal National Mortgage Association 840243 Pool	6.10%	8/35	22,195,730
20,156,157	Federal National Mortgage Association 988674 Pool	5.51%	9/38	20,560,710
19,673,602	Federal National Mortgage Association 968454 Pool	5.11%	5/38	19,952,779
19,540,122	Federal National Mortgage Association 965088 Pool	5.44%	9/38	19,927,773
17,683,619	Federal Home Loan Mortgage Corporation 1B3434 Pool	5.33%	6/37	17,904,961
15,438,769	Federal Home Loan Mortgage Corporation 1N1385 Pool	5.90%	12/36	15,737,981
14,481,205	Federal National Mortgage Association 959755 Pool	5.69%	11/37	14,695,691
13,446,065	Federal Home Loan Mortgage Corporation 1N1460 Pool	5.95%	1/37	13,695,260
13,144,879	Federal Home Loan Mortgage Corporation 1N0186 Pool	6.55%	8/36	13,502,912
12,741,641	Federal National Mortgage Association 956653 Pool	5.59%	12/37	12,940,945
12,031,689	Federal National Mortgage Association 840238 Pool	5.99%	7/35	12,420,016
12,078,175	Federal Home Loan Mortgage Corporation 1G1675 Pool	5.34%	4/37	12,185,671
9,336,558	Federal National Mortgage Association 886455 Pool	6.13%	8/36	9,576,695
8,075,366	Federal Home Loan Mortgage Corporation 1J1652 Pool	5.76%	5/37	8,184,602
Total Floating Rate Agency Securities (Cost $266,187,466)				268,418,351
Total Agency Securities (Cost $281,614,029)				283,869,523
Private Label Securities (51.78%)				
Fixed Rate Private Label Securities (6.57%)				
Principal and Interest—Fixed Rate Private Label Securities (5.38%)				
27,552,386	Various	4.50% - 7.37%	8/30 - 6/47	12,966,549

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONTINUED)

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Interest Only—Fixed Rate Private Label Securities (1.19%)				
$235,082,175	Various	0.50% - 5.50%	8/35 - 9/47	$ 2,880,759
Total Fixed Rate Private Label Securities (Cost $20,733,361)				15,847,308
Floating Rate Private Label Securities (45.21%)				
Principal and Interest—Floating Rate Private Label Securities (44.88%)				
289,693,672	Various	0.53% - 9.50%	8/19 - 5/47	108,183,679
Interest Only—Floating Rate Private Label Securities (0.33%)				
73,460,230	Various	3.27% - 4.63%	6/35 - 1/45	787,552
Total Floating Rate Private Label Securities (Cost $177,230,322)				108,971,231
Residual Certificates—Private Label Securities (0.00%)				
310,176,371	Bear Stearns Structured Product 2007 - N6 2C Pool	—	6/37	—
Total Residual Certificates—Private Label Securities (Cost $840,438)				—
Total Private Label Securities (Cost $198,804,121)				124,818,539
Total Mortgage-Backed Securities (Cost $480,418,150)				408,688,062
Total Long Investments (Cost $508,888,292)				$ 429,884,006
Repurchase Agreements (1.88%)(d)				
4,528,875	Deutsche Bank Collateralized by Par Value 4,100,000 U.S. Treasury Note Coupon 2.75% - 4.00%, Maturity Date 07/10 - 08/18	0.00% - 0.40%	On Demand	$ 4,528,875
Total Repurchase Agreements (Cost $4,528,875)				$ 4,528,875
Investments Sold Short (-15.94%)(e)				
U.S. Treasury Securities Sold Short (-3.19%)				
(6,900,000)	Various	2.75% - 4.00%	7/10 - 8/18	$ (7,695,641)
Total U.S. Treasury Securities Sold Short (Proceeds -$6,980,858)				(7,695,641)
TBA—Fixed Rate Agency Securities Sold Short (-12.75%)				
(15,000,000)	Federal National Mortgage Association (30 year)	6.00%	1/09	(15,451,172)
(15,000,000)	Federal National Mortgage Association (30 year)	5.00%	2/09	(15,274,219)
Total TBA—Fixed Rate Agency Securities Sold Short (Proceeds -$30,612,891)				(30,725,391)
Total Investments Sold Short (Proceeds -$37,593,749)				$ (38,421,032)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONTINUED)

	Notional or Number of Contracts	Range of Expiration Dates	Value *Expressed in U.S. Dollars*
Swaps (51.59%)			
Swaps—Appreciated (58.77%)(f)			
Long Swaps—Appreciated			
Total Return Swaps	398,329	11/13	$ 255,509
Other Swaps	2,200,000	09/13	22,000
Short Swaps—Appreciated			
Credit Default Swaps on Corporate Bonds(h)	(45,775,000)	01/09 - 12/13	10,085,262
Credit Default Swaps on Asset Backed Securities(i)	(128,860,596)	06/34 - 12/36	108,126,227
Credit Default Swaps on Asset Backed Indices(j)	(83,556,020)	01/09 - 10/52	22,769,087
Credit Default Swaps on Corporate Bond Indices(k)	(19,700,000)	12/13	385,172
Total Return Swaps	(277,255)	12/13	47,491
Total Swaps—Appreciated (Cost $126,786,798)			$ 141,690,748
Swaps—Depreciated (-7.18%)(g)			
Long Swaps—Depreciated			
Credit Default Swaps on Asset Backed Securities (proceeds $7,681,250)(l)	19,747,709	05/34 - 09/36	$ (10,651,424)
Total Return Swaps	245,016	11/13	(5,422)
Short Swaps—Depreciated			
Interest Rate Swaps(m)	(145,000,000)	09/11 - 10/11	(6,487,253)
Total Return Swaps	(149,654)	12/13	(160,804)
Total Swaps—Depreciated (Proceeds $7,681,250)			$ (17,304,903)

(a) See Note 2 in notes to Consolidated Financial Statements.
(b) At December 31, 2008, the Company's long investments issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association represented 56.47% and 61.28% of shareholders' equity, respectively.
(c) The auction rate security held by the Company has failed at auction.
(d) In general, securities received pursuant to repurchase agreements were delivered to counterparties in satisfaction of short sale transactions.
(e) At December 31, 2008, the Company's short investments issued by the Federal National Mortgage Association represented -12.75% of shareholders' equity.
(f) At December 31, 2008, the Company held appreciated swap contracts with affiliates of Morgan Stanley and affiliates of Credit Suisse First Boston that represented 40.98% and 13.08% of shareholders' equity, respectively.
(g) At December 31, 2008, the Company held depreciated swap contracts with affiliates of Morgan Stanley that represented -4.42% of shareholders' equity.
(h) For short credit default swaps on corporate bonds, the Company purchased protection.
(i) For short credit default swaps on asset backed securities, the Company purchased protection.
(j) For short credit default swaps on asset backed indices, the Company purchased protection.

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONCLUDED)

(k) For short credit default swaps on corporate bond indices, the Company purchased protection.

(l) For long credit default swaps on asset backed securities, the Company sold protection

(m) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.

(n) The table below shows the Company's long investment ratings from Moody's, Standard & Poor, or Fitch, respectively; as well as the Company's long investments that were unrated but affiliated with Fannie Mae, Freddie Mac, or Government National Mortgage Association (Ginnie Mae). Ratings tend to be a lagging credit indicator, as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below.

Rating Description	Percentage of Shareholders' Equity
Unrated but Agency Affiliated	117.75%
Rated Above Ba or BB	49.34%
Rated At or below Ba or BB	9.89%
Treasury Securities	1.34%

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2008
		Expressed in U.S. Dollars		
INVESTMENT INCOME				
Interest income	$ 13,255,035	$ 6,783,071	$ 22,934,130	$ 12,924,980
EXPENSES				
Base management fee	1,028,404	921,335	1,958,546	1,822,210
Incentive fee	8,407,373	1,771,026	8,407,373	1,771,026
Share-based LTIP expense	928,103	729,506	1,823,000	1,312,430
Interest expense	370,530	1,294,006	1,012,021	1,698,267
Professional fees	507,297	328,750	1,057,927	405,500
Insurance expense	109,066	108,750	218,133	217,500
Agency and administration fees	142,854	90,017	280,827	180,647
Custody and other fees	160,311	132,255	237,267	159,255
Directors' fees	50,500	67,636	101,000	105,033
Total expenses	11,704,438	5,443,281	15,096,094	7,671,868
NET INVESTMENT INCOME (LOSS)	1,550,597	1,339,790	7,838,036	5,253,112
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES				
Net realized gain (loss) on:				
Investments	(13,555,648)	(379,231)	(20,815,379)	(278,335)
Swaps	(6,278,107)	4,600,887	20,781,875	6,015,766
Futures	(38,811)	—	(38,811)	—
Options	(648,063)	—	(648,063)	—
	(20,520,629)	4,221,656	(720,378)	5,737,431
Change in net unrealized gain (loss) on:				
Investments	55,458,627	(14,973,791)	51,700,458	(32,865,988)
Swaps	901,704	25,682,712	(7,082,180)	32,871,545
Futures	(449,850)	—	(449,850)	—
Options	(924,170)	—	(924,170)	—
	54,986,311	10,708,921	43,244,258	5,557
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES	34,465,682	14,930,577	42,523,880	5,742,988
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 36,016,279	$ 16,270,367	$ 50,361,916	$ 10,996,100

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	Three Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2008
		Expressed in U.S. Dollars		
Change in Shareholders' Equity Resulting From Operations				
Net investment income (loss)	$ 1,550,597	$ 1,339,790	$ 7,838,036	$ 5,253,112
Net realized gain (loss) on investments and financial derivatives	(20,520,629)	4,221,656	(720,378)	5,737,431
Change in net unrealized gain (loss) on investments and financial derivatives	54,986,311	10,708,921	43,244,258	5,557
Net increase (decrease) in shareholders' equity resulting from operations	36,016,279	16,270,367	50,361,916	10,996,100
Change in Shareholders' Equity Resulting From Shareholder Transactions				
Shares repurchased	(1,331,000)	—	(7,331,000)	—
Net offering costs	—	1,866	—	1,866
Share-based LTIP awards	928,103	729,506	1,823,000	1,312,430
Special distribution to Ellington Financial Management LLC	(1,632,330)	(438,295)	(1,787,027)	(584,954)
Net increase (decrease) in shareholders' equity from shareholder transactions	(2,035,227)	293,077	(7,295,027)	729,342
Net increase (decrease) in shareholders' equity	33,981,052	16,563,444	43,066,889	11,725,442
Shareholders' Equity, Beginning of Period	250,163,481	236,988,891	241,077,644	241,826,893
Shareholders' Equity, End of Period	$ 284,144,533	$ 253,552,335	$ 284,144,533	$ 253,552,335

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2008
	Expressed in U.S. Dollars	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ 50,361,916	$ 10,996,100
Cash flows provided by (used in) operating activities:		
Reconciliation of the net increase (decrease) in shareholders' equity resulting from operations to net cash provided by (used in) operating activities:		
Change in net unrealized (gain) loss on investments and financial derivatives	(43,244,258)	(5,557)
Net realized (gain) loss on investments and financial derivatives	720,378	(5,737,431)
Amortization of premiums and accretion of discounts (net)	(5,533,186)	(2,632,141)
Purchase of investments	(536,345,402)	(289,962,156)
Proceeds from disposition of investments	434,239,053	129,252,946
Proceeds from investments sold short	99,984,961	9,910,012
Repurchase of investments sold short	(37,010,724)	(1,236,279)
Payments made to open financial derivatives	(72,493,943)	(191,985,135)
Proceeds received to close financial derivatives	104,664,819	41,965,243
Proceeds received to open financial derivatives	390,000	24,782,132
Payments made to close financial derivatives	(12,612,356)	(6,725,066)
Share-based LTIP expense	1,823,000	1,312,430
(Increase) decrease in assets:		
(Increase) decrease in repurchase agreements, net of repayments	4,528,875	(8,638,875)
(Increase) decrease in receivable for securities sold	(88,847,952)	(3,533,882)
(Increase) decrease in deposits with dealers held as collateral	3,254,874	(1,199,566)
(Increase) decrease in interest and principal receivable	(1,578,423)	(2,523,490)
(Increase) decrease in prepaid insurance	218,133	217,500
(Increase) decrease in deferred offering costs	(598,259)	—
Increase (decrease) in liabilities:		
Increase (decrease) in due to brokers—margin accounts	(1,511,894)	136,974,924
Increase (decrease) in payable for securities purchased	18,362,243	7,523,937
Increase (decrease) in accounts payable and accrued expenses	1,074,767	486,355
Increase (decrease) in incentive fee payable	8,407,373	1,771,026
Increase (decrease) in interest and dividends payable	(175,553)	—
Increase (decrease) in base management fee payable	405,935	2,967
Net cash provided by (used in) operating activities	(71,515,623)	(148,984,006)
Cash flows provided by (used in) financing activities:		
Shares repurchased	(7,331,000)	—
Offering costs paid	—	(190,877)
Special distribution to Ellington Financial Management LLC	(259,573)	(289,082)
Reverse repurchase agreements, net of repayments	91,564,700	154,092,250
Net cash provided by (used in) financing activities	83,974,127	153,612,291
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,458,504	4,628,285
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61,400,254	61,705,104
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 73,858,758	$ 66,333,389
Supplemental disclosure of cash flow information:		
Interest Paid	$ 1,134,134	$ 1,165,332
Mortgage Dollar Rolls	$ 619,453,360	$ —

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. Organization and Investment Objective

Ellington Financial LLC was formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. EF Securities LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC was formed as a Delaware limited liability company on October 12, 2007 and commenced operations on November 30, 2007. EF Mortgage LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. EF CMO LLC, a wholly owned consolidated subsidiary of EF Mortgage LLC was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. Ellington Financial LLC, EF Securities LLC, EF Mortgage LLC and EF CMO LLC are hereafter collectively referred to as the Company. All inter-company accounts are eliminated in consolidation.

The Company specializes in various fixed income investment strategies, with a current focus on non-agency residential mortgage-backed securities, or RMBS, and asset-backed securities, or ABS.

The Company's primary objective is to generate attractive risk-adjusted returns by constructing a portfolio of investments (that may also include direct investments in mortgage-related business platforms) and by implementing a strategy that can generate high risk-adjusted returns on these investments.

Ellington Financial Management, LLC ("EFM" or the "Manager") serves as the Manager to the Company pursuant to the terms of a Management Agreement dated August 17, 2007 (the "Management Agreement"). In accordance with the terms of the Management Agreement, the Manager will implement the investment strategy and manage the business and operations on a day-to-day basis for the Company and perform certain services for the Company, subject to oversight by the board of directors. The Management Agreement was amended effective July 1, 2009 as described in Note 10.

2. Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements for the Company have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for fair presentation, have been included. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. In June 2007, the AICPA issued Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, ("SOP 07-1"). SOP 07-1 was effective for fiscal years beginning on or after December 15, 2007 with earlier application encouraged. After the Company's adoption of SOP 07-1, FASB Staff Position No. SOP 07-1-1 ("FSP 07-1-1"), which delayed indefinitely the effective date of SOP 07-1, was issued. However, FSP 07-1-1 explicitly permitted entities that early adopted SOP 07-1 before December 15, 2007 to continue to apply the provisions of SOP 07-1. The Company has elected to continue to apply the provisions of SOP 07-1. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the "Guide"), and provides guidance for determining whether the specialized industry accounting principles of the Guide should be retained in the financial statements of a parent company of an investment company or an equity method investor in an investment company. Effective August 17, 2007, the Company adopted SOP 07-1 and follows the provisions of the Guide which, among other things, requires that investments be reported at fair value in our financial statements. The following is a summary of significant accounting policies followed by the Company.

(A) Valuation: In September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), was issued and is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 on January 1, 2008. There has been no impact on total shareholders' equity as

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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a result of the Company's adoption of SFAS 157. SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets,
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly and,
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in these securities.

The following is a description of the valuation methodologies used for the Company's financial instruments.

Level 1 valuation methodologies include the observation of quoted prices (unadjusted) for identical assets or liabilities in active markets, often received from widely recognized data providers.

Level 2 valuation methodologies include the observation of (i) quoted prices for similar assets or liabilities in active markets, (ii) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves) in active markets and (iii) quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 fair value methodologies include (i) the use of proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions, and (ii) the solicitation of valuations from third parties (typically, broker-dealers). Third-party valuation providers often utilize proprietary models that are highly subjective and also require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions. The Manager utilizes such information to assign a good faith valuation (the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the valuation date) to such financial instruments. The Manager has been able to obtain third party valuations on the vast majority of the Company's assets and expects to continue to solicit third party valuations on substantially all of the Company's assets in the future to the extent practical. The Manager uses its judgment, based on its own models, the assessments of its portfolio managers, and third party valuations it obtains, to determine and assign fair values to the Company's Level 3 assets. The Company believes that third party valuations play an important role in ensuring that its Manager's valuation determinations are fair and reasonable. The Manager's valuation process is subject to the oversight of the valuation sub-committee of the Manager's investment and risk management committee as well as the oversight of the independent members of the Company's board of directors. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the consolidated financial statements.

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at June 30, 2009:

Description	Level 1	Level 2	Level 3	Total
Assets:				
Investments at value—				
U.S. Treasury and agency residential mortgage-backed securities	$ 19,611,563	$ 352,674,283	$ —	$ 372,285,846
Private label residential mortgage-backed securities	—	—	188,002,122	188,002,122
Purchased options	724,490	27,360	—	751,850
Trade claims	—	—	4,640,832	4,640,832
Total investments at value	20,336,053	352,701,643	192,642,954	565,680,650
Financial derivatives—appreciated value—				
Credit default swaps on corporate bonds	—	—	5,308,817	5,308,817
Credit default swaps on corporate indices	—	—	132,057	132,057
Credit default swaps on asset backed securities	—	—	109,243,278	109,243,278
Credit default swaps on asset backed indices	—	—	18,443,624	18,443,624
Total return swaps	—	46,142	—	46,142
Other swaps	—	—	22,000	22,000
Total financial derivatives—appreciated value	—	46,142	133,149,776	133,195,918
Total investments and financial derivatives— appreciated value	$ 20,336,053	$ 352,747,785	$ 325,792,730	$ 698,876,568
Liabilities:				
Investments sold short—				
U.S. Treasury and agency residential mortgage-backed securities	$ (100,239,532)	$ —	$ —	$ (100,239,532)
Financial derivatives—depreciated value—				
Credit default swaps on asset backed securities	—	—	(10,911,356)	(10,911,356)
Total return swaps	—	(45,751)	—	(45,751)
Interest rate swaps	—	(4,140,602)	—	(4,140,602)
Unrealized depreciation on futures contracts	(449,850)	—	—	(449,850)
Total financial derivatives—depreciated value	(449,850)	(4,186,353)	(10,911,356)	(15,547,559)
Total investments sold short and financial derivatives-depreciated value	$ (100,689,382)	$ (4,186,353)	$ (10,911,356)	$ (115,787,091)

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at December 31, 2008:

Description	Level 1	Level 2	Level 3	Total
Assets:				
Investments at value	$ 18,692,116	$ 268,418,351	$ 142,773,539	$ 429,884,006
Repurchase Agreements	—	4,528,875	—	4,528,875
Financial derivatives—appreciated value	—	303,000	141,387,748	141,690,748
Total	$ 18,692,116	$ 273,250,226	$ 284,161,287	$ 576,103,629
Liabilities:				
Investments sold short at value	$ (38,421,032)	$ —	$ —	$ (38,421,032)
Financial derivatives—depreciated value	—	(6,653,479)	(10,651,424)	(17,304,903)
Total	$ (38,421,032)	$ (6,653,479)	$ (10,651,424)	$ (55,725,935)

At June 30, 2009 and December 31, 2008, the Company held money market investments that are included in cash and cash equivalents on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity and are considered Level 1 financial instruments.

The tables below include a roll-forward of the Company's financial instruments for the three and six month periods ended June 30, 2009 and June 30, 2008, respectively, (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

Three month period ended June 30, 2009

	Beginning Balance as of March 31, 2009	Accreted Discounts / Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain (Loss)	Net Purchases (Sales)	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2009
Assets:							
Investments at value—							
Private Label residential mortgage-backed securities	$ 148,371,348	$ 4,523,567	$ (14,951,961)	$ 51,083,866	$ (1,024,698)	$ —	$ 188,002,122
Trade claims	—	—	—	4,640,832	—	—	4,640,832
Total investments at value	148,371,348	4,523,567	(14,951,961)	55,724,698	(1,024,698)	—	192,642,954
Financial derivatives—appreciated value—							
Credit default swaps on corporate bonds	7,218,824	—	(403,054)	(2,678,757)	1,171,804	—	5,308,817
Credit default swaps on corporate indices	700,477	—	(77,158)	(568,420)	77,158	—	132,057
Credit default swaps on asset backed securities	95,821,743	—	(4,995,969)	4,248,811	14,168,693	—	109,243,278
Credit default swaps on asset backed indices	12,063,461	—	3,507,723	(2,287,882)	5,160,322	—	18,443,624
Other swaps	22,000	—	—	—	—	—	22,000
Total financial derivatives—appreciated value	115,826,505	—	(1,968,458)	(1,286,248)	20,577,977	—	133,149,776
Total investments and financial derivatives—appreciated value	$ 264,197,853	$ 4,523,567	$ (16,920,419)	$ 54,438,450	$ 19,553,279	$ —	$ 325,792,730
Liabilities:							
Financial derivatives—depreciated value—							
Credit default swaps on corporate bonds	$ —	$ —	$ 625	$ —	$ (625)	$ —	$ —
Credit default swaps on asset backed securities	(12,512,207)	—	(392,249)	585,857	1,407,243	—	(10,911,356)
Total financial derivatives—depreciated value	(12,512,207)	—	(391,624)	585,857	1,406,618	—	(10,911,356)
Total investments sold short and financial derivatives—depreciated value	$ (12,512,207)	$ —	$ (391,624)	$ 585,857	$ 1,406,618	$ —	$ (10,911,356)

All net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. Change in net unrealized gain (loss) of $25,290,306, ($10,846,139) and ($323,698) for the three month period ended June 30, 2009 relate to investments, financial derivative assets and financial derivative liabilities, respectively, held by the Company at June 30, 2009.

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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JUNE 30, 2009

Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

Three month period ended June 30, 2008

	Beginning Balance as of March 31, 2008	Accreted Discounts/ Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain (Loss)	Net Purchases (Sales)	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2008
Assets:							
Investments—							
Investments in securities	$ 200,738,656	$ 1,370,215	$ 1,428,769	$ (14,939,623)	$ (3,724,656)	$ —	$ 184,873,361
Total Investments	200,738,656	1,370,215	1,428,769	(14,939,623)	(3,724,656)	—	184,873,361
Financial derivatives—appreciated value—							
Swap contracts—appreciated value	122,132,871	—	3,030,022	28,081,849	43,259,730	—	196,504,472
Total financial derivatives—appreciated value	122,132,871	—	3,030,022	28,081,849	43,259,730	—	196,504,472
Total investments and financial derivatives—appreciated value	$ 322,871,527	$ 1,370,215	$ 4,458,791	$ 13,142,226	$ 39,535,074	$ —	$ 381,377,833
Liabilities:							
Financial derivatives—depreciated value—							
Swap contracts—depreciated	$ (21,019,072)	$ —	$ (210,821)	$ (4,080,433)	$ (1,513,051)	$ —	$ (26,823,377)
Total financial derivatives—depreciated value	(21,019,072)	—	(210,821)	(4,080,433)	(1,513,051)	—	(26,823,377)
Total investments sold short and financial derivatives—depreciated value	$ (21,019,072)	$ —	$ (210,821)	$ (4,080,433)	$ (1,513,051)	$ —	$ (26,823,377)

All net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. Change in net unrealized gain (loss) of ($14,939,623), $30,661,482 and ($3,940,564) for the three month period ended June 30, 2008 relate to investments, financial derivative assets and financial derivative liabilities, respectively, held by the Company at June 30, 2008.

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

Six month period ended June 30, 2009

	Beginning Balance as of December 31, 2008	Accreted Discounts / Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain (Loss)	Net Purchases (Sales)	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2009
Assets:							
Investments at value—							
Private label residential mortgage-backed securities	$ 142,773,544	$ 7,266,036	$ (22,931,658)	$ 44,090,466	$ 16,803,734	$ —	$ 188,002,122
Trade claims	—	—	—	4,640,832	—	—	4,640,832
Total investments at value	142,773,544	7,266,036	(22,931,658)	48,731,298	16,803,734	—	192,642,954
Financial derivatives—appreciated value—							
Credit default swaps on corporate bonds	10,085,262	—	(509,210)	(2,002,695)	(2,264,540)	—	5,308,817
Credit default swaps on corporate indices	385,172	—	(149,392)	(253,115)	149,392	—	132,057
Credit default swaps on asset backed securities	108,126,227	—	9,010,040	(6,293,642)	(1,599,347)	—	109,243,278
Credit default swaps on asset backed indices	22,769,087	—	14,252,305	531,940	(19,109,708)	—	18,443,624
Other swaps	22,000	—	—	—	—	—	22,000
Total financial derivatives—appreciated value	141,387,748	—	22,603,743	(8,017,512)	(22,824,203)	—	133,149,776
Total investments and financial derivatives—appreciated value	$ 284,161,292	$ 7,266,036	$ (327,915)	$ 40,713,786	$ (6,020,469)	$ —	$ 325,792,730
Liabilities:							
Financial derivatives—depreciated value—							
Credit default swaps on corporate bonds	$ —	$ —	$ 625	$ —	$ (625)	$ —	$ —
Credit default swaps on asset backed securities	(10,651,424)	—	(364,397)	(1,274,932)	1,379,397	—	(10,911,356)
Total financial derivatives—depreciated value	(10,651,424)	—	(363,772)	(1,274,932)	1,378,772	—	(10,911,356)
Total investments sold short and financial derivatives—depreciated value	$ (10,651,424)	$ —	$ (363,772)	$ (1,274,932)	$ 1,378,772	$ —	$ (10,911,356)

All net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. Change in net unrealized gain (loss) of $14,055,329, ($6,460,116) and ($1,589,482) for the six month period ended June 30, 2009 relate to investments, financial derivative assets and financial derivative liabilities, respectively, held by the Company at June 30, 2009.

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Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

Six month period ended June 30, 2008

	Beginning Balance as of December 31, 2007	Accreted Discounts/ Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain (Loss)	Net Purchases (Sales)	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2008
Assets:							
Investments—							
Investments in securities	$ 147,501,420	$ 2,893,852	$ (164,342)	$ (32,970,753)	$ 67,613,184	$ —	$ 184,873,361
Total Investments	147,501,420	2,893,852	(164,342)	(32,970,753)	67,613,184	—	184,873,361
Financial derivatives—appreciated value—							
Swap contracts—appreciated value	—	—	4,350,424	38,372,133	153,781,915	—	196,504,472
Total financial derivatives—appreciated value	—	—	4,350,424	38,372,133	153,781,915	—	196,504,472
Total investments and financial derivatives—appreciated value	$ 147,501,420	$ 2,893,852	$ 4,186,082	$ 5,401,380	$ 221,395,099	$ —	$ 381,377,833
Liabilities:							
Financial derivatives—depreciated value—							
Swap contracts—depreciated	$ —	$ —	$ (152,151)	$ (6,669,628)	$ (20,001,598)	$ —	$ (26,823,377)
Total financial derivatives—depreciated value	—	—	(152,151)	(6,669,628)	(20,001,598)	—	(26,823,377)
Total investments sold short and financial derivatives—depreciated value	$ —	$ —	$ (152,151)	$ (6,669,628)	$ (20,001,598)	$ —	$ (26,823,377)

All net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. Change in net unrealized gain (loss) of ($32,970,753), $38,372,133 and ($6,669,628) for the six month period ended June 30, 2008 relate to investments, financial derivative assets and financial derivative liabilities, respectively, held by the Company at June 30, 2008.

(B) Securities Transactions and Investment Income: Securities transactions are recorded on the trade date. Realized and unrealized gains and losses are calculated based on identified cost. Interest income is recorded as earned. The Company accretes market discounts and amortizes market premiums on debt securities using the effective yield method and classifies any paydown gains or losses as interest income. Accretion of market discounts and amortization of market premiums require the use of a significant amount of judgment and the application of several assumptions including, but not limited to, prepayment assumptions and default rate assumptions.

(C) Cash and Cash Equivalents: During the current period the Company has added additional classifications for the statement of cash flows and accordingly has conformed the prior period presentation. Cash and cash equivalents include amounts held in an interest bearing overnight account and money market funds. As of June 30, 2009, 47%, 34% and 19% of cash and cash equivalents were held in the JP Morgan Prime Money Market Fund, the BlackRock Liquidity TempFund, and an interest bearing account at the Bank of New York Mellon Corporation, respectively. As of December 31, 2008, 49%, 33% and 18% of cash and cash equivalents

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were held in the BlackRock Liquidity TempFund, JP Morgan Prime Money Market Fund, and an interest bearing account at Bank of New York Mellon Corporation, respectively.

(D) Financial Derivatives: The Company enters into various types of financial derivatives. In January 2009, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The two major types are swaps and futures.

Swaps: The Company may enter into various types of swaps, including interest rate swaps, total return swaps, and credit default swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's total return swap and credit default swap activity is credit risk.

The Company is subject to interest rate risk exposure in its normal course of pursuing its investment objectives. To help mitigate interest rate risk, the Company may enter into interest rate swaps. Interest rate swaps are contractual agreements whereby one party pays a floating rate of interest on a notional principal amount and receives a fixed rate on the same notional principal, or vice versa, for a fixed period of time. For interest rate swaps, the Company may pay fixed and receive floating or vice versa. Interest rate swaps change in value with movements in interest rates. The Company's maximum risk of loss is the net value of the cash flows to be received from the counterparty to the transaction over the contract's remaining life, to the extent such amount is positive.

The Company may enter into total return swaps in order take a "long" or "short" position with respect to an underlying referenced asset. The Company is subject to market price volatility of the underlying referenced asset. A total return swap involves commitments to pay interest in exchange for a market-linked return based on a notional amount. To the extent that the total return of the security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment from or make a payment to the counterparty.

The Company may enter into credit default swaps. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss it may incur following the occurrence of a "credit event" in relation to a "reference amount" or notional amount of a credit obligation (usually a bond or loan). Typically, a credit event occurs when the underlying reference asset fails to make scheduled principal or interest payments to its holders or when the underlying reference obligation is downgraded. The Company typically writes (sells) protection to take a "long" position or purchases (buys) protection to take a "short" position with respect to an underlying reference asset or to hedge exposure to other investment holdings.

As of June 30, 2009, the Company is party to credit derivatives contracts in the form of credit default swaps on mortgage/asset backed securities (ABSCDS). As a seller of credit protection via ABSCDS, the Company receives periodic payments from protection buyers, and is obligated to make payments to the protection buyer upon the occurrence of a "credit event" with respect to an underlying reference asset. Written credit derivatives held by the Company at June 30, 2009 and December 31, 2008, respectively, are summarized below:

Single Name Credit Default Swaps (Asset Backed Securities)	Amount at June 30, 2009	Amount at December 31, 2008
Fair Value of Written Credit Derivatives	($10,911,356)	($10,651,424)
Notional Amount(1)	$ 15,977,810	$ 19,747,709

(1) The notional amount is the maximum amount that a seller of ABSCDS would be obligated to make, and a buyer of credit protection would receive upon occurrence of a "credit event." Movements in the value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under an ABSCDS contract may be offset against amounts due or owed on other ABSCDS contracts with the same ISDA counterparty.

ABSCDS contracts typically have no stated termination date. Unless terminated by mutual agreement by both the buyer and seller, ABSCDS contracts effectively terminate at the earlier of the (i) date the buyer of protection delivers the reference asset to the seller in exchange for payment of the notional balance following the occurrence of a credit event or (ii) date the reference asset is paid off in full, retired, or otherwise ceases to exist.

Implied credit spreads may be used to determine the market value of swap contracts and are reflective of the cost of buying/selling protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make payment) under the swap contract. In situations where the credit quality of an underlying reference asset has deteriorated, credit spreads combined with a percentage of notional amounts paid up front (points up front) are frequently used as an indication of ABSCDS risk.

ABSCDS credit protection sellers entering the market would expect to be paid a percentage of the current notional balance up front (points up front) approximately equal to the fair value of the contract in order to write protection on the reference assets underlying the Company's ABSCDS contracts. Stated spreads at June 30, 2009 and December 31, 2008 on ABSCDS contracts where the Company wrote protection range between 45 and 85 basis points on contracts that were outstanding at these dates. However participants entering the market at June 30, 2009 or December 31, 2008, would likely transact on similar contracts with material points upfront given these spreads. The Company received up front payments of $7,681,250 on ABSCDS where the Company sold protection that were held as of December 31, 2008. The notional amount of those contracts was $20,250,000 when the payments were received. Of this amount, $16,750,000 of notional amount was held as of June 30, 2009. Up front payments received relating to the notional amount held at June 30, 2009 were $6,666,250.

Swaps change in value with movements in interest rates or total return of the referenced securities. During the term of the interest rate swap contracts, changes in value are recognized as unrealized gains or losses by marking the contracts to market. When the contracts are terminated, the Company will realize a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Changes in value of the total return swap contracts, since the most recent cash flow exchange date, are recognized as unrealized gains or losses. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid/received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity and are recorded as a realized gain or loss on the termination date. The Company may be required to deliver or receive cash or securities as collateral upon entering into swap transactions.

The Company's swap contracts are governed by ISDA trading agreements, which are separately negotiated agreements with dealer counterparties. Changes in the relative value of the swap transactions may require the Company or the counterparty to post or receive additional collateral. Typically, a collateral payment or receipt is triggered based on the net change in the value of all contracts governed by a particular ISDA trading agreement. Collateral received from counterparties is included in Due to brokers—margin accounts on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Collateral paid to counterparties is included in

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Deposits with dealers held as collateral on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Entering into swap contracts involves market risk in excess of amounts recorded on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity.

Futures Contracts: A futures contract is an agreement between two parties to buy and sell a financial instrument for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are made or received, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Gains and losses on the Company's derivative contracts held at June 30, 2009 are summarized in the table below:

Derivative Type	Primary Risk Exposure	Net Realized Gain/(Loss) for the Three Month Period Ended June 30, 2009	Net Realized Gain/(Loss) for the Six Month Period Ended June 30, 2009	Change in Net Unrealized Gain/(Loss) for the Three Month Period Ended June 30, 2009	Change in Net Unrealized Gain/(Loss) for the Six Month Period Ended June 30, 2009
Financial derivatives—appreciated value					
Credit Default Swaps on Asset Backed Securities	Credit	$ (4,995,971)	$ 9,010,043	$ 4,248,807	$ (6,293,645)
Credit Default Swaps on Asset Backed Indices	Credit	3,507,723	14,252,305	(2,287,882)	531,941
Credit Default Swaps on Corporate Bond Indices	Credit	(77,158)	(149,392)	(568,420)	(253,114)
Credit Default Swaps on Corporate Bonds	Credit	(403,054)	(509,210)	(2,678,755)	(2,002,692)
Total Return Swaps	Credit	(1,465,469)	1,087,633	11,969	(256,858)
Other Swaps		—	—	—	—
		(3,433,929)	23,691,379	(1,274,281)	(8,274,368)
Financial derivatives—depreciated value					
Credit Default Swaps on Asset Backed Securities	Credit	(392,249)	(364,397)	585,850	(1,274,939)
Credit Default Swaps on Corporate Bonds	Credit	625	625	—	—
Total Return Swaps	Credit	(1,482,554)	(10,932)	269,772	120,476
Interest Rate Swaps	Interest Rates	(970,000)	(2,534,800)	1,320,363	2,346,651
		(2,844,178)	(2,909,504)	2,175,985	1,192,188
Futures contracts					
Euro-Dollar contracts sold short	Interest Rates	(38,811)	(38,811)	(449,850)	(449,850)
Total		$ (6,316,918)	$20,743,064	$ 451,854	$ (7,532,030)

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Appreciated swaps are included in Financial derivatives—appreciated value on the Consolidated Statement of Assets, Liabilities, and Shareholders' Equity. Depreciated swaps are included in Financial derivatives—depreciated value on the Consolidated Statement of Assets, Liabilities, and Shareholders' Equity. In addition, swap contracts are summarized by type on the Consolidated Condensed Schedule of Investments. Unrealized depreciation on futures contracts is included in unrealized depreciation on financial derivatives on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Notional amounts reflected on the Consolidated Condensed Schedule of Investments are indicative of volume during the three month period ended June 30, 2009.

(E) Short Sales: When the Company sells short, it may borrow the security sold short and deliver it to the broker-dealer through which it sold short as collateral for its obligation to deliver the security upon conclusion of the sale. Additionally, the Company generally is required to deliver cash or securities as collateral for the Company's obligation to return the borrowed security. The Company may have to pay a fee to borrow the particular securities and may be obligated to pay over any payments received on such borrowed securities. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is less than or greater than the proceeds originally received.

(F) Reverse Repurchase Agreements and Repurchase Agreements: The Company enters into reverse repurchase agreements with third-party broker-dealers whereby it sells securities under agreements to repurchase at an agreed upon price and date. Interest on the value of repurchase and reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. When the Company enters into a reverse repurchase agreement, the lender establishes and maintains an account containing securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement. The Company enters into repurchase agreement transactions with third-party broker-dealers whereby it purchases securities under agreements to resell at an agreed upon price and date. In general, securities received pursuant to repurchase agreements are delivered to counterparties of short sale transactions. Repurchase and reverse repurchase agreements that are conducted with the same counterparty may be reported net if they meet the requirements of FASB Interpretation No. 41 *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

There are no repurchase and reverse repurchase agreements netted in the consolidated financial statements. Reverse repurchase agreements are carried at their contractual amounts which the Company believes is the best estimate of fair value. At June 30, 2009, the remaining terms on the Company's open reverse repurchase agreements ranged from 6 to 71 days and the Company's open reverse repurchase agreements had interest rates ranging from 0.35% to 2.32%. At June 30, 2009, approximately 79% of open reverse repurchase agreements were with three counterparties. At December 31, 2008, the remaining terms on the Company's open reverse repurchase agreements ranged from 6 to 26 days and the Company's open reverse repurchase agreements had interest rates ranging from 1.20% to 4.50%. At December 31, 2008, approximately 82% of open reverse repurchase agreements were with two counterparties.

In February 2008, the FASB issued FASB Staff Position No. FAS 140-3 ("FSP"), *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The FSP applies to a repurchase financing, which is a reverse repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. As of June 30, 2009, the Company did not have any material seller financing.

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(G) Purchased Options: The Company may purchase put or call options. When the Company purchases an option, an amount equal to the premium paid is recorded as an asset and is subsequently marked-to-market. Premiums paid for purchasing options that expire unexercised are recognized on the expiration date as realized losses. If an option is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid.

(H) Written Options: The Company may write put or call options. When the Company writes an option, an amount equal to the premium received is recorded as a liability and is subsequently marked-to-market. Premiums received for writing options that expire unexercised are recognized on the expiration date as realized gains. If an option is exercised, the premium received is subtracted from the cost of purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums received. The Company may be required to deliver or receive cash or securities as collateral upon entering into certain option transactions. Movements in the value of the option transactions may require the Company or the counterparty to post additional collateral.

(I) When-Issued/Delayed Delivery Securities: The Company may purchase or sell securities on a when-issued or delayed delivery basis. Securities traded on a when-issued basis are traded for delivery beyond the normal settlement date at a stated price and yield, and no income accrues to the purchaser prior to delivery. Purchasing or selling securities on a when-issued or delayed delivery basis involves the risk that the market price at the time of delivery may be lower or higher than the agreed upon price, in which case an unrealized loss may be incurred.

The Company may enter into dollar rolls, principally using To Be Announced (“TBA”) securities, in which the Company sells (buys) mortgage-backed securities (“MBS”) for delivery (receipt) in the current month and simultaneously contracts to repurchase (sell) similar, but not identical, securities at an agreed-upon price on a fixed date. The Company accounts for such dollar rolls as purchases and sales and receives compensation as consideration for entering into the commitment to repurchase. The market value of the securities that the Company is required to purchase may increase above the agreed upon sale price. Conversely, the market value of the securities that the Company is required to sell may decline below the above agreed upon purchase price. The Company has TBA dollar rolls outstanding as of June 30, 2009 and December 31, 2008, which are included in Receivable for securities sold and Payable for securities purchased on the Consolidated Statement of Assets, Liabilities and Shareholders’ Equity.

(J) Offering Costs/Placement Fees/Deferred Offering Costs: Offering costs and placement fees are charged against shareholders’ equity. Costs associated with our proposed public offering of common shares representing limited liability company interests have been capitalized and deferred until the offering occurs or it appears unlikely the offering will occur. If the offering occurs, the deferred offering costs will be offset against the proceeds of the offering and charged against shareholders’ equity. If it appears unlikely an offering will occur, the deferred offering costs will be expensed in the consolidated statement of operations in that period. Deferred offering costs consisted principally of legal fees.

(K) LTIP Units: The costs associated with the long term incentive plan units are amortized on a straight line basis over the vesting period. The vesting period for the Ellington Incentive Plan for Entities (the “Manager

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LTIP") is three years. The vesting period for the Ellington Incentive Plan for Individuals (the "Director LTIP") is one year, for the initial grant awarded on August 17, 2007 and nine months for the grant awarded on December 31, 2008. The cost of the Manager LTIP units fluctuates with the price per share of the Company whereas the cost of the Director LTIP units is based on the price per share at the initial offering date (grant date).

(L) Shares Repurchased: Common shares that are purchased back by the Company subsequent to issuance decrease total number of shares outstanding and issued.

(M) Income Taxes: The Company intends to be treated as a partnership for U.S. federal income tax purposes. In general, partnerships are not subject to entity-level tax on their income, but the income of a partnership is taxable to its owners on a flow-through basis.

The Company follows the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48"), which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals of litigation process, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement which could result in the Company recording a tax liability that would reduce shareholders' equity. The Company did not have any additions to its unrecognized tax benefits resulting from tax positions related either to the current or prior years, and no reductions resulting from tax positions of prior years or due to settlements, and thus had no unrecognized tax benefits at June 30, 2009 and December 31, 2008. The Company does not expect any change in unrecognized tax benefits within the next fiscal year.

The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying financial statements. Also, management's conclusions regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance from the FASB, and on-going analyses of tax laws, regulations and interpretations thereof.

(N) Principles of Consolidation: These consolidated financial statements include the amounts of the Company and its controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated.

(O) Recent Accounting Pronouncements:

In June 2008, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and *the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*" ("FAS 168"). FAS 168 identifies the sources of accounting principles and the framework for selecting the accounting principles used in preparing financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. FAS 168 will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of FAS 168 to have any material impact on its financial statements.

On April 9, 2009 the FASB issued FASB Staff Position 157-4 ("FSP 157-4"), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, to provide additional guidance for estimating fair value in accordance with

SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 was effective for interim and annual periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a material effect on the fair value of the Company's assets.

Effective in the quarter ended June 30, 2009, the Company implemented SFAS No. 165, *Subsequent Events*. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of SFAS No. 165 did not impact the Company's financial position or results of operations. The Company evaluated all events or transactions that occurred from June 30, 2009 to August 14, 2009, the date the Company released these financial statements. During this period the Company did not have any material recognizable or non recognizable subsequent events other than what is disclosed in Note 10.

3. Base Management Fee, Incentive Fee, and Special Distribution to the Manager

The Manager receives an annual base management fee equal to 1.75% of the Company's shareholders' equity, defined as the aggregate net proceeds from sales of its equity securities, plus retained earnings for the measurement period, less amounts paid for repurchases and/or redemption of the Company's capital stock. However, the base management fee calculation described in the preceding sentence excludes from the calculation equity securities held by the Manager. The base management fee is payable monthly in arrears. For the three month and six month periods ended June 30, 2009, the base management fee incurred by the Company was $1,028,404 and $1,958,546, respectively. For the three month and six month periods ended June 30, 2008, the base management fee incurred by the Company was $921,335 and $1,822,210.

The Manager is also entitled to receive a quarterly incentive fee. The incentive fee equals the product of: (i) 25% of the dollar amount by which (A) the Company's net income (after the base management fee, but before the incentive fee and before non-cash equity compensation expense), for the applicable quarter per common share (based on the weighted average number of common shares outstanding for such quarter) exceeds (B) an amount equal to (1) the sum of (x) the weighted average gross proceeds (before placement fees) per share of all common share issuances, plus (y) the result obtained by dividing (I) retained earnings attributable to common shares at the beginning of such quarter by (II) the weighted average number of common shares outstanding for such quarter, multiplied by (2) one-fourth of the greater of (x) 9% and (y) 3% plus the ten-year U.S. treasury rate for such quarter, multiplied by (ii) the weighted average number of common shares outstanding during such quarter. The payment of the incentive fee will be in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in common shares.

Any net loss incurred by the Company in a given quarter or quarters will be offset against any net income earned by the Company in future quarters for purposes of calculating the incentive fee in such future quarters. However, the incentive fee calculation described above excludes from the calculation equity securities held by the Manager as well as net income earned thereon. For the three and six month periods ended June 30, 2009 the Company incurred incentive fees of $8,407,373. For the three and six month periods ended June 30, 2008, the Company incurred incentive fees of $1,771,026.

In accordance with the terms of the Amended and Restated Operating Agreement, the amount of base management fees and incentive fees that are paid to the Manager will be reduced so as to exclude from the fee calculations amounts that would otherwise be payable in respect of equity and net income that is attributable to

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common shares and long-term incentive plan units (see Note 4 below) owned by the Manager (the “Reduction Amount”). The Manager is entitled to receive a quarterly special distribution equal to the Reduction Amount. At June 30, 2009 and December 31, 2008, the special distribution payable in the amount of $1,577,737 and $50,283, respectively, has been reflected as Due to Ellington Financial Management LLC on the Consolidated Statement of Assets, Liabilities, and Shareholders’ Equity.

4. Long-Term Incentive Plan Units

In connection with the initial offering, the Company established the Manager LTIP and the Director LTIP. Pursuant to the terms of the Manager LTIP, the Company issued 375,000 long-term incentive plan units to its Manager. Pursuant to the terms of the Director LTIP, the Company issued 3,750 long-term incentive plan units to its independent directors on August 17, 2007 and again on December 31, 2008.

Units issued pursuant to the Manager LTIP are subject to forfeiture restrictions that will lapse in three equal annual installments beginning on the first anniversary of the closing date of the Company’s initial offering. Units held pursuant to the Manager LTIP will generally be exercisable by the holder at any time after vesting. Each unit is convertible into one common share. Costs associated with the Manager LTIP are expensed over the course of the vesting period. Such costs are measured as of the grant date and are remeasured at the end of each reporting period to account for changes in the value of the Company’s common shares until the units are fully vested.

At June 30, 2009 and June 30, 2008, the value of the cost associated with the Manager LTIP was $8,260,550 and $7,393,328, respectively, and of that cost, $4,996,499 and $2,153,855 has been expensed through June 30, 2009 and June 30, 2008, respectively. There is no cash flow effect resulting from the offering of the Manager LTIP units. Of the 375,000 Manager LTIP units awarded on August 17, 2007, 125,000 units were fully vested on August 17, 2008.

Units issued pursuant to the Director LTIP are subject to forfeiture restrictions that will lapse one year after the closing date of the Company’s initial offering for the awards granted on August 17, 2007 and nine months for the Director LTIP units that were awarded on December 31, 2008. Units held pursuant to the Directors LTIP will generally be exercisable by the holder at any time after vesting. Each unit is convertible into one common share. Costs associated with the Director LTIP are measured as of the grant date and expensed ratably over the vesting period. The cost associated with the Director LTIP units awarded to the independent directors at December 31, 2008 and August 17, 2007, the grant dates, were $72,263 and $75,000, respectively, and of that cost, $47,910 and $75,000, respectively, has been expensed through June 30, 2009. The cost associated with the Director LTIP units awarded to the independent directors at August 17, 2007, the grant date, was $75,000 and of that cost, $65,548 had been expensed through June 30, 2008. There is no cash flow effect resulting from the offering of the Director LTIP units. The Director LTIP units awarded on August 17, 2007 were fully vested on August 17, 2008. Effective September 30, 2008, 1,250 common shares were issued and $25,000 was transferred from share-based LTIP awards to common shares in shareholders’ equity at the direction of an award holder.

Were all units issued pursuant to the Manager LTIP and Director LTIP to be fully vested and exchanged for common shares as of June 30, 2009 and June 30, 2008, the Company’s issued and outstanding common shares would increase to 12,282,783 and 12,878,800 shares, respectively. The per share amount based on shareholders’ equity at June 30, 2009 and 12,282,783 shares is $23.13 per share. The per share amount based on shareholders’ equity at June 30, 2008 and 12,878,800 shares is $19.69 per share.

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Detailed below is a roll-forward of the Company's units outstanding for the three and six month periods ended June 30, 2009:

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units outstanding, March 31, 2009	381,250	375,000	6,250
Unit Activity:	—	—	—
LTIP Units Outstanding, June 30, 2009	381,250	375,000	6,250

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units outstanding, December 31, 2008	381,250	375,000	6,250
Unit Activity:	—	—	—
LTIP Units Outstanding, June 30, 2009	381,250	375,000	6,250

As of June 30, 2009, of the LTIP units awarded/outstanding, 125,000 Manager LTIP Units and 2,500 Director LTIP units were vested. Since inception, 1,250 Director LTIP units were transferred to common shares at the direction of an award holder.

Detailed below is a roll-forward of the Company's units outstanding for the three and six month periods ended June 30, 2008:

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units outstanding, March 31, 2008	378,750	375,000	3,750
Unit Activity:	—	—	—
LTIP Units Outstanding, June 30, 2008	378,750	375,000	3,750

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units outstanding, December 31, 2007	378,750	375,000	3,750
Unit Activity:	—	—	—
LTIP Units Outstanding, June 30, 2008	378,750	375,000	3,750

As of June 30, 2008, no LTIP units awarded/outstanding were vested.

5. Common Share Capitalization and Lock-Up Provisions

In connection with the initial offering of common shares ("Shares") of the Company, 12,500,050 shares were issued with no par value. The Shares owned by the Manager, Ellington and the Company's executive officers and directors are subject to a lock-up agreements restricting, subject to certain exceptions, share transfers for 180 days after the completion of the initial offering on August 17, 2007. The Company is a closed-end entity, thus shareholders do not have redemption rights. Shares are open to trade on the Portal Market, a subsidiary of The NASDAQ Stock Market, Inc. The Manager does not provide any commitments to resale of shares purchased.

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Detailed below is a roll-forward of the Company's common shares outstanding for the three month and six month periods ended June 30, 2009:

Common Shares Outstanding, March 31, 2009	12,010,033
Share Activity:	
Shares Repurchased	(108,500)
Common Shares Outstanding, June 30, 2009	11,901,533
Common Shares Outstanding, December 31, 2008	12,510,033
Share Activity:	
Shares Repurchased	(608,500)
Common Shares Outstanding, June 30, 2009	11,901,533

On March 2, 2009, the Company repurchased 500,000 shares in a privately negotiated unsolicited transaction of its own stock at a price of $12 for a total purchase price of $6,000,000. On April 20, 2009, the Company repurchased 106,000 of its own shares in a privately negotiated unsolicited transaction at a price of $12.25 for a total purchase price of $1,298,500. On May 27, 2009, the Company repurchased 2,500 of its own shares in a privately negotiated unsolicited transaction at a price of $13 for a total purchase price of $32,500.

Detailed below is a roll-forward of the Company's common shares outstanding for the three and six month periods ended June 30, 2008:

Common Shares Outstanding, March 31, 2008	12,500,050
Share Activity:	—
Common Shares Outstanding, June 30, 2008	12,500,050
Common Shares Outstanding, December 31, 2007	12,500,050
Share Activity:	—
Common Shares Outstanding, June 30, 2008	12,500,050

As of June 30, 2009, related parties of the Company owned approximately 25% of total shareholders' equity. As of that date, two other investors owned 21% and 12% of total shareholders' equity. As of December 31, 2008, related parties of the Company owned approximately 24% of total shareholders' equity. As of that date, two other investors owned 20% and 15% of total shareholders equity.

6. Risks

The Company may be exposed to various types of risks, including market price risk, interest rate risk, and credit risk. Market price risk is the risk of decline in value of the investments held by the Company because of a number of reasons, including changes in prevailing market and interest rates, increases in defaults, increases in voluntary prepayments for investments subject to prepayment risk, and widening credit spreads. Interest rate risk is the risk associated with the effects of the fluctuations in the prevailing level of market interest rates. Credit risk includes the risk of principal loss on investments as well as the risk that a counterparty will be unable to pay amounts in full when due. In 2007, 2008 and 2009, the U.S. sub-prime residential mortgage market has experienced severe dislocations and liquidity disruptions. Sub-prime mortgage loans have recently experienced increased rates of delinquency, foreclosure and loss.

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The effects of this include a substantial reduction in liquidity in the credit markets, which has resulted in a liquidity crisis for many market participants. Recent instability in the MBS and ABS markets may affect the liquidity of the Company's portfolio.

The Company may invest in credit sensitive mortgage-backed and asset-backed securities. Yields on mortgage-backed securities are affected by interest and prepayment rates which, in turn, are influenced by a variety of economic, geographic, social and other factors. Maturities on mortgage-backed securities represent stated maturity dates. Actual maturity dates may differ based on prepayment rates.

The Company may invest in, or sell short, various interest rate derivative instruments and futures contracts primarily for the purpose of hedging its mortgage-backed securities portfolio against changes in value caused by changes in prevailing market interest rates. Should interest rates move unexpectedly, the Company may not achieve the anticipated benefits of the hedging instruments and may realize a loss. Further, the use of such derivative instruments involves the risk of imperfect correlation in movements in the price of the instruments, interest rates and the underlying hedged assets.

The Company transacts in various financial instruments including swaps, futures contracts and options. With these financial instruments, the Company is exposed to market risk in excess of the amounts recorded on the Consolidated Statement of Assets, Liabilities, and Shareholders' Equity. Further, credit risk arises in swaps from potential counterparty nonperformance.

Under current market conditions, many of the Company's portfolio securities may be considered illiquid. This may result in certain securities being disposed of at a price different from the recorded value since the market price of such securities generally is more volatile than that of more liquid securities. This may result in the Company incurring greater losses on the sale of some portfolio securities than under more stable market conditions. Such losses can adversely impact the Company's shareholders' equity. The current market instability has also made it more difficult to obtain market valuations on many of the Company's portfolio investments. There can be no assurance that the Company could purchase or sell a portfolio investment at the price used to calculate the Company's shareholders' equity.

Certain investments of the Company may trade in relatively thin markets and throughout the period, depending upon market conditions, may be considered illiquid. As a result, market values can be more volatile and difficult to determine relative to other securities. In addition, if the Company is required to liquidate all or a portion of its portfolio quickly, it may realize significantly less than the value at which it previously recorded its investments. A decline in market value of the Company's assets may have particular material adverse consequences in instances where the Company has borrowed money based upon the market value of those assets. A decrease in market value of those assets may require the Company to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Company to do so.

Because the Company borrows under reverse repurchase agreements based on the estimated fair value of the pledged instruments, the Company's ongoing ability to borrow under its reverse repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of those assets may require the Company to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Company to do so.

As of June 30, 2009, investments with an aggregate value of $384,210,516 were held with dealers as collateral for various reverse repurchase arrangements. As of June 30, 2009, affiliates of Credit Suisse Group, Bank of America, Deutsche Bank AG and Morgan Stanley held 22%, 30%, 21% and 26% of such collateral, respectively. In addition,

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unencumbered investments in the amount of $167,457,988 were held in custody at the Bank of New York Mellon Corporation. As of June 30, 2009, the following dealers held greater than 15% of the Company’s Deposits with dealers held as collateral: affiliates of Citibank 66% and affiliates of JP Morgan 27%. As of June 30, 2009 the following dealers held greater than 15% of the Company’s Due to brokers—margin accounts: affiliates of Morgan Stanley 61% and affiliates of Credit Suisse Group 35%. As of June 30, 2009, the following dealers held greater than 15% of the Company’s Receivable for securities sold: affiliates of Credit Suisse First Boston 26%, affiliates of Deutsche Bank AG 22%, affiliates of Bank of America 19%, affiliates of Citibank 17% and affiliates of First Tennessee Capital Markets 16%. As of June 30, 2009, the following dealers held greater than 15% of the Company’s Payable for securities purchased: affiliates of First Tennessee Capital Markets 57% and affiliates of Bank of America 25%.

At June 30, 2009, the Company is party to various derivative contracts governed by ISDA trading agreements with dealer counterparties. The Company’s ISDA trading agreements, which are separately negotiated agreements with each dealer counterparty, typically contain provisions allowing, absent other considerations, a counterparty to exercise rights, to the extent not otherwise waived, against the Company in the event the Company’s shareholders’ equity declines over time by a predetermined percentage or falls below a predetermined floor. Such rights often include the ability to terminate (i.e. close out) open contracts at prices which may favor the counterparty, which could have a material adverse effect on the Company.

7. Lehman Brothers

On Monday, September 15, 2008, Lehman Brothers Holdings Inc. (“Lehman”) filed for protection under Chapter 11 of the United States Bankruptcy Court in the Southern District of New York. As of that date, the Company was party to a number of interest rate swap and credit default swap contracts (the “Contracts”) with Lehman Brothers Special Financing Inc. (“LBSF”), a wholly-owned subsidiary of Lehman. The Chapter 11 filing by Lehman constituted an Event of Default under the ISDA Master Agreement (“ISDA MA”) entered into by and between the Company and LBSF. As of Friday, September 12, 2008, the last business day immediately preceding Lehman’s Chapter 11 filing, the Company’s internal records reflected a net aggregate value of $61,713,084 for the Contracts, and, as of that date, the Company was in possession of cash collateral posted by LBSF in support of the Contracts in the amount of $61,486,927.

By letter dated September 15, 2008, in accordance with the provisions in the ISDA MA, the Company provided notices of early termination to LBSF, effectively closing out the Contracts with LBSF as of September 16, 2008. The Contracts were closed out at prices determined by the Company based upon the methodology prescribed in the ISDA MA.

For the quarter ended September 30, 2008, the closing out of the Contracts with LBSF resulted in the recording in Net realized gains on financial derivatives on its Consolidated Statement of Operations of an amount equal to $28,763,186. However, an additional entry was recorded to reduce this amount by $15,576,801, the full amount of the then reserve. At December 31, 2008, on its Consolidated Statement of Assets, Liabilities and Shareholders’ Equity, the Company recorded in Receivable for securities sold an amount equal to $77,063,728, the net amount at which the Company closed out the Contracts with LBSF. However, an additional entry was recorded to reduce this amount by $15,576,801, the full amount of the then reserve. In addition, the Company recorded an entry to reduce both Receivable for securities sold and Due to brokers—margin accounts by $61,486,927, the value of the cash collateral it held in support of the Contracts. As a result, the December 31, 2008 Consolidated Statement of Assets, Liabilities and Shareholders’ Equity reflects no net balances of assets or liabilities associated with LBSF.

As of June 30, 2009, the Company estimated its net claim against LBSF to be a net amount equal to $12,855,491. Such amount represents a decrease of $2,721,310 from the estimated net claim reported as of

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December 31, 2008. The net claim amount reflects the difference between (a) $74,342,418, the net value at which the Company closed out the Contracts and (b) $61,486,927, the value of the cash collateral posted to the Company by LBSF in support of the Contracts. The Company also has a related claim in the same amount against Lehman, as guarantor under the ISDA MA. The Company believes that the full amount of its claims against both LBSF and Lehman are due and owing under the relevant contractual provisions. For the period ending March 31, 2009 and prior, the claim was fully reserved. During the quarter ended June 30, 2009, the Company was involved in discussions with Lehman representatives regarding the amount of the claim. Based on these discussions and a more active trading market in LBSF claims, the Company has valued its claim and reflected the asset as a Trade Claims on its Consolidated Condensed Schedule of Investments at fair value.

The process of recovering those claims through bankruptcy proceedings, however, raises significant questions with respect to the timing and amount of any final recovery. There can be no assurances as to the ultimate outcome of the claim process.

8. Contingencies and Commitments

The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business, the Company may also enter into contracts that contain a variety of representations, warranties and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. However, based upon experience, the Company expects the risk of loss associated with such contracts to be remote.

9. Financial Highlights

Results of Operations for a Share Outstanding Throughout the Periods:

	Three Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2008
Beginning Shareholders' Equity Per Share (3/31/2009, 3/31/2008, 12/31/2008 and 12/31/2007, respectively)	$ 20.83	$ 18.96	$ 19.27	$ 19.35
Net Investment Income	0.13	0.12	0.65	0.41
Net Realized/Unrealized Gains (Losses)	2.89	1.19	3.50	0.46
Results of Operations	3.02	1.31	4.15	0.87
Accretive Effect of Share Repurchase	0.08	—	0.45	—
Share-Based LTIP Awards	0.08	0.05	0.15	0.11
Manager Special Distribution*	(0.14)	(0.04)	(0.15)	(0.05)
Ending Shareholders' Equity Per Share (6/30/2009, 6/30/2008, 6/30/2009 and 6/30/2008 respectively)**	$ 23.87	$ 20.28	$ 23.87	$ 20.28
Shares Outstanding	11,901,533	12,500,050	11,901,533	12,500,050

* Per the Amended and Restated Operating Agreement, the special distribution is paid to the Manager.

** If all units issued pursuant to the Manager LTIP and Director LTIP were vested and exchanged for common shares as of June 30, 2009 and June 30, 2008, shareholders' equity per share would be $23.13 and $19.69, respectively.

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Net Asset Based Total Return for a Shareholder, excluding Manager shares:(1)

	Three Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2008
Total Return before Incentive Fee(2)	18.00%	7.75%	27.56%	5.58%
Incentive Fee	-3.41%	-0.79%	-3.69%	-0.77%
Total Return after Incentive Fee	14.59%*	6.96%	23.87%*	4.81%

(1) Market based total return is not available as no market price is available due to limited trading during the periods.
(2) Total return is calculated for all shareholders' equity accounts, excluding the Manager's shareholder equity, taken as a whole for each period.
* Total return includes the accretive effect of the share repurchase. Had this not been included, total return for the three and six month periods ended June 30, 2009 would have been 14.11% and 20.91%, respectively.

Supplemental Information—Net Asset Based Total Return for a Shareholder, excluding Manager shares and assuming conversion of all LTIP units:

	Three Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2009
Total Return before Incentive Fee(3)	14.35%	23.61%
Incentive Fee	-3.31%	-3.58%
Total Return after Incentive Fee	11.04%	20.03%

(3) Total return is calculated assuming all LTIP units had been converted into common shares at the balance sheet date. Total return represents all shareholders' equity accounts, excluding Manager shares and Manager LTIP units, outstanding for the entire period.

Ratios to Average Shareholders' Equity, excluding the Manager shares:(4)(5)(6)

	Three Month Period Ended June 30, 2009	Three Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2009	Six Month Period Ended June 30, 2008
Net Investment Income(7)	11.04%	4.05%	8.61%	4.73%
Operating expenses before incentive fee and interest expense	-4.68%	-4.18%	-4.69%	-3.73%
Incentive fee(5)	-3.71%	-0.85%	-3.80%	-0.85%
Interest expense	-0.56%	-2.14%	-0.79%	-1.40%
Total Expenses	-8.95%	-7.17%	-9.28%	-5.98%

(4) Average shareholders' equity is calculated using monthly values.
(5) Ratios are annualized except for the incentive fee which is not annualized.
(6) Ratios are calculated for all shareholders' equity accounts taken as a whole outstanding for the entire period excluding the Manager's shareholders' equity. The total base management fee and incentive fee are

ELLINGTON FINANCIAL LLC

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allocated to the non-manager shareholders for the purposes of these calculations as the Special Distribution of the Reduction Amount in effect allocates the whole base management fee and incentive fee to the non-manager shareholders.

(7) Includes incentive fee expense, if any.

10. Subsequent Events

On July 6, 2009, the Board of Directors approved an amended and restated Management Agreement between the Company and the Manager which, among other things, reduced the annual base management fee to 1.50% from 1.75% of shareholders' equity, changed the incentive fee from a quarter-by-quarter calculation to a rolling four quarter calculation, removed the reduction to the management fees related to shares held by the Manager and removed the corresponding provisions relating to special distributions to the Manager, increased the termination fee from a two-year termination fee to a three-year termination fee, provided the Manager with the right to provide the Company with a dedicated controller and in-house legal counsel and to have the expenses incurred by the Manager in providing these dedicated officers reimbursed by the Company, extended the termination date to December 31, 2011 and eliminated the Manager's right to have other general overhead expenses of the Manager and its affiliates reimbursed by the Company or to charge the Company professional fees for legal, accounting and other services provided by employees of the Manager or its affiliates. These amendments were effective as of July 1, 2009.

The Company has declared a dividend of $1.50 per share with a record date of September 1, 2009 and a payment date of September 15, 2009.

The Company has decided to grant 1,250 LTIP units to each of the three independent directors with a grant date of October 1, 2009 and vesting period that ends on September 30, 2010.

All subsequent events have been disclosed above through November 3, 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Ellington Financial LLC:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Ellington Financial LLC and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2008 and for the period August 17, 2007 (commencement of operations) through December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Manager. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Manager, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
April 7, 2009 except for items (J) and (K) in Note 2 and Note 10, as to which the date is July 6, 2009

ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2008	December 31, 2007
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	$ 61,400,254	$ 61,705,104
Investments and financial derivatives:		
Investments at value (Cost—$508,888,292 and $181,309,270)	429,884,006	180,657,979
Swap contracts-appreciated at value (Cost—$126,786,798 and $0)	141,690,748	—
Repurchase agreements (Cost—$4,528,875 and $0)	4,528,875	—
Total investments and financial derivatives	576,103,629	180,657,979
Deposits with dealers held as collateral	22,950,008	200,434
Receivable for securities sold	31,491,051	—
Interest and principal receivable	7,722,116	662,098
Prepaid insurance	309,022	269,383
Total Assets	$ 699,976,080	$ 243,494,998
LIABILITIES		
Investments and financial derivatives:		
Investments sold short at value (Proceeds—$37,593,749 and $0)	$ 38,421,032	$ —
Swap contracts—depreciated at value (Proceeds—$7,681,250 and $0)	17,304,903	130,122
Total investments and financial derivatives	55,725,935	130,122
Reverse repurchase agreements	260,534,000	—
Due to brokers—margin accounts	124,820,088	—
Payable for securities purchased	15,509,694	—
Accounts payable and accrued expenses	1,299,022	821,514
Interest and dividends payable	651,863	—
Accrued base management fee	307,551	622,252
Due to Ellington Financial Management LLC	50,283	94,217
Total Liabilities	458,898,436	1,668,105
SHAREHOLDERS' EQUITY	241,077,644	241,826,893
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 699,976,080	$ 243,494,998
ANALYSIS OF SHAREHOLDERS' EQUITY:		
Common shares, no par value, 100,000,000 shares authorized; (12,510,033 and 12,500,050 shares issued and outstanding)	$ 237,806,235	$ 240,919,920
Additional paid-in capital—LTIP units	3,271,409	906,973
Total Shareholders' Equity	$ 241,077,644	$ 241,826,893
PER SHARE INFORMATION:		
Common shares, no par value, 100,000,000 shares authorized; (12,510,033 and 12,500,050 shares issued and outstanding)	$ 19.27	$ 19.35

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2008

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Long Investments (178.32%)(a)(b)(n)				
U.S. Treasury Securities (1.34%)				
$2,800,000	U.S. Treasury Note	4.00%	8/18	$ 3,240,944
Total U.S. Treasury Securities (Cost $2,820,142)				3,240,944
Auction Rate Securities (7.45%)(c)				
25,650,000	Sallie Mae Student Loan Trust 2003-5A A8 Pool	4.50%	6/30	17,955,000
Total Auction Rate Securities (Cost $25,650,000)				17,955,000
Mortgage-Backed Securities (169.53%)				
Agency Securities (117.75%)				
Fixed Rate Agency Securities (6.41%)				
TBA-Fixed Rate Agency Securities (6.41%)				
15,000,000	Federal National Mortgage Association (30 year)	6.00%	1/09	15,451,172
Total Fixed Rate Agency Securities (Cost $15,426,563)				15,451,172

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONTINUED)

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Floating Rate Agency Securities (111.34%)				
Principal and Interest—Floating Rate Agency Securities (111.34%)				
$29,207,750	Federal Home Loan Mortgage Corporation 1N 1428 Pool	5.73%	2/37	$ 29,735,479
24,952,600	Federal Home Loan Mortgage Corporation 1B4134 Pool	4.88%	6/38	25,201,146
21,445,110	Federal National Mortgage Association 840243 Pool	6.10%	8/35	22,195,730
20,156,157	Federal National Mortgage Association 988674 Pool	5.51%	9/38	20,560,710
19,673,602	Federal National Mortgage Association 968454 Pool	5.11%	5/38	19,952,779
19,540,122	Federal National Mortgage Association 965088 Pool	5.44%	9/38	19,927,773
17,683,619	Federal Home Loan Mortgage Corporation 1B3434 Pool	5.33%	6/37	17,904,961
15,438,769	Federal Home Loan Mortgage Corporation 1N1385 Pool	5.90%	12/36	15,737,981
14,481,205	Federal National Mortgage Association 959755 Pool	5.69%	11/37	14,695,691
13,446,065	Federal Home Loan Mortgage Corporation 1N1460 Pool	5.95%	1/37	13,695,260
13,144,879	Federal Home Loan Mortgage Corporation 1N0186 Pool	6.55%	8/36	13,502,912
12,741,641	Federal National Mortgage Association 956653 Pool	5.59%	12/37	12,940,945
12,031,689	Federal National Mortgage Association 840238 Pool	5.99%	7/35	12,420,016
12,078,175	Federal Home Loan Mortgage Corporation 1G1675 Pool	5.34%	4/37	12,185,671
9,336,558	Federal National Mortgage Association 886455 Pool	6.13%	8/36	9,576,695
8,075,366	Federal Home Loan Mortgage Corporation 1J1652 Pool	5.76%	5/37	8,184,602
Total Floating Rate Agency Securities (Cost $266,187,466)				268,418,351
Total Agency Securities (Cost $281,614,029)				283,869,523
Private Label Securities (51.78%)				
Fixed Rate Private Label Securities (6.57%)				
Principal and Interest—Fixed Rate Private Label Securities (5.38%)				
27,552,386	Various	4.50% - 7.37%	8/30 - 6/47	12,966,549

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONTINUED)

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Interest Only—Fixed Rate Private Label Securities (1.19%)				
$235,082,175	Various	0.50% - 5.50%	8/35 - 9/47	$ 2,880,759
Total Fixed Rate Private Label Securities (Cost $20,733,361)				15,847,308
Floating Rate Private Label Securities (45.21%)				
Principal and Interest—Floating Rate Private Label Securities (44.88%)				
289,693,672	Various	0.53% - 9.50%	8/19 - 5/47	108,183,679
Interest Only—Floating Rate Private Label Securities (0.33%)				
73,460,230	Various	3.27% - 4.63%	6/35 - 1/45	787,552
Total Floating Rate Private Label Securities (Cost $177,230,322)				108,971,231
Residual Certificates—Private Label Securities (0.00%)				
310,176,371	Bear Stearns Structured Product 2007- N6 2C Pool	—	6/37	—
Total Residual Certificates—Private Label Securities (Cost $840,438)				—
Total Private Label Securities (Cost $198,804,121)				124,818,539
Total Mortgage-Backed Securities (Cost $480,418,150)				408,688,062
Total Long Investments (Cost $508,888,292)				$ 429,884,006
Repurchase Agreements (1.88%)(d)				
4,528,875	Deutsche Bank Collateralized by Par Value 4,100,000 U.S. Treasury Note Coupon 2.75% - 4.00%, Maturity Date 07/10 - 08/18	0.00% - 0.40%	On Demand	$ 4,528,875
Total Repurchase Agreements (Cost $4,528,875)				$ 4,528,875
Investments Sold Short (-15.94%)(e)				
U.S. Treasury Securities Sold Short (-3.19%)				
(6,900,000)	Various	2.75% - 4.00%	7/10 - 8/18	$ (7,695,641)
Total U.S. Treasury Securities Sold Short (Proceeds—$6,980,858)				(7,695,641)
TBA—Fixed Rate Agency Securities Sold Short (-12.75%)				
(15,000,000)	Federal National Mortgage Association (30 year)	6.00%	1/09	(15,451,172)
(15,000,000)	Federal National Mortgage Association (30 year)	5.00%	2/09	(15,274,219)
Total TBA—Fixed Rate Agency Securities Sold Short (Proceeds—$30,612,891)				(30,725,391)
Total Investments Sold Short (Proceeds—$37,593,749)				$ (38,421,032)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONTINUED)

	Notional or Number of Contracts	Range of Expiration Dates	Value *Expressed in U.S. Dollars*
Swaps (51.59%)			
Swaps—Appreciated (58.77%)(f)			
Long Swaps—Appreciated			
Total Return Swaps	398,329	11/13	$ 255,509
Other Swaps	2,200,000	09/13	22,000
Short Swaps—Appreciated			
Credit Default Swaps on Corporate Bonds(h)	(45,775,000)	01/09 - 12/13	10,085,262
Credit Default Swaps on Asset Backed Securities(i)	(128,860,596)	06/34 - 12/36	108,126,227
Credit Default Swaps on Asset Backed Indices(j)	(83,556,020)	01/09 - 10/52	22,769,087
Credit Default Swaps on Corporate Bond Indices(k)	(19,700,000)	12/13	385,172
Total Return Swaps	(277,255)	12/13	47,491
Total Swaps—Appreciated (Cost $126,786,798)			$ 141,690,748
Swaps—Depreciated (-7.18%)(g)			
Long Swaps—Depreciated			
Credit Default Swaps on Asset Backed Securities (Proceeds $7,681,250)(l)	19,747,709	05/34 - 09/36	$ (10,651,424)
Total Return Swaps	245,016	11/13	(5,422)
Short Swaps—Depreciated			
Interest Rate Swaps(m)	(145,000,000)	09/11 - 10/11	(6,487,253)
Total Return Swaps	(149,654)	12/13	(160,804)
Total Swaps—Depreciated (Proceeds $7,681,250)			$ (17,304,903)

(a) See Note 2 in notes to Consolidated Financial Statements.

(b) At December 31, 2008, the Company's long investments issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) represented 56.47% and 61.28% of shareholders' equity, respectively.

(c) The auction rate security held by the Company has failed at auction.

(d) In general, securities received pursuant to repurchase agreements were delivered to counterparties in satisfaction of short sale transactions.

(e) At December 31, 2008, the Company's short investments issued by the Federal National Mortgage Association represented -12.75% of shareholders' equity.

(f) At December 31, 2008, the Company held appreciated swap contracts with affiliates of Morgan Stanley and affiliates of Credit Suisse First Boston that represented 40.98% and 13.08% of shareholders' equity, respectively.

(g) At December 31, 2008, the Company held depreciated swap contracts with affiliates of Morgan Stanley that represented -4.42% of shareholders' equity.

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2008 (CONCLUDED)

(h) For short credit default swaps on corporate bonds, the Company purchased protection.
(i) For short credit default swaps on asset backed securities, the Company purchased protection.
(j) For short credit default swaps on asset backed indices, the Company purchased protection.
(k) For short credit default swaps on corporate bond indices, the Company purchased protection.
(l) For long credit default swaps on asset backed securities, the Company sold protection.
(m) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
(n) The table below shows the Company's long investment ratings from Moody's, Standard & Poor, or Fitch, respectively; as well as the Company's long investments that were unrated but affiliated with Fannie Mae, Freddie Mac, or Government National Mortgage Association (Ginnie Mae). Ratings tend to be a lagging credit indicator, as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below.

Rating Description	Percentage of Shareholders' Equity
Unrated but Agency Affiliated	117.75%
Rated Above Ba or BB	49.34%
Rated At or below Ba or BB	9.89%
Treasury Securities	1.34%

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2007

Current Principal or Notional Amount	Description	Rate	Maturity	Value *Expressed in U.S. Dollars*
Long Investments (74.71%)(a)(b)				
Auction Rate Securities (23.21%)(d)				
$25,700,000	Sallie Mae Student Loan Trust 2003-10A A1A Pool	6.30%	12/16	$ 25,700,000
19,450,000	Sallie Mae Student Loan Trust 2006-7 A6B Pool	6.30%	1/42	19,450,000
10,950,000	Various	6.40% - 7.00%	12/16	10,965,975
				56,115,975
Total Auction Rate Securities (Cost $56,115,975)				56,115,975
Mortgage-Backed Securities (51.50%)				
Agency Securities (13.71%)				
Principal And Interest—Floating Rate Agency Securities (13.71%)				
16,436,256	Federal National Mortgage Association 959755 Pool	5.70%	11/37	16,638,823
16,307,875	Federal National Mortgage Association 956653 Pool	5.64%	12/37	16,517,736
				33,156,559
Total Agency Securities (Cost $33,075,391)				33,156,559
Private Label Securities (37.79%)				
Principal And Interest—Fixed Rate Private Label Securities (1.60%)				
8,724,487	Various	5.00% - 7.40%	2/34 - 2/37	3,874,786
				3,874,786
Principal And Interest—Floating Rate Private Label Securities (36.19%)				
13,800,000	Residential Asset Mortgage Products 2006-RS4 A2	4.90%	7/36	12,903,000
123,163,956	Various	4.92% - 7.07%	4/33 - 10/37	74,607,659
				87,510,659
Total Private Label Securities (Cost $92,117,904)				91,385,445
Total Mortgage-Backed Securities (Cost $125,193,295)				124,542,004
Total Long Investments (Cost $181,309,270)				$ 180,657,979

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ELLINGTON FINANCIAL LLC

CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2007 (CONCLUDED)

	Notional	Range of Expiration Dates	Value
			Expressed in U.S. Dollars
Financial Derivative Positions (-0.05%)			
Swaps (-0.05%)			
Depreciated Swaps (-0.05%)			
Long Swaps—Depreciated			
Interest Rate Swaps(c)	26,000,000	3/08 - 6/08	$ (130,122)
Total Depreciated Swaps			$ (130,122)

(a) See Note 2 in Notes to Consolidated Financial Statements.
(b) With respect to the Company's long investments, 23.21% of shareholders' equity was issued by Sallie Mae and 13.71% by the Federal National Mortgage Association.
(c) For long interest rate swap contracts, a fixed rate is being received and a floating rate is being paid.
(d) In 2008, the Company held a similar auction rate security that failed at auction. At the time the auction failed, the Company's notional exposure was $25,650,000.

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ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31, 2008	August 17, 2007 (commencement of operations) Through December 31, 2007
	Expressed in U.S. Dollars	
NET INVESTMENT INCOME		
Interest income	$ 29,914,585	$ 5,898,720
EXPENSES		
Base management fee	3,721,121	1,355,912
Incentive fee	1,771,026	—
Share-based LTIP expense	2,389,436	906,973
Interest expense	6,189,887	—
Professional fees	1,524,060	658,185
Insurance expense	454,257	165,617
Agency and administration fees	459,829	141,834
Custody and other fees	379,868	87,417
Directors' fees	200,161	70,064
Organizational expenses	—	160,185
Total expenses	17,089,645	3,546,187
NET INVESTMENT INCOME	12,824,940	2,352,533
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES		
Net realized gain (loss) on:		
Investments	(5,075,879)	1,753,849
Financial derivatives	63,598,153	—
	58,522,274	1,753,849
Change in net unrealized gain (loss) on:		
Investments	(79,180,278)	(651,290)
Financial derivatives	5,410,419	(130,122)
	(73,769,859)	(781,412)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES	(15,247,585)	972,437
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ (2,422,645)	$ 3,324,970

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ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Year Ended December 31, 2008	August 17, 2007 (commencement of operations) Through December 31, 2007
	Expressed in U.S. Dollars	
From Operations		
Net investment income	$ 12,824,940	$ 2,352,533
Net realized gain on investments and financial derivatives	58,522,274	1,753,849
Change in net unrealized loss on investments and financial derivatives	(73,769,859)	(781,412)
Net increase (decrease) in shareholders' equity resulting from operations	(2,422,645)	3,324,970
From Shareholder Transactions		
Net proceeds from the issuance of shares:		
From the initial offering(1)	—	239,659,406
Shares issued in settlement of incentive fee liability	177,105	—
Net offering costs	1,866	(1,843,720)
Share-based LTIP awards	2,389,436	906,973
Special distribution to Ellington Financial Management LLC	(895,011)	(220,736)
Net increase in shareholders' equity from shareholder transactions	1,673,396	238,501,923
Net increase (decrease) in shareholders' equity	(749,249)	241,826,893
Shareholders' Equity Beginning of Period	241,826,893	—
Shareholders' Equity End of Period	$ 241,077,644	$ 241,826,893

(1) Proceeds from the issuance of shares is net of placement fees of $8,015,094.

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ELLINGTON FINANCIAL LLC

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2008	August 17, 2007 (commencement of operations) Through December 31, 2007
	Expressed in U.S. Dollars	
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$ (2,422,645)	$ 3,324,970
Cash flows from operating activities:		
Reconciliation of the net increase (decrease) in shareholders' equity resulting from operations to net cash used in operating activities:		
Change in net unrealized loss on investments and financial derivatives	73,769,859	781,412
Amortization of premiums and discounts	(2,681,045)	(987,439)
Net realized gain on investments and financial derivatives	(58,522,274)	(1,753,849)
Purchase of investments	(530,352,349)	(195,387,779)
Proceeds from disposition of investments	215,895,847	16,819,799
Proceeds from securities sold short	40,190,879	—
Repurchase of securities sold short	(18,114,484)	—
Payments made to open financial derivatives	(318,048,261)	—
Proceeds received to close financial derivatives	271,459,580	—
Proceeds received to open financial derivatives	38,725,882	—
Payments made to close financial derivatives	(47,644,596)	—
Share-based LTIP expense	2,389,436	906,973
(Increase) decrease in assets:		
(Increase) in repurchase agreements, net of repayments	(4,528,875)	—
(Increase) in receivable for securities sold	(31,491,051)	—
(Increase) in deposits with dealers pledged as collateral	(22,749,574)	(200,434)
(Increase) in interest and principal receivable	(7,060,018)	(662,098)
(Increase) in prepaid insurance	(39,639)	(269,383)
Increase (decrease) in liabilities:		
Increase in due to brokers-margin accounts	124,820,088	—
Increase in payable for securities purchased	15,509,694	—
Increase in accounts payable and accrued expenses	803,422	628,771
Increase in interest and dividends payable	651,863	—
(Decrease) increase in base management fee payable	(314,701)	622,252
Net cash used in operating activities	(259,752,962)	(176,176,805)
Cash flows provided by financing activities:		
Net subscriptions received from initial offering**	—	238,008,429
Offering costs paid	(190,877)	—
Special Distribution to Ellington Financial Management LLC	(895,011)	(126,520)
Reverse repurchase agreements, net of repayments	260,534,000	—
Net cash provided by financing activities	259,448,112	237,881,909
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(304,850)	61,705,104
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61,705,104	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 61,400,254	$ 61,705,104
Supplemental disclosure of cash flow information:		
Interest Paid	$ 5,674,209	$ —
Mortgage Dollar Rolls	$ 61,129,688	$ —

** Net of placement fees and offering costs paid.

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. Organization and Investment Objective

Ellington Financial LLC was formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. EF Securities LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC was formed as a Delaware limited liability company on October 12, 2007 and commenced operations on November 30, 2007. EF Mortgage LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. EF CMO LLC, a wholly owned consolidated subsidiary of EF Mortgage LLC was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. Ellington Financial LLC, EF Securities LLC, EF Mortgage LLC and EF CMO LLC are hereafter collectively referred to as the Company. All intercompany accounts are eliminated in consolidation.

The Company specializes in various fixed income investment strategies, with a focus on sub-prime residential whole mortgage loans, residential mortgage-backed securities, or RMBS, collateralized by sub-prime residential mortgage loans, asset-backed securities, or ABS, and collateralized debt obligations, or CDOs.

The Company's primary objective is to generate attractive risk-adjusted returns by constructing a portfolio of investments (that may also include direct investments in mortgage-related business platforms) and by implementing a relative value strategy that can generate high risk-adjusted returns on these investments while at the same time maintaining a relatively stable portfolio market value.

Ellington Financial Management, LLC ("EFM" or the "Manager") serves as the Manager to the Company pursuant to the terms of a Management Agreement dated August 17, 2007 (the "Management Agreement"). In accordance with the terms of the Management Agreement, the Manager will implement the investment strategy and manage the business and operations on a day-to-day basis for the Company and perform certain services for the Company, subject to oversight by the board of directors.

2. Significant Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In June 2007, the AICPA issued Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 was effective for fiscal years beginning on or after December 15, 2007 with earlier application encouraged. After the Company's adoption of SOP 07-1, FASB Staff Position No. SOP 07-1-1 ("FSP 07-1-1"), which delayed indefinitely the effective date of SOP 07-1, was issued. However, FSP 07-1-1 explicitly permitted entities that early adopted SOP 07-1 before December 15, 2007 to continue to apply the provisions of SOP 07-1. The Company has elected to continue to apply the provisions of SOP 07-1. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies ("the Guide") and provides guidance for determining whether the specialized industry accounting principles of the Guide should be retained in the financial statements of a parent company of an investment company or an equity method investor in an investment company. Effective August 17, 2007, the Company adopted SOP 07-1 and follows the provisions of the Guide which, among other things, requires that investments be reported at fair value in our financial statements. The following is a summary of significant accounting policies followed by the Company.

(A) Valuation: In September 2006, Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), was issued and is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 on January 1, 2008. There has been no impact on total shareholders' equity as a result of the Company's adoption of SFAS 157. SFAS 157 establishes a three-level valuation hierarchy for

ELLINGTON FINANCIAL LLC

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disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets,
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly and,
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in these securities.

The following is a description of the valuation methodologies used for the Company's investments.

Level 1 valuation methodologies include the observation of quoted prices (unadjusted) for identical assets or liabilities in active markets, often received from widely recognized data providers.

Level 2 valuation methodologies include the observation of (i) quoted prices for similar assets or liabilities in active markets, (ii) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves) in active markets and (iii) quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 fair value methodologies include (i) the use of proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions, and (ii) the solicitation of valuations from third parties (typically, broker- dealers). Third-party valuation providers often utilize proprietary models that are highly subjective and also require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment assumptions and default rate assumptions. The Manager utilizes such information to assign a good faith valuation (the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the valuation date) to such financial instruments. The Manager has been able to obtain third party valuations on the vast majority of the Company's assets and expects to continue to solicit third party valuations on substantially all of the Company's assets in the future to the extent practical. The Manager uses its judgment, based on its own models, the assessments of its portfolio managers, and third party valuations it obtains, to determine and assign fair values to the Company's Level 3 assets. The Company believes that third party valuations play an important role in ensuring that its Manager's valuation determinations are fair and reasonable. The Manager's valuation process is subject to the oversight of the valuation sub-committee of the Manager's investment and risk management committee as well as the oversight of the independent members of the Company's board of directors. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the consolidated financial statements.

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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 investments at December 31, 2008.

Description	Level 1	Level 2	Level 3	Total
Assets:				
Investments at value	$ 18,692,116	$ 268,418,351	$ 142,773,539	$ 429,884,006
Repurchase Agreements	—	4,528,875	—	4,528,875
Swap contracts-appreciated, at value	—	303,000	141,387,748	141,690,748
Total	$ 18,692,116	$ 273,250,226	$ 284,161,287	$ 576,103,629
Liabilities:				
Investments in Securities Sold Short, at value	$ (38,421,032)	$ —	$ —	$ (38,421,032)
Swap contracts-depreciated, at value	—	(6,653,479)	(10,651,424)	(17,304,903)
Total	$ (38,421,032)	$ (6,653,479)	$ (10,651,424)	$ (55,725,935)

At December 31, 2008, the Company held money market investments that are included in cash and cash equivalents on the consolidated statement of assets, liabilities and shareholders' equity and are considered a level one investment.

The table below includes a roll-forward of the Company's investments for the year ended December 31, 2008 (including the change in fair value), for investments classified by the Company within Level 3 of the valuation hierarchy.

Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

	Investments in Securities	Swap Contracts-Appreciated	Swap Contracts-Depreciated	Total
Beginning Balance as of December 31, 2007	$ 147,501,418	$ —	$ —	$ 147,501,418
Accreted Discounts/Amortized Premiums	4,410,456	—	—	4,410,456
Realized Gain/(Loss)	(5,078,471)	87,212,389	(9,299,149)	72,834,769
Change in Unrealized Appreciation (Depreciation)	(80,948,122)	14,600,948	(2,970,170)	(69,317,344)
Net Purchases (Sales)	76,888,258	39,574,411	1,617,895	118,080,564
Transfers In and/or Out of Level 3	—	—	—	—
Ending Balance as of December 31, 2008	$ 142,773,539	$ 141,387,748	$ (10,651,424)	$ 273,509,863

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated statement of operations. Net unrealized gains (losses) of ($80,176,834), $14,600,948 and ($2,970,170) relate to investment in securities, swap contracts-appreciated and swap contracts-depreciated, respectively, held by the Company at December 31, 2008.

(B) Securities Transactions and Investment Income: Securities transactions are recorded on the trade date. Realized and unrealized gains and losses are calculated based on identified cost. Interest income is recorded as earned. The Company accretes market discount and amortizes premium on debt securities using the effective yield method and classifies any paydown gains or losses as interest income. Accretion of market discount and amortization of premium require the use of a significant amount of judgment and the application of several assumptions including, but not limited to, prepayment assumptions and default rate assumptions.

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(C) Cash and Cash Equivalents: Cash and cash equivalents include amounts held in an interest bearing overnight account and money market funds. As of December 31, 2008, 49%, 33% and 18% of cash and cash equivalents were held in the BlackRock Liquidity TempFund, JP Morgan Prime Money Market Fund, and an interest bearing account at Bank of New York Mellon Corporation, respectively. As of December 31, 2007, 99.7% of cash and cash equivalents were held in the BlackRock Liquidity TempFund.

(D) Swaps: The Company may enter into various types of swaps, including interest rate swaps, total return swaps and credit default swaps. Interest rate swaps are contractual agreements whereby one party pays a floating rate of interest on a notional principal amount and receives a fixed rate on the same notional principal, or vice versa, for a fixed period of time. Interest rate swaps change in value with movements in interest rates. A total return swap involves commitments to pay interest in exchange for market-linked return based on a notional amount. To the extent that the total return of the security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment or make a payment to the counterparty. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss it may incur following the occurrence of a "credit event" in relation to a "reference amount" or notional amount of a credit obligation (usually a bond or loan).

Swaps change in value with movements in interest rates or total return of the referenced securities. During the term of the interest rate swap contracts, changes in value are recognized as unrealized gains or losses by marking the contracts to market. When the contracts are terminated, the Company will realize a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Changes in value of the total return swap contracts, since the most recent cash flow exchange date, are recognized as unrealized gains or losses by marking the contracts to market based upon market quotations from counterparties. Upfront payments paid/received by the Company are recorded as an asset and/or liability on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity and are recorded as a realized gain or loss on the termination date. The Company may be required to deliver or receive cash or securities as collateral upon entering into swap transactions.

Movements in the relative value of the swap transactions may require the Company or the counterparty to post or receive additional collateral. Collateral received from counterparties is included in Due to brokers—margin accounts on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Collateral paid to counterparties is included in Deposits with dealers held as collateral on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Entering into swap contracts involves market risk in excess of amounts recorded in the Company's Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid.

In September 2008, FASB Staff Position FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (Amendment") was issued and is effective for annual and interim reporting periods ending after November 15, 2008. The Company enters into various derivative transactions governed by ISDA agreements that are considered credit derivatives under FASB Staff Position FSP FAS 133-1 and FIN 45-4. As of December 31, 2008, the Company's written credit derivatives represent credit default swaps on mortgage/asset backed securities (ABSCDS). As a seller of credit protection via ABSCDS, the Company receives periodic payments from protection buyers, and is obligated to make payments to the protection buyer upon the occurrence of a credit event with respect to an underlying reference asset. Typically, a credit event occurs when the underlying reference asset fails to make scheduled principal or interest

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payments to its holders or when the underlying reference obligation is downgraded. The Company typically writes protection via ABSCDS to take a "long" position with respect to the underlying reference asset or to hedge exposure to other investment holdings. Written credit derivatives held by the Company at December 31, 2008 are summarized below:

Single Name Credit Default Swaps (Asset Backed Securities)	Amount
Fair Value of Written Credit Derivatives	$ (10,651,424)
Notional Amount(1)	$ 19,747,709

(1) The notional amount is the maximum amount that a seller of ABSCDS would be obligated to pay, and a buyer of credit protection would receive upon occurrence of a credit event. Movements in the relative value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under an ABSCDS contract may be offset against amounts due or owed on other ABSCDS contracts with the same ISDA counterparty.

ABSCDS contract typically have no stated termination date. Unless terminated by mutual agreement by both the buyer and seller, ABSCDS contracts effectively terminate at the earlier of the (i) date the buyer of protection delivers the reference asset to the seller in exchange for payment of the notional balance following the occurrence of a credit event or (ii) the date the reference asset is paid off in full, retired, or otherwise ceases to exist.

Implied credit spreads may be used to determine the market value of swap contracts and are reflective of the cost of buying/selling protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make payment) under the swap contract. In situations where the credit quality of an underlying reference asset has deteriorated, credit spreads combined with a percentage of notional amounts paid up front (points up front) is frequently used as an indication of ABSCDS risk.

ABSCDS credit protection sellers entering the market would expect to be paid a percentage of the current notional balance up front (points up front) approximately equal to the fair value of the contract in order to write protection on the reference assets underlying the Company's ABSCDS contracts. Stated spreads on ABSCDS contracts where the Company has written protection range between 45 and 85 basis points, however participants entering the market at December 31, 2008, would likely transact on similar contracts with material points upfront given these spreads. The Company received up front payments of $7,681,250 on ABSCDS where the Company sold protection that were held as of December 31, 2008. The notional amount of those contracts was $20,250,000 when the payments were received.

(E) Short Sales: When the Company sells short, it may borrow the security sold short and deliver it to the broker-dealer through which it sold short as collateral for its obligation to deliver the security upon conclusion of the sale. Additionally, the Company generally is required to deliver cash or securities as collateral for the Company's obligation to return the borrowed security. The Company may have to pay a fee to borrow the particular securities and may be obligated to pay over any payments received on such borrowed securities. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is less or greater than the proceeds originally received.

(F) Reverse Repurchase Agreements and Repurchase Agreements: The Company enters into reverse repurchase agreements with third-party broker dealers whereby it sells securities under agreements to repurchase

ELLINGTON FINANCIAL LLC

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at an agreed upon price and date. Interest on the value of repurchase and reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. When the Company enters into a reverse repurchase agreement, the lender establishes and maintains an account containing securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement. The Company may enter into repurchase agreement transactions with third-party broker dealers whereby it purchases securities under agreements to resell at an agreed upon price and date. In general, securities received pursuant to repurchase agreements were delivered to counterparties of short sale transactions. Repurchase and reverse repurchase agreements that are conducted with the same counterparty may be reported net if they meet the requirements of FASB Interpretation No. 41 Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.

There are no repurchase and reverse repurchase agreements netted in the consolidated financial statements. Reverse repurchase agreements are carried at their contractual amounts which the Company believes is the best estimate of fair value. At December 31, 2008, the initial terms on the Company's open reverse repurchase agreements ranged from 22 to 36 days and the Company's open reverse repurchase agreements had interest rates ranging from 1.20% to 4.50%. At December 31, 2008, approximately 82% of open reverse repurchase agreements were with two counterparties.

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 140-3 (FSP), *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The FSP applies to a repurchase financing, which is a reverse repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. The FSP is effective for years beginning after November 15, 2008. Management does not believe the adoption of the FSP will materially impact the consolidated financial statement amounts, but may require additional disclosure.

(G) When-Issued/Delayed Securities: The Company may purchase or sell securities on a when-issued or delayed delivery basis. Securities traded on a when-issued basis are traded for delivery beyond the normal settlement date at a stated price and yield, and no income accrues to the purchaser prior to delivery. Purchasing or selling securities on a when-issued or delayed delivery basis involves the risk that the market price at the time of delivery may be lower or higher than the agreed upon price, in which case an unrealized loss may be incurred.

The Company may enter into dollar rolls, principally using To Be Announced (TBA) securities, in which the Company sells (buys) mortgage-backed securities for delivery (receipt) in the current month and simultaneously contracts to repurchase (sell) similar, but not identical, securities at an agreed-upon price on a fixed date. The Company accounts for such dollar rolls as purchases and sales and receives compensation as consideration for entering into the commitment to repurchase. The market value of the securities that the Company is required to purchase may decline below the agreed upon repurchase price of those securities. The Company has TBA dollar rolls outstanding as of December 31, 2008, which are included in receivable for securities sold and payable for securities purchased on the Statement of Assets, Liabilities and Shareholders' Equity.

(H) Organizational Costs/Offering Costs/Placement Fees: Organizational costs are expensed as incurred. Offering costs and placement fees are charged against shareholders' equity. Organizational costs and offering costs consisted principally of legal fees.

(I) LTIP Units: The costs associated with the long term incentive plan units is amortized on a straight line basis over the vesting period. The vesting period for the Ellington Incentive Plan for Entities (the "Manager

LTIP") is three years. The vesting period for the Ellington Incentive Plan for Individuals (the "Director LTIP") is one year, for the initial grant awarded on August 17, 2007 and nine months for the grant awarded on December 31, 2008. The cost of the Manager LTIP units fluctuates with the price per share of the Company whereas the cost of the Director LTIP units is based on the price per share at the initial offering date (grant date).

(J) Income Taxes: The Company intends to be treated as a partnership for U.S. federal income tax purposes. In general, partnerships are not subject to entity-level tax on their income, but the income of a partnership is taxable to its owners on a flow-through basis.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for all entities, including pass-through entities such as the Company, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures.

The Company adopted the provisions of FASB Interpretations No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48") on August 17, 2007, which required management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals of litigation process, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement which could result in the Company recording a tax liability that would reduce shareholders' equity. As a result of the implementation of FIN 48, the Company did not recognize any increase in the liability for unrecognized tax benefits. The Company did not have any additions to its unrecognized tax benefits resulting from tax positions related either to the current or prior years, and no reductions resulting from tax positions of prior years or due to settlements, and thus had no unrecognized tax benefits at December 31, 2008 and December 31, 2007. The Company does not expect any change in unrecognized tax benefits within the next fiscal year.

The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying financial statements. Also, management's conclusions regard FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance from the FASB, and on-going analyses of tax laws, regulations and interpretations thereof.

(K) *Recent Accounting Pronouncements:*

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instrument and related hedged items affect a company's financial position, financial performance and cash flows. Management does not believe the adoption of FAS 161 will materially impact the consolidated financial statement amounts, but will require additional disclosure.

In June 2008, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and *the Hierarchy of Generally Accepted Accounting Principles—a* *replacement of FASB Statement No. 162*" ("FAS 168"). FAS 168 identifies the sources of accounting principles and the framework for selecting the accounting principles used in preparing financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. FAS 168 will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of FAS 168 to have an impact on its financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The FSP also contains enhanced disclosure requirements whereby fair value disclosures as well as certain disaggregated information will be disclosed beginning in the second quarter 2009. The Company is evaluating the impact of this standard on its financial statements.

FASB issued FASB Statement No. 165, *Subsequent Events* ("FASB 165") which is effective for interim and annual periods ending after June 15, 2009. FASB 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company is currently evaluating the impact of the effect of implementing this guidance.

3. Base Management Fee, Incentive Fee, and Special Distribution to the Manager

The Manager receives an annual base management fee equal to 1.75% of the Company's shareholders' equity, defined as the aggregate net proceeds from sales of its equity securities, plus retained earnings for the measurement period, less amounts paid for repurchases and/or redemption of the Company's capital stock. However, the base management fee calculation described in the preceding sentence excludes from the calculation equity securities held by the Manager. The base management fee is payable monthly in arrears. For the year ended December 31, 2008, the base management fee incurred by the Company was $3,721,121. For the period August 17, 2007 (commencement of operations) through December 31, 2007, the base management fee incurred by the Company was $1,355,912.

The Manager is also entitled to receive a quarterly incentive fee. The incentive fee equals: (i) 25% of the dollar amount by which (A) the Company's net income (after the base management fee, but before the incentive fee and before non-cash equity compensation expense), for the applicable quarter per common share (based on the weighted average number of common shares outstanding for such quarter) exceeds (B) an amount equal to (1) the sum of (x) the weighted average gross proceeds (before placement fees) per share of all common share issuances, plus (y) the result obtained by dividing (I) retained earnings attributable to common shares at the beginning of such quarter by (II) the weighted average number of common shares outstanding for such quarter, multiplied by (2) one-fourth of the greater of (x) 9% and (y) 3% plus the ten-year U.S. treasury rate for such quarter, multiplied by (ii) the weighted average number of common shares outstanding during such quarter. The payment of the incentive fee will be in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in common shares.

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Any net loss incurred by the Company in a given quarter or quarters will be offset against any net income earned by the Company in the future quarters for purposes of calculating the incentive fee in such future quarters. However, the incentive fee calculation described above excludes from the calculation equity securities held by the Manager as well as net income earned thereon. For the year ended December 31, 2008, the incentive fee incurred by the Company was $1,771,026. Such incentive fee related to the quarter ended June 30, 2008. Of this amount, 10% was paid by issuing 8,733 shares of the Company. Such shares were issued at a price of $20.28 per share; the net asset value per share at June 30, 2008.

For the period August 17, 2007 (commencement of operations) through December 31, 2007, no incentive fee was incurred.

In accordance with the terms of the Amended and Restated Operating Agreement, the amount of base management fees and incentive fees that are paid to the Manager will be reduced so as to exclude from the fee calculations amounts that would otherwise be payable in respect of equity and net income that is attributable to common shares and long-term incentive plan units (see Note 4 below) owned by the Manager (the “Reduction Amount”). The Manager is entitled to receive a quarterly special distribution equal to the Reduction Amount. At December 31, 2008 and December 31, 2007, the special distribution payable in the amount of $50,283 and $94,217, respectively, has been reflected as Due to Ellington Financial Management LLC in the Consolidated Statement of Assets, Liabilities, and Shareholders’ Equity.

4. Long-Term Incentive Plan Units

In connection with the initial offering, the Company established the Manager LTIP and the Director LTIP. Pursuant to the terms of the Manager LTIP, the Company issued 375,000 long-term incentive plan units to its Manager. Pursuant to the terms of the Director LTIP, the Company issued 3,750 long-term incentive plan units to its independent directors.

Units issued pursuant to the Manager LTIP are subject to forfeiture restrictions that will lapse in three equal annual installments beginning on the first anniversary of the closing date of the Company’s initial offering. Units held pursuant to the Manager LTIP will generally be exercisable by the holder at any time after vesting. Each unit is convertible into one common share. Costs associated with the Manager LTIP are expensed over the course of the vesting period. Such costs are measured as of the grant date and are remeasured at the end of each reporting period to account for changes in the value of the Company’s common shares until the units are fully vested. At December 31, 2008 and December 31, 2007, the value of the cost associated with the Manager LTIP was $7,012,810 and $7,041,424, respectively and of that cost, $3,221,409 and $880,982 has been expensed through December 31, 2008 and December 31, 2007, respectively. There is no cash flow effect resulting from the offering of the Manager LTIP units.

Units issued pursuant to the Director LTIP are subject to forfeiture restrictions that will lapse one year after the closing date of the Company’s initial offering. Units held pursuant to the Directors LTIP will generally be exercisable by the holder at any time after vesting. Each unit is convertible into one common share. Costs associated with the Director LTIP are measured as of the grant date and expensed ratably over the vesting period. At grant date, the value of the cost associated with the Director LTIP was $75,000 and of that cost, $75,000 and $25,991 has been expensed through December 31, 2008 and December 31, 2007, respectively. There is no cash flow effect resulting from the initial offering of the Director LTIP units. The Director LTIP units fully vested on August 17, 2008. Effective September 30, 2008, 1,250 common shares were issued and $25,000 was transferred from Share-based LTIP awards to common shares in Shareholders’ Equity at the direction of an award holder.

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On December 31, 2008, 3,750 additional Director LTIP units were awarded to the independent directors at a cost of $72,263. Such amount will be expensed over the vesting period in 2009.

Were all units issued pursuant to the Manager LTIP and Director LTIP to be fully vested and exchanged for common shares as of December 31, 2008 and December 31, 2007, the Company's issued and outstanding common shares would increase to 12,891,283 and 12,878,800 shares, respectively. The per share amount based on shareholders' equity at December 31, 2008 and 12,891,283 shares is $18.70 per share. The per share amount based on shareholders' equity at December 31, 2007 and 12,878,800 shares is $18.78 per share.

Detailed below is a roll-forward of the Company's units outstanding for the period ended December 31, 2007:

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units outstanding, August 17, 2007	—	—	—
LTIP Units awarded	378,750	375,000	3,750
LTIP Units Outstanding, December 31, 2007	378,750	375,000	3,750

Detailed below is a roll-forward of the Company's units outstanding for the year ended December 31, 2008:

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units outstanding, January 1, 2008	378,750	375,000	3,750
LTIP Units awarded	3,750	—	3,750
LTIP Units exercised	(1,250)	—	(1,250)
LTIP Units Outstanding, December 31, 2008	381,250	375,000	6,250

No LTIP units awarded/outstanding during the period ended December 31, 2007 were vested. Detailed below is a roll-forward of the Company's LTIP units outstanding for the year ended December 31, 2008:

	Total LTIP Units	Manager LTIP Units	Director LTIP Units
LTIP Units vesting January 1, 2008	—	—	—
LTIP Units vested	128,750	125,000	3,750
LTIP Units exercised	(1,250)	—	(1,250)
LTIP Units vested, December 31, 2008	127,500	125,000	2,500

5. Common Share Capitalization and Lock-Up Provisions

In connection with the initial offering of common shares ("Shares") of the Company, 12,500,050 shares were issued with no par value. The Shares owned by the Manager, Ellington and the Company's executive officers and directors are subject to a lock-up agreements restricting, subject to certain exceptions, share transfers for 180 days after the completion of the initial offering on August 17, 2007. The Company is a closed end entity and there are no redemptions of shares. Shares are open to trade on the Portal Market, a subsidiary of The NASDAQ Stock Market, Inc. The Manager does not provide any commitments to resale of shares purchased.

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Detailed below is a roll-forward of the Company's common shares outstanding for the period ended December 31, 2007:

Common Shares Outstanding, August 17, 2007	—
Additions:	
Shares issued from original offering	12,500,050
Common Shares Outstanding, December 31, 2007	12,500,050

Detailed below is a roll-forward of the Company's common shares outstanding for the year ended December 31, 2008:

Common Shares Outstanding, January 1, 2008	12,500,050
Additions:	
Shares issued in settlement of incentive fee liability	8,733
Director LTIP units exercised	1,250
Common Shares Outstanding, December 31, 2008	12,510,033

As of December 31, 2008 and December 31, 2007, related parties of the Company owned approximately 24% of total shareholders' equity. Two other investors owned 20% and 15% of total shareholders' equity, respectively.

6. Risks

The Company may be exposed to various types of risks, including market price risk, interest rate risk, and credit risk. Market price risk is the risk of decline in value of the investments held by the Company because of a number of reasons, including changes in prevailing market and interest rates, increases in defaults, increases in voluntary prepayments for Investments subject to prepayment risk, and widening credit spreads. Interest rate risk is the risk associated with the effects of the fluctuations in the prevailing level of market interest rates. Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. In 2007 and 2008, the U.S. sub-prime residential mortgage market has experienced severe dislocations and liquidity disruptions. Sub-prime mortgage loans have recently experienced increased rates of delinquency, foreclosure and loss.

The effects of this include a substantial reduction in liquidity in the credit markets, which has resulted in a liquidity crisis for many market participants. Recent instability in the MBS and ABS markets may affect the liquidity of the Company's portfolio.

The Company may invest in credit sensitive mortgage-backed and asset-backed securities. Yields on mortgage-backed securities are affected by interest and prepayment rates which, in turn, are influenced by a variety of economic, geographic, social and other factors. Maturities on mortgage-backed securities represent stated maturity dates. Actual maturity dates may differ based on prepayment rates.

The Company may invest in, or sell short, various interest rate derivative instruments and futures contracts primarily for the purpose of hedging its mortgage-backed securities portfolio against changes in value caused by changes in prevailing market interest rates. Should interest rates move unexpectedly, the Company may not achieve the anticipated benefits of the hedging instruments and may realize a loss. Further, the use of such derivative instruments involves the risk of imperfect correlation in movements in the price of the instruments, interest rates and the underlying hedged assets.

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The Company transacts in various financial instruments including swaps. With these financial instruments, the Company is exposed to market risk in excess of the amounts recorded in the consolidated statement of assets, liabilities, and shareholders' equity. Further, credit risk arises in swaps from potential counterparty nonperformance.

Under current market conditions, many of the Company's portfolio securities may be considered illiquid. This may result in certain securities being disposed of at a price different from the recorded value since the market price of such securities generally is more volatile than that of more liquid securities. This may result in the Company incurring greater losses on the sale of some portfolio securities than under more stable market conditions. Such losses can adversely impact the Company's shareholders' equity. The current market instability has also made it more difficult to obtain market valuations on many of the Company's portfolio investments. There can be no assurance that the Company could purchase or sell a portfolio investment at a price used to value the investment.

Certain investments of the Company may trade in relatively thin markets and throughout the period, depending upon market conditions, may be considered illiquid. As a result, market values can be more volatile and difficult to determine relative to other securities. In addition, if the Company is required to liquidate all or a portion of its portfolio quickly, it may realize significantly less than the value at which it previously recorded its investments. A decline in market value of the Company's assets may have particular material adverse consequences in instances where the Company has borrowed money based upon the market value of those assets. A decrease in market value of those assets may require the Company to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Company to do so.

Because the Company borrows under reverse repurchase agreements based on the estimated fair value of pledged instruments, the Company's ongoing ability to borrow under its reverse repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of those assets may require the Company to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Company to do so.

As of December 31, 2008, investments with an aggregate value of $298,982,891 were held with dealers as collateral for various reverse repurchase arrangements. As of December 31, 2008 affiliates of Credit Suisse Group and affiliates of Deutsche Bank AG held 54% and 28% of such collateral, respectively. As of December 31, 2008, the following dealers held greater than 15% of the Company's Deposits with Dealers Held as Collateral: affiliates of Morgan Stanley 64% and affiliates of JP Morgan 36%. As of December 31, 2008, affiliates of Deutsche Bank AG and affiliates of Credit Suisse Group represented 49% and 49%, respectively, of the Receivable for Securities Sold. As of December 31, 2008, affiliates of Merrill Lynch represented 100% of the Payable for Securities Purchased.

At December 31, 2008, the Company is party to various derivative contracts governed by ISDA trading agreements with dealer counterparties. The Company's ISDA trading agreements, which are separately negotiated agreements with each dealer counterparty, typically contain provisions allowing, absent other considerations, a counterparty to exercise rights, to the extent not otherwise waived, against the Company in the event the Company's net assets decline over time by a predetermined percentage or fall below a predetermined floor. Such rights often include the ability to terminate (i.e. close out) open contracts at prices which may favor the counterparty, which could have a material adverse effect on the Company.

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7. Lehman Brothers

On Monday, September 15, 2008, Lehman Brothers Holdings Inc ("Lehman") filed for protection under Chapter 11 of the United States Bankruptcy Court in the Southern District of New York. As of that date, the Company was party to a number of interest rate swap and credit default swap contracts (the "Contracts") with Lehman Brothers Special Financing Inc. ("LBSF"), a wholly owned subsidiary of Lehman. The Chapter 11 filing by Lehman constituted an Event of Default under the ISDA Master Agreement ("ISDA MA") entered into by and between the Company and LBSF. As of Friday, September 12, 2008, the last business day immediately preceding Lehman's Chapter 11 filing, the Company's internal records reflected a net aggregate value of $61,713,084 for the Contracts, and, as of that date, the Company was in possession of cash collateral posted by LBSF in support of the Contracts in the amount of $61,486,927.

By letter dated September 15, 2008, in accordance with the provisions in the ISDA MA, the Company provided notices of early termination to LBSF, effectively closing out the Contracts with LBSF as of September 16, 2008. The Contacts were closed out at prices determined by the Company based upon the methodology prescribed in the ISDA MA.

As of December 31, 2008, the Company estimates its net claim against LBSF to be a net amount equal to $15,576,801. Such amount represents a decrease of $3,250,000 from the estimated net claim reported as of September 30, 2008. The net amount reflects the difference between (a) $77,063,728, the net value at which the Company closed out the Contracts and (b) $61,486,927, the value of the cash collateral posted to the Company by LBSF in support of the Contracts. The Company also has a related claim in the same amount against Lehman, as guarantor under the ISDA MA. The Company believes that the full amount of its claims against both LBSF and Lehman are due and owing under the relevant contractual provisions. The process of recovering those claims through bankruptcy proceedings, however, raises significant questions with respect to the timing and amount of any final recovery. There can be no assurances as to the ultimate outcome of the claim process, thus the Company has recorded a reserve on its books equal to $15,576,801, the full amount of its claim.

For the year ended December 31, 2008, the closing out of the Contracts with LBSF resulted in the recording in Net Realized Gains, Financial Derivatives on its Consolidated Statement of Operations of an amount equal to $28,763,186. However, an additional entry was recorded to reduce this amount by $15,576,801, the amount of the reserve. At December 31, 2008, on its Consolidated Statement of Assets, Liabilities and Shareholders' Equity, the Company recorded in Receivable for Securities Sold an amount equal to $77,063,728, the net amount at which the Company closed out the Contracts with LBSF. However, an additional entry was recorded to reduce this amount by $15,576,801, the amount of the reserve. Such reserve amount represents a decrease of $3,250,000 from the reserve reported as of September 30, 2008. In addition, the Company recorded an entry to reduce both Receivable for Securities Sold and Due to Brokers—Margin Accounts by $61,486,927, the value of the cash collateral it held in support of the Contracts. As a result, the December 31, 2008 Consolidated Statement Assets, Liabilities and Shareholders' Equity reflects no net balances of assets or liabilities associated with LBSF.

8. Contingencies and Commitments

The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. However, the Company expects the risk of loss associated with such contracts to be remote.

ELLINGTON FINANCIAL LLC

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DECEMBER 31, 2008

9. Financial Highlights

Results of Operations for a Share Outstanding Throughout the Periods:

	Year Ended December 31, 2008	August 17, 2007 (commencement of operations) Through December 31, 2007
Beginning Shareholders' Equity Per Share (12/31/2007 and 8/17/2007 respectively)(a)	$ 19.35	$ 19.17
Net Investment Income	1.03	0.19
Net Realized/Unrealized Gains (Losses)	(1.23)	0.08
Results of Operations	(0.20)	0.27
Offering Costs	—	(0.15)
Share-Based LTIP Awards	0.19	0.07
Manager Special Distribution*	(0.07)	(0.01)
Ending Shareholders' Equity Per Share (12/31/2008 and 12/31/2007 respectively)**	$ 19.27	$ 19.35
Shares Outstanding	12,510,033	12,500,050

(a) Beginning shareholders' equity on August 17, 2007, is net from issuance of shares after placement fees of -$0.64 per share.
* Per the Amended and Restated Operating Agreement, the special distribution is paid to the Manager.
** If all units issued pursuant to the Manager LTIP and Director LTIP were vested and exchanged for common shares as of December 31, 2008 and December 31, 2007, shareholders' equity per share would be $18.70 and $18.78, respectively.

Net Asset Based Total Return for a Shareholder, excluding Manager shares:[(1)]

	Year Ended December 31, 2008	August 17, 2007 (commencement of operations) Through December 31, 2007
Total Return before Incentive Fee(2)	0.31%	0.94%
Incentive Fee	-0.72%	—
Total Return after Incentive Fee	-0.41%	0.94%

(1) Market based total return is not available as no market price is available due to limited trading during the periods.
(2) Total return is calculated for all shareholders' equity accounts, excluding the Manager's shareholder equity, taken as a whole for each period.

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Supplemental Information—Net Asset Based Total Return for a Shareholder, excluding Manager shares and assuming conversion of all LTIP units:

	Year Ended December 31, 2008
Total Return before Incentive Fee[3]	-2.64%
Incentive Fee	-0.72%
Total Return after Incentive Fee	-3.36%

(3) Total return calculated assuming all LTIP units had been converted into common shares at the balance sheet date. Total return represents all shareholders' equity accounts, excluding Manager shares and Manager LTIP units, outstanding for the entire period.

Ratios to Average Shareholders' Equity, excluding the Manager shares:[4][5][6]

	Year Ended December 31, 2008	August 17, 2007 (commencement of operations) Through December 31, 2007
Net Investment Income[7]	4.84%	2.48%
Operating expenses before incentive fee and interest expense	-3.95%	-4.08%
Incentive fee[5]	-0.84%	—
Interest expense	-2.51%	—
Total Expenses	-7.30%	-4.08%

(4) Average shareholders' equity was calculated using monthly values.
(5) Ratios were annualized except for the incentive fee and organizational expenses which are not annualized.
(6) Ratios were calculated for all shareholders' equity accounts taken as a whole outstanding for the entire period excluding the Manager. The total base management fee and incentive fee are allocated to the non-manager shareholders for the purposes of these calculations as the Special Distribution of the Reduction Amount in effect allocates the whole base management fee and incentive fee to the non-manager shareholders.
(7) Includes incentive fee expense.

10. Subsequent Events

On March 2, 2009 the Company repurchased 500,000 shares in a privately negotiated unsolicited transaction of its own stock at a price of $12 for a total purchase price of $6,000,000.

On April 20, 2009, the Company repurchased 106,000 of its own shares in a privately negotiated unsolicited transaction at a price of $12.25 for a total purchase price of $1,298,500.

On July 6, 2009, the Board of Directors approved an amended and restated Management Agreement between the Company and the Manager which, among other things, reduced the annual base management fee to 1.5% from 1.75% of shareholders' equity, changed the incentive fee from a quarter-by-quarter calculation to a rolling four quarter calculation, removed the reduction to the management fees related to shares held by the Manager and removed the corresponding provisions relating to special distributions to the Manager, increased the termination fee from a two-year termination fee to a three-year termination fee, provided the Manager with

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the right to provide the Company with a dedicated controller and in-house legal counsel and to have the expenses incurred by the Manager in providing these dedicated officers reimbursed by the Company and eliminated the Manager's right to have other general overhead expenses of the Manager and its affiliates reimbursed by the Company or to charge the Company professional fees for legal, accounting and other services provided by employees of the Manager or its affiliates. These amendments were effective as of July 1, 2009.

SCHEDULE II

ELLINGTON FINANCIAL LLC

VALUATION AND QUALIFYING ACCOUNTS

Fiscal Year	Description	Balance Beginning of Period	Charged to Income Statement	Charged Allowance	Balance at End of Period
Reserve for Receivable Swap					
2008	Reserve for Receivable for Swap	$ 0	$15,576,801	$ 0	$15,576,801
2007	Reserve for Receivable for Swap	$ 0	$ 0	$ 0	$ 0

Ellington Financial

PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

Item 31. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses of the sale and distribution of the securities being registered, all of which are being borne by the Registrant.

Securities and Exchange Commission registration fee	$ 11,160
FINRA filing fee	$ 20,500
NYSE listing fee	$ 125,000
Printing and engraving fees	$ 350,000
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	*
Transfer Agent and Registrar fees	*
Miscellaneous	*
Total	*

* To be furnished by amendment.

All expenses, except the Securities and Exchange Commission registration fee, the FINRA filing fee and the NYSE listing fee, are estimated.

Item 32. Sales to Special Parties.

See the response to Item 33 below.

Item 33. Recent Sales of Unregistered Securities.

On July 9, 2007, the Company sold 50 common shares to our Manager in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 506 of Regulation D under the Securities Act. All of these shares were sold for a purchase price of $20.00 per share for gross proceeds of $1,000.

On August 17, 2007, the Company sold 10,074,280 common shares to Friedman, Billings, Ramsey & Co., Inc., as initial purchaser (the “Initial Purchaser”). The Company issued these common shares to the Initial Purchaser in reliance on the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act. The Initial Purchaser paid the Company a purchase price of $18.60 per share with respect to 6,285,530 of these common shares, $18.80 per share with respect to 1,938,750 of these common shares and $20.00 per share with respect to 1,850,000 of these common shares. Additionally, the Initial Purchaser paid a rebate to the Company of $0.20 per share with respect to 6,285,530 of these common shares. The net proceeds to the Company from the sale of 10,074,280 common shares to the Initial Purchaser was $191,616,464. The Initial Purchaser resold all of these common shares concurrently to (i) Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act and (ii) investors outside the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act. The offering price per common share to Qualified Institutional Buyers under Rule 144A and non-United States persons under Regulation S was $20.00 per share with respect to 8,135,530 common shares and $18.80 per share with respect to 1,938,750 common shares for gross proceeds of $199,159,100. The aggregate Initial Purchaser’s discount was $8,799,742, and the rebate paid by the Initial Purchaser to the Company was $1,257,106.

On August 17, 2007, the Company sold 2,425,720 common shares in a concurrent private placement to “accredited investors” (as defined in Rule 501 under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 506 of Regulation D under the Securities Act, with the Initial Purchaser acting as placement agent. All of these shares were sold for a purchase price of $20.00 per share for gross proceeds of $48,514,400. The placement agent received a commission of $1.40 per share with respect to 664,470 of these common shares. No commission was paid with respect to 1,761,250 of these common shares. Additionally, the placement agent paid a rebate to the Company of $0.20 per share with respect to 664,470 of these common shares. The net proceeds to the Company from the private placement of these shares was $47,717,036, total commissions paid to the placement agent was $930,258 and the rebate paid by the placement agent to the Company was $132,894.

On August 17, 2007, the Company granted 375,000 LTIP units to our Manager pursuant to the Entity Incentive Plan. Such grant was exempt from the registration requirements of the Securities Act pursuant to Rule 701 promulgated under the Securities Act.

On August 17, 2007, the Company granted 1,250 LTIP units to Thomas Robards, 1,250 LTIP units to Ronald I. Simon, Ph.D. and 1,250 LTIP units to Edward Resendez as compensation for serving as a director pursuant to the Individual Incentive Plan. Such grants were exempt from the registration requirements of the Securities Act pursuant to Rule 701 promulgated under the Securities Act.

On September 10, 2008, the Company issued 8,733 common shares to our Manager as part of its incentive amount pursuant to our management agreement with our Manager. This issuance was exempt from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

On November 21, 2008, the Company issued 1,250 common shares in exchange for LTIP units held by one of the Company’s directors. This issuance was exempt from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

On December 31, 2008, the Company granted 1,250 LTIP units to Thomas Robards, 1,250 LTIP units to Ronald I. Simon, Ph.D. and 1,250 LTIP units to Edward Resendez as compensation for serving as a director pursuant to the Individual Incentive Plan. Such grants were exempt from the registration requirements of the Securities Act pursuant to Rule 701 promulgated under the Securities Act.

On August 20, 2009, the Company issued 35,221 common shares to our Manager as part of its incentive amount pursuant to our management agreement with our Manager. This issuance was exempt from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

On August 25, 2009, the Company issued 1,250 common shares in exchange for LTIP units held by one of the Company’s directors. This issuance was exempt from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

On October 1, 2009, the Company granted 1,250 LTIP units to Thomas Robards, 1,250 LTIP units to Ronald I. Simon, Ph.D. and 1,250 LTIP units to Edward Resendez as compensation for serving as a director pursuant to the Individual Incentive Plan. Such grants were exempt from the registration requirements of the Securities Act pursuant to Rule 701 promulgated under the Securities Act.

On October 9, 2009, the Company issued 1,250 common shares in exchange for LTIP units held by one of the Company’s directors. This issuance was exempt from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act.

Item 34. Indemnification of Directors and Officers.

Section 18-108 of the Delaware Limited Liability Company Act provides that a limited liability company may indemnify any member or manager or other person from and against any and all claims and demands whatsoever. Our operating agreement provides that our directors will not be liable to us, or any subsidiary of ours, or any holder of shares, for monetary damages for any acts or omissions arising from the performance of any of such director's obligations or duties in connection with us, including breach of fiduciary duty, except as follows: (i) for any breach of the director's duty of loyalty to us or the holders of the shares; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (iii) for any transaction from which the director derived an improper personal benefit. The operating agreement provides that, to the fullest extent permitted by law, we will indemnify our directors and officers or any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of us) by reason of the fact that the person is or was our director, officer, employee, tax matters member or agent, or is or was serving at our request as a director, officer, employee or agent of another company, to the fullest extent permitted by law against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

Each of the persons entitled to be indemnified for expenses and liabilities as contemplated above may, in the performance of his, her or its duties, consult with legal counsel and accountants, and any act or omission by such person on our behalf in furtherance of our interests in good faith in reliance upon, and in accordance with, the advice of such legal counsel or accountants will be full justification for any such act or omission, and such person will be fully protected for such acts and omissions; provided that such legal counsel or accountants were selected with reasonable care by or on our behalf.

We have entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements require, among other things, that we indemnify our directors and executive officers to the fullest extent permitted by law and advance our directors and executive officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted.

Item 35. Treatment of Proceeds from Shares Being Registered.

None of the proceeds will be credited to an account other than the appropriate capital share account.

Item 36. Financial Statements and Exhibits.

(a) Financial Statements. See page F-1 for an index of the financial statements included in the Registration Statement.

(b) Exhibits. The following exhibits are filed as part of, or incorporated by reference into, this Registration Statement on Form S-11:

Exhibit	Description of Document
1.1*	Form of Underwriting Agreement among Ellington Financial LLC, Ellington Financial Management LLC and the underwriters named therein
3.1	Second Amended and Restated Operating Agreement of Ellington Financial LLC
4.1**	Form of Common Share Certificate of Ellington Financial LLC
5.1*	Opinion of Hunton & Williams LLP as to legality of the securities being issued
8.1*	Opinion of Hunton & Williams LLP as to certain U.S. federal income tax matters
10.1**	Amended and Restated Management Agreement, by and between Ellington Financial LLC and Ellington Financial Management LLC, dated as of July 1, 2009
10.2**†	2007 Incentive Plan for Individuals

Exhibit	Description of Document
10.3**†	2007 Incentive Plan for Entities
10.4**†	Form of LTIP Unit Award Agreement
10.5**	Form of Indemnity Agreement—superceded by Exhibit 10.6
10.6	Form of Indemnity Agreement
21.1**	List of Subsidiaries
23.1*	Consent of Hunton & Williams LLP (included in Exhibit 5.1)
23.2	Consent of PricewaterhouseCoopers LLP
24.1**	Power of Attorney (included on Signature Page)

* To be filed by amendment.
** Previously filed.
† Compensatory plan or arrangement.

Item 37. Undertakings.

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, may be permitted to directors, officers or controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance under Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York, on the 3rd day of November, 2009.

ELLINGTON FINANCIAL LLC

By: /S/ ERIC BOTHWELL

Name: **Eric Bothwell**
Title: **Chief Operating Officer**

Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 3 to the registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
* Laurence Penn	Chief Executive Officer, President and Director	November 3, 2009
/S/ LISA MUMFORD Lisa Mumford	Chief Financial Officer	November 3, 2009
* Michael W. Vranos	Director	November 3, 2009
* Thomas F. Robards	Chairman of the Board**	November 3, 2009
* Ronald I. Simon, Ph.D	Director**	November 3, 2009
* Edward Resendez	Director**	November 3, 2009

*By: /S/ ERIC BOTHWELL
Eric Bothwell
As Attorney-in-Fact

** Independent Director

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* To be filed by amendment.
** Previously filed.
† Compensatory plan or arrangement

Exhibit 3.1

SECOND AMENDED AND RESTATED OPERATING AGREEMENT

OF

ELLINGTON FINANCIAL LLC

Dated as of July 1, 2009

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MISCELLANEOUS

This SECOND AMENDED AND RESTATED OPERATING AGREEMENT (the "Agreement") shall be effective as of the 1st day of July, 2009 and is entered into by Ellington Financial LLC, a Delaware limited liability company (the "Company"), Ellington Financial Management LLC, a Delaware limited liability company (the "Manager"), and any other Persons who are or hereafter become Members in the Company or parties hereto as provided herein. This Agreement supersedes and replaces in its entirety, from and after the effective date hereof, that certain Amended and Restated Operating Agreement of the Company dated as of the 17th day of August, 2007 (the "First Amended and Restated Operating Agreement"). Capitalized terms used in this Agreement without definition shall have the respective meanings specified in Section 1.10 and, unless otherwise specified, article and section references used herein refer to Articles and Sections of this Agreement.

ARTICLE I

THE COMPANY

Section 1.1. Formation. The Company was formed as a limited liability company under and pursuant to the provisions of the Act by the execution, delivery and filing of the Certificate of Formation with the Office of the Secretary of State of Delaware and upon the terms and conditions set forth in the operating agreement of the Company dated July 9, 2007 (the "Original Agreement," as subsequently amended by the First Amended and Restated Operating Agreement and as further amended and restated by this Agreement). The rights and liabilities of the Members shall be as provided under the Act, the Certificate of Formation and this Agreement.

Section 1.2. Name. The name of the Company shall continue to be Ellington Financial LLC and all business of the Company shall be conducted in such name. The Board of Directors may change the name of the Company at any time and from time to time, which name change shall be effective upon the filing of a certificate of amendment of the Certificate of Formation with the Secretary of State of the State of Delaware and shall not require an amendment to this Agreement. The Company shall notify the Members of such name change in the next regular communication to the Members.

Section 1.3. Purpose; Powers; Prior Authorization of Actions Valid.

(a) The purposes of the Company are (i) to conduct or promote any lawful business, purpose or activity permitted for a limited liability company of the State of Delaware under the Act, (ii) subject to clause (i), to make such investments and engage in such activities as the Board of Directors may approve, and (iii) to engage in any and all activities related or incidental to the purposes set forth in clauses (i) and (ii); *provided*, *however*, that, except if the Board of Directors determines otherwise pursuant to Section 1.11, such activities shall be limited to and conducted in such a manner as to not require the Company to be registered as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act") or to cause the Company to be treated as an association or publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes.

(b) The Company has the power to do any and all acts necessary, appropriate, proper, advisable, incidental or convenient to or in furtherance of the purposes of the Company set forth in this Section 1.3 and has, without limitation, any and all powers that may be exercised on behalf of the Company by the Board of Directors pursuant to Article VI hereof.

(c) Notwithstanding anything in this Agreement to the contrary, any actions and things (including the entering into and performance of any agreements or other documents) properly authorized, in the name and on behalf of the Company, by the Board of Directors as constituted at the time of any such authorization, whether prior to the date of this Agreement or under and in accordance with this Agreement, were, are and shall continue to be valid and duly authorized, and the Company shall continue to have the power and authority to take and do all such actions and things (including to enter into and perform all such agreements or other documents), whether or not such actions or things have already been taken or done (or such agreements or other documents entered into and/or performed), and regardless of whether the composition of the Board of Directors has changed, whether this Agreement has been amended or otherwise prior to the actual taking or doing of any such actions or things (including the entering into or performance of any such documents) by the Company.

Section 1.4. Power of Attorney. Each Member hereby constitutes and appoints each of the Chief Executive Officer, the President and the Secretary and, if a Liquidator shall have been appointed by the Board of Directors, the Liquidator (and any successor to the Liquidator by merger, transfer, assignment, election or otherwise) and each of their authorized officers and attorneys-in-fact, as the case may be, with full power of substitution, as its, his or her true and lawful agent and attorney-in-fact, with full power and authority in its, his or her name, place and stead, to:

(a) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices:

(i) all certificates, documents and other instruments (including the Certificate of Formation and all amendments or restatements hereof or thereof) that the Chief Executive Officer, President or Secretary, or the Liquidator, determines to be necessary or appropriate to form, qualify or continue the existence or qualification of the Company as a limited liability company in the State of Delaware and in all other jurisdictions in which the Company may conduct business or own property;

(ii) all certificates, documents and other instruments that the Chief Executive Officer, President or Secretary, or the Liquidator, determines to be necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement;

(iii) all certificates, documents and other instruments (including conveyances and a certificate of cancellation) that the Board of Directors or the Liquidator determines to be necessary or appropriate to reflect the dissolution, liquidation and termination of the Company pursuant to the terms of this Agreement;

(iv) all certificates, documents and other instruments relating to the admission, withdrawal, removal or substitution of any Member pursuant to, or other events described in, Article II or XIX;

(v) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class of Shares issued pursuant to Section 2.1; and

(vi) all certificates, documents and other instruments (including merger agreements and a certificate of merger) relating to a merger, consolidation or conversion of the Company.

(b) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments that the Board of Directors or the Liquidator determines to be necessary or appropriate to (i) make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Members hereunder or is consistent with the terms of this Agreement or (ii) effectuate the terms or intent of this Agreement; *provided*, that when required by Article XV or any other provision of this Agreement that establishes a percentage of the Members or of the Members holding any class or series of Shares required to take any action, the Chief Executive Officer, President or Secretary, or the Liquidator or their authorized officers or attorneys-in-fact, may exercise the power of attorney made in this Section 1.4 only after the necessary vote, consent, approval, agreement or other action of the Members or of the Members holding such class or series of Shares, as applicable.

Nothing contained in this Section 1.4 shall be construed as authorizing the Chief Executive Officer, President or Secretary, or the Liquidator, to amend, change or modify this Agreement except in accordance with Article XVII or as may be otherwise expressly provided for in this Agreement.

The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and, to the maximum extent permitted by law, not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Member and the transfer of all or any portion of such Member's Shares and shall extend to such Member's heirs, successors, assigns and personal representatives. Each such Member hereby agrees to be bound by any representation made by the Chief Executive Officer, President or Secretary, or the Liquidator or their authorized officers or attorneys-in-fact, acting in good faith pursuant to such power of attorney; and each such Member, to the maximum extent permitted by law, hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the Chief Executive Officer, President or Secretary, or the Liquidator or their authorized officers or attorneys-in-fact, taken in good faith under such power of attorney in accordance with this Section 1.4. Each Member shall execute and deliver to the Chief Executive Officer, President or Secretary, or the Liquidator, within 15 days after receipt of the request therefor, such further designation, powers of attorney and other instruments as any of such officers or the Liquidator determines to be necessary or appropriate to effectuate this Agreement and the purposes of the Company.

Section 1.5. Principal Place of Business; Registered Office; Registered Agent. The principal executive offices of the Company are at 53 Forest Avenue, Old Greenwich, CT 06870. The Board of Directors may change the principal executive offices of the Company to any other place within or without the State of Delaware. The address of the Company's registered office in the State of Delaware is 615 South DuPont Highway, in the City of Dover, County of Kent. The name of its registered agent for service of process in the State of Delaware at such address is National Corporate Research, Ltd. or any successor registered agent for service of process as shall be appointed by the Board of Directors in accordance with the Act. The Company may have such offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the Company may from time to time require.

Section 1.6. Term. The term of the Company commenced on the date the Certificate of Formation was filed in the Office of the Secretary of State of the State of Delaware in accordance with the Act and shall continue until the winding up of the Company is completed following a Dissolution Event, as provided in Article XVIII, and the Certificate of Formation is cancelled as provided in the Act.

Section 1.7. Filings.

(a) The Board of Directors shall take any and all other actions, as may be reasonably necessary, to perfect and maintain the status of the Company as a limited liability company or similar type of limited liability entity under the laws of the State of Delaware and under the laws of any other jurisdictions in which the Company engages in business, including causing any officers of the Company as an "authorized person" of the Company within the meaning of the Act to prepare, execute and file such amendments to the Certificate of Formation and such other certificates, documents, instruments and publications as may be permitted or required by law, including, without limitation, action to reflect:

(i) a change in the Company name; or

(ii) a correction of false or erroneous statements in the Certificate of Formation or any other certificate to accurately represent the information contained therein.

(b) Upon the dissolution and completion of the winding up of the Company in accordance with Article XVIII, the Board of Directors or the Liquidator shall cause to promptly be executed, delivered and filed a Certificate of Cancellation in accordance with the Act and the laws of any other jurisdiction in which the Board of Directors or the Liquidator deems such filing necessary or advisable.

Section 1.8. Title to Property. All Property owned by the Company shall be owned by the Company as an entity and no Member shall have any ownership interest in such Property in its individual name, and each Member's interest in the Company shall be personal property for all purposes. Title to any or all of the Company Property may be held in the name of the Company or one or more nominees, as the Board of Directors may determine.

Section 1.9. Payments of Individual Obligations. The Company's credit and assets shall be used solely for the benefit of the Company, and no asset of the Company shall be Sold or encumbered for, or in payment of, any individual obligation of any Member.

Section 1.10. Definitions. For all purposes of this Agreement (as defined herein), except as otherwise expressly provided or unless the context otherwise requires:

(i) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(ii) unless the context otherwise requires, any reference to an "Article," "Section" or an "Exhibit" refers to an Article, Section or an Exhibit, as the case may be, of this Agreement; and

(iii) the words "herein," "hereinafter," "hereof," "hereto" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision:

“**25% Limitation**” has the meaning set forth in Section 3.1(a)(i)(B).

“**Act**” means the Delaware Limited Liability Company Act, 6 Del. C. §§ 18-101 *et seq.*, as amended from time to time (or any corresponding provisions of succeeding law).

“**Adjusted Capital Account Deficit**” means, with respect to any Member, the deficit balance, if any, in such Member’s Capital Account as of the end of the relevant Allocation Year, after giving effect to the following adjustments:

(i) credit to such Capital Account any amounts which such Member is actually obligated or is deemed to be obligated to restore pursuant to the penultimate sentence in each of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and

(ii) debit to such Capital Account the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of “Adjusted Capital Account Deficit” is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

“**Affiliate**” means, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by or under common control with such Person or (ii) any officer, director, general partner, manager, or trustee of such Person. For purposes of this definition, the terms “**controlling**,” “**controlled by**” or “**under common control with**” shall mean, with respect to any Persons, the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, or the power to elect at least 50% of the directors, managers, general partners or Persons exercising similar authority with respect to such Person.

“**Agreement**” has the meaning set forth in the introductory paragraph hereof.

“**Allocation Year**” means (i) the period commencing on the Effective Date and ending on December 31, 2007, (ii) any subsequent twelve month period commencing on January 1 and ending on December 31, (iii) any portion of the period described in clause (i) or (ii) above for which the Company is required to allocate Profits, Losses and other items of Company income, gain, loss or deduction pursuant to Article IV or (iv) such other taxable year required by Section 706 of the Code or that is selected by the Manager that complies with Section 706 of the Code.

“**Applicable Listing Rules**” means the applicable rules, if any, of the principal National Securities Exchange on which the Shares are listed or quoted, as the case may be.

“**Associate**” has the meaning ascribed to such term in Rule 12b-2 of the rules promulgated under the Exchange Act.

“**Beneficial Ownership**” means ownership of Shares by a Person, whether the interest in the Shares is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “**Beneficial Owner**,” “**Beneficially Owns**” and “**Beneficially Owned**” shall have the correlative meanings.

“**Board**” or “**Board of Directors**” means the Board of Directors referred to in Article VI.

“**Business Combination**” means:

(i) any merger or consolidation of the Company or any Subsidiary thereof with (A) an Interested Member, or (B) any other Person (whether or not itself an Interested Member) that is, or after such merger or consolidation would be, an Affiliate or Associate of an Interested Member; or

(ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with, or proposed by or on behalf of, an Interested Member or an Affiliate or Associate of an Interested Member of any property or assets of the Company or any Subsidiary thereof having an aggregate Fair Market Value as of the date of the consummation of the transaction giving rise to the Business Combination of not less than 10% of the Net Investment Value as of such date; or

(iii) the issuance or transfer by the Company or any Subsidiary thereof (in one transaction or a series of transactions) of any securities of the Company or any Subsidiary thereof to, or proposed by or on behalf of, an Interested Member or an Affiliate or Associate of an Interested Member in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value as of the date of the consummation of the transaction giving rise to the Business Combination of not less than 10% of the Net Investment Value as of such date; or

(iv) any spin-off or split-up of any kind of the Company or any Subsidiary thereof, proposed by or on behalf of an Interested Member or any of its Affiliates or Associates; or

(v) any reclassification of the Shares or securities of a Subsidiary of the Company (including any reverse split of Shares or such securities) or recapitalization of the Company or such Subsidiary, or any merger or consolidation of the Company or such Subsidiary with any other Subsidiary thereof, or any other transaction (whether or not with or into or otherwise involving an Interested Member), that has the effect, directly or indirectly, of increasing the proportionate share of (A) Outstanding Shares or such securities or securities of such Subsidiary which are beneficially owned by an Interested Member or any of its Affiliates or Associates or (B) any securities of the Company or such Subsidiary that are convertible into or exchangeable for Shares or such securities of such Subsidiary, that are directly or indirectly owned by an Interested Member or any of its Affiliates or Associates; or

(vi) any agreement, contract or other arrangement providing for any one or more of the actions specified in clauses (i) through (v) above.

“**Business Day**” means any day other than a Saturday, a Sunday or a day on which banks in The City of New York are required, permitted or authorized, by applicable law or executive order, to be closed for regular banking business.

“**Capital Account**” means, with respect to any Member, the Capital Account established and maintained for such Member by the Company in accordance with the provisions of Regulations Section 1.704-1(b)(2)(iv) and, to the extent consistent with such regulation, the following provisions:

(i) to each Member's Capital Account there shall be credited (A) such Member's Capital Contributions and (B) such Member's distributive share of Profits and any items in the nature of income or gain which are specially allocated pursuant to Section 4.3 or 4.4;

(ii) to each Member's Capital Account there shall be debited (A) the amount of money and the Gross Asset Value of any Property distributed to such Member pursuant to any provision of this Agreement (net of any liabilities relating to such Property), and (B) such Member's distributive share of Losses and any items in the nature of expenses or losses which are specially allocated pursuant to Section 4.3 or 4.4;

(iii) in the event Shares are Sold in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the Sold Shares; and

(iv) in determining the amount of any liability for purposes of subparagraphs (i) and (ii) above, there shall be taken into account Section 752(c) of the Code and any other applicable provisions of the Code and the Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b)(2)(iv) and shall be interpreted and applied in a manner consistent with such Regulations. In the event the Manager shall determine that it is prudent to modify the manner in which the Capital Accounts or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Company or any Members) are computed in order to comply with such Regulations, the Manager may make such modification; *provided*, that it is not likely to have a material effect on the amounts distributed to any Person pursuant to Article XVIII upon the dissolution of the Company. The Manager also shall (i) make any adjustments that are necessary or appropriate to maintain equality among the Capital Accounts of the Members and the amount of capital reflected on the Company's balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(q), and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b). When the Company's property is revalued, the Capital Accounts of the Members shall be adjusted in accordance with Regulations Sections 1.704-1(b)(2)(iv)(f) and (g), which generally require such Capital Accounts to be adjusted to reflect the manner in which the unrealized gain or loss inherent in such property (that has not been reflected in the Capital Accounts previously) would be allocated among the Members pursuant to Section 4.2 if there were a taxable disposition of such property for its fair market value (as determined by the Manager, in its sole and absolute discretion, and taking into account Section 7701(g) of the Code) on the date of the revaluation.

"**Capital Contributions**" means, with respect to any Member, the amount of money and the initial Gross Asset Value of any Property (other than money) net of any liabilities relating to such Property contributed to the Company with respect to the Shares of the Company held or subscribed for by such Member.

"**Cash Available for Distribution**" means, for any period, the amount determined by the Board of Directors in its sole discretion.

"**Certificate**" means a certificate representing Shares substantially in the form attached hereto as Exhibit A.

"**Certificate of Cancellation**" means a certificate of cancellation of the Certificate of Formation filed in accordance with 6 Del. C. § 18-203.

"**Certificate of Formation**" means the certificate of formation of the Company filed with the Secretary of State of the State of Delaware pursuant to the Act on July 9, 2007, as originally executed and amended, modified, supplemented or restated from time to time.

"**Charitable Beneficiary**" means one or more beneficiaries of the Charitable Trust as determined pursuant to Section 3.2(f); *provided*, that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under one of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

"**Charitable Trust**" means any trust provided for in Section 3.2(a).

"**Chief Executive Officer**" means the Chief Executive Officer of the Company, including any interim Chief Executive Officer of the Company, with such powers and duties as are set forth in Section 7.4.

"**Chief Financial Officer**" means the Chief Financial Officer of the Company, including any interim Chief Financial Officer of the Company, with such powers and duties as are set forth in Section 7.7.

"**Chief Investment Officer**" means the Chief Investment Officer of the Company, including any interim Chief Investment Officer or Co-Chief Investment Officer of the Company, with such powers and duties as are set forth in Section 7.6.

"**Chief Operating Officer**" means the Chief Operating Officer of the Company, including any interim Chief Operating Officer of the Company, with such powers and duties as are set forth in Section 7.5.

"**Closing Price**" on any date shall mean the Fair Market Value for such Shares.

"**Code**" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section of the Code shall be deemed to include a reference to any corresponding provision of law in effect in the future.

"**Commission**" means the U.S. Securities and Exchange Commission or any successor thereto.

"**Common Shares**" means any Shares that are not Preferred Shares or LTIP Units.

"**Company**" means Ellington Financial LLC, the Delaware limited liability company formed pursuant to the Certificate of Formation, and continued pursuant to this Agreement.

"**Company Minimum Gain**" has the same meaning as the term "partnership minimum gain" in Regulations Sections 1.704-2(b)(2) and 1.704-2(d).

"**Constructive Ownership**" means ownership of Shares by a Person, whether the interest in the Shares is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms "**Constructive Owner**," "**Constructively Owns**" and "**Constructively Owned**" shall have the correlative meanings.

"**Continuing Director**" means (i) any Director of the Company who (A) is neither the Interested Member involved in the Business Combination as to which a determination of Continuing Directors is provided hereunder, nor an Affiliate, Associate, employee, agent or nominee of such Interested Member, or a relative of any of the foregoing, and (B) was a member of the Board of Directors prior to the time that such Interested Member became an Interested Member, or (ii) any successor of a Continuing Director described in clause (i) above who is recommended or elected to succeed a Continuing Director by the affirmative vote of a majority of Continuing Directors then on the Board of Directors.

"**Controlling Person**" means a Person who has discretionary authority or control with respect to the assets of the Company or who provided investment advice for a fee (direct or indirect) with respect to such assets, and any affiliate of such Person.

"**Debt**" means (i) any indebtedness for borrowed money or the deferred purchase price of property as evidenced by a note, bonds or other instruments, (ii) obligations as lessee under capital leases, (iii) obligations secured by any mortgage, pledge, security interest, encumbrance, lien or charge of any kind existing on any asset owned or held by the Company, whether or not the Company has assumed or become liable for the obligations secured thereby, (iv) any obligation under any interest rate swap agreement, (v) accounts payable, and (vi) obligations under direct or indirect guarantees of (including obligations, contingent or otherwise, to assure a creditor against loss in respect of) indebtedness or obligations of the kinds referred to in clauses (i), (ii), (iii), (iv) and (v) above; *provided*, that Debt shall not include obligations in respect of any accounts payable that are incurred in the ordinary course of the Company's business and are not delinquent or are being contested in good faith by appropriate proceedings.

"**DGCL**" means the Delaware General Corporation Law, 8 Del. C. §§ 101 *et seq.*, as amended from time to time (or any corresponding provisions of succeeding law).

"**Director**" means a member of the Board of Directors as referred to in Article VI.

"**Disinterested Director**" means a Director of the Company who is not and was not a party to the proceeding or matter in respect of which indemnification is sought by the claimant.

"**Disqualified Organization**" has the meaning set forth in Section 860E(e)(5) of the Code.

"**Dissolution Event**" has the meaning set forth in Section 18.1.

"**Distributable Amount**" has the meaning set forth in Section 5.2.

"**Effective Date**" means, with respect to (A) the ownership restrictions contained in Section 3.1(a)(i), August 17, 2007, being the date of the closing of the Company's initial offering of Common Shares, and (B) all other purposes, July 9, 2007, being the date of the filing of the Certificate of Formation.

"**ERISA**" means the Employee Retirement Income Security Act of 1974 and the regulations thereunder, as amended from time to time.

"**Excepted Holder**" means a Person for whom an Excepted Holder Limit is created by this Agreement or by the Board of Directors pursuant to Section 3.1(f).

"**Excepted Holder Limit**" means, provided that the affected Excepted Holder agrees to comply with the requirements established by this Agreement or by the Board of Directors pursuant to Section 3.1(f) and subject to adjustment pursuant to Section 3.1(g), the limit established for an Excepted Holder by this Agreement or by the Board of Directors pursuant to Section 3.1(f) , which limit may be expressed, in the discretion of the Board of Directors, as one or more percentages and/or number of Shares, and may apply to one or more classes of Shares, or to all classes of Shares in the aggregate.

"**Excess Inclusion Income**" has the meaning set forth in Section 860E(c) of the Code, and includes such income whether derived from a residual interest in a REMIC, or from a Taxable Mortgage Pool.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Fair Market Value**" means, as of any date:

(i) in the case of any equity securities, on any date, the last reported sale price for such equity securities, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such equity securities, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NYSE or, if such equity securities are not listed or admitted to trading on the NYSE, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal National Securities Exchange on which such equity securities are listed or admitted to trading or, if such equity securities are not listed or admitted to trading on any National Securities Exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market as reported by the principal automated quotation system that may then be in use or, if such equity securities are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such equity securities selected by the Board of Directors; or

(ii) in the event that no trading price is available for such equity securities or in the case of any other Property, the fair market value of such equity securities or such Property as of such date as determined in good faith by the Board of Directors.

"**First Amended and Restated Operating Agreement**" has the meaning set forth in the first paragraph of this Agreement.

"**Fiscal Quarter**" means the Company's fiscal quarter for purposes of its reporting obligations under the Exchange Act.

"**Fiscal Year**" means the Company's fiscal year for purposes of its reporting obligations under the Exchange Act.

“**Future Investments**” means contractual commitments to invest represented by definitive agreements.

“**GAAP**” means generally accepted accounting principles in effect in the United States, consistently applied.

“**Gross Asset Value**” means, with respect to any asset, the asset’s adjusted basis for U.S. federal income tax purposes, except as follows:

(i) the initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the Manager;

(ii) the Gross Asset Values of all Company assets may be adjusted by the Manager to equal their respective gross fair market values (taking Section 7701(g) of the Code into account), as determined by the Manager as of the following times: (A) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a *de minimis* Capital Contribution; (B) the distribution by the Company to a Member of more than a *de minimis* amount of Company Property as consideration for an interest in the Company; (C) the grant of an interest in the Company (other than a *de minimis* interest) as consideration for the provision of services to or for the benefit of the Company by an existing Member acting in a Member capacity or by a new Member acting in a Member capacity or in anticipation of being a Member (or any other adjustments as may be permitted or required by regulations promulgated under Section 704 of the Code); and (D) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) (other than as a result of a termination of the Company under Section 708(b)(1)(B) of the Code); *provided*, that an adjustment described in clauses (A), (B) and (C) of this subparagraph (ii) shall be made only if the Manager reasonably determines that such adjustment is necessary to reflect the relative economic interests of the Members in the Company;

(iii) the Gross Asset Value of any item of Company assets distributed to any Member shall be adjusted to equal the gross fair market value (taking Section 7701(g) of the Code into account) of such asset on the date of distribution, as determined by the Manager; and

(iv) the Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m) and subparagraph (vi) of the definition of “**Profits**” and “**Losses**”; *provided*, *however*, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (iv) to the extent that an adjustment pursuant to subparagraph (ii) is required in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (iv).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (ii) or (iv), such Gross Asset Value shall thereafter be adjusted by depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

“**Incentive Plans**” means, collectively, the Company’s Incentive Plan for Entities and Incentive Plan for Individuals, as may be amended from time to time.

“**Independent Director**” means a Director who (i) (a) is not an officer or employee of the Company, or an officer, Director or employee of any Subsidiary of the Company, (b) was not appointed as a Director pursuant to the terms of the Management Agreement, and (c) for so long as the Management Agreement is in effect, is not affiliated with the Manager or any of its Affiliates, and (ii) who satisfies the independence requirements under the Applicable Listing Rules as determined by the Board of Directors.

“**Interested Member**” means any Person (other than the Manager, the Company or any Subsidiary of the Company, any employee benefit plan maintained by the Company or any Subsidiary thereof or any trustee or fiduciary with respect to any such plan when acting in such capacity) that:

(i) is, or was at any time within the three-year period immediately prior to the date in question, the Owner of 15% or more of the then Outstanding Shares and who did not become the Owner of such amount of Shares pursuant to a transaction that was approved by the affirmative vote of a majority of the Board of Directors; or

(ii) is an assignee of, or has otherwise succeeded to, any Shares of which an Interested Member was the Owner at any time within the three-year period immediately prior to the date in question, if such assignment or succession occurred in the course of a transaction, or series of transactions, not involving a public offering within the meaning of the Securities Act.

“**Investment Company Act**” has the meaning set forth in Section 1.3.

“**Liquidation Period**” has the meaning set forth in Section 18.7.

“**Liquidator**” means a Person appointed by the Board of Directors to oversee the winding up of the Company, or a liquidating trustee.

“**Losses**” has the meaning set forth in the definition of “**Profits**” and “**Losses**” below.

“**LTIP Unit**” means a Share that is designated as an LTIP Unit and granted pursuant to one or more of the Incentive Plans, which shall have the rights, preferences and other privileges designated in Section 4.9 hereof. Unless otherwise determined by the Board of Directors or as expressly provided in the applicable award agreement governing an award of an LTIP Unit, LTIP Units shall not have any voting rights.

“**LTIP Unitholder**” means a holder of LTIP Units.

“**Management Agreement**” means, for the period from and after July 1, 2009, the Amended and Restated Management Agreement, dated as of July 1, 2009, as may be amended from time to time, entered into by and between the Company and the Manager, and, for the period prior to July 1, 2009, the Management Agreement, dated as of August 17, 2007, as amended by Amendment No. 1 to Management Agreement dated as of May 8, 2009, in each case by and between the Company and the Manager.

“**Manager**” has the meaning set forth in the introductory paragraph hereof.

“**Market Price**” means, with respect to any class or series of outstanding Shares, the Closing Price for such Shares on such date.

“**Market Value**” means, as of any date, the *product* of (a) the average number of Shares issued and Outstanding, other than those Shares held in the treasury of the Company, during the last fifteen Business Days of the most recently completed Fiscal Quarter as of such date *multiplied* by (b) the volume weighted average trading price per Share as determined by reference to the relevant securities exchange identified in clause (i) of the definition of “**Fair Market Value**,” over such fifteen Business Days.

“**Member**” means, as of any date, any holder of Shares, as of such date, including LTIP Unitholders. For purposes of Article IX hereto, Member shall not include LTIP Unitholders other than with respect to Sections 9.1, 9.17, 9.18 and 9.19.

“**Member Loan**” means a loan from the Company to the Member on the day the Company pays over the excess of the Withheld Amount over the Distributable Amount to a taxing authority.

“**Member Nonrecourse Debt**” has the same meaning as the term “partner nonrecourse debt” in Regulations Section 1.704-2(b)(4).

“**Member Nonrecourse Debt Minimum Gain**” means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

“**Member Nonrecourse Deductions**” has the same meaning as the term “partner nonrecourse deductions” in Regulations Sections 1.704-2(i)(1) and 1.704-2(i)(2).

“**National Securities Exchange**” means an exchange registered with the Commission under Section 6(a) of the Exchange Act.

“**Net Investment Value**” means, as of any date, the *sum* of:

(i) the Market Value as of such date; *plus*

(ii) the amount of any borrowings (other than intercompany borrowings) of the Company and its Subsidiaries (but not including borrowings on behalf of any Subsidiary of such Subsidiaries) as of such date; *plus*

(iii) the value of Future Investments of the Company and/or any of its Subsidiaries other than cash or cash equivalents, as calculated by the Manager and approved by a majority of the Continuing Directors as of such date; provided, that such Future Investments have not been outstanding for more than two consecutive full Fiscal Quarters as of such date; *less*

(iv) the aggregate amount held by the Company and its Subsidiaries in cash or cash equivalents (but not including cash or cash equivalents held specifically for the benefit of any Subsidiary of such Subsidiaries) as of such date.

“**Nonrecourse Deductions**” has the meaning set forth in Regulations Section 1.704-2(b)(1).

“**Nonrecourse Liability**” has the meaning set forth in Regulations Section 1.704-2(b)(3).

“**NYSE**” means the New York Stock Exchange or any successor thereto.

“Offering Memorandum” means the offering memorandum, dated August 10, 2007, relating to the Company’s initial private offering of its common shares.

“**Original Agreement**” has the meaning set forth in Section 1.1.

“**Outstanding**” means, as of any date, with respect to any security theretofore issued by the Company, except:

(i) such securities as represented by certificates or electronic positions evidencing such securities that have been canceled or delivered for cancellation; and

(ii) such security as represented by certificates or electronic positions that have been exchanged for or in lieu of which other securities have been executed and delivered pursuant to Section 2.6.

“**Owner**” has the meaning ascribed to the term beneficial owner in Rule 13d-3 of the Rules and Regulations promulgated under the Exchange Act.

“**Percentage Interest**” means, with respect to any Member as of any date, the ratio (expressed as a percentage) of the number of Common Shares and LTIP Units held by such Member on such date relative to the aggregate number of Common Shares and LTIP Units then Outstanding as of such date.

“**Person**” shall mean an individual, limited liability company, partnership (whether general or limited), estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association (including any group, organization, co-tenancy, plan, board, council or committee), private foundation within the meaning of Section 509(a) of the Code, joint stock company, corporation, government (including a county, state, country or any other governmental subdivision, agency or instrumentality), custodian, nominee or any other individual or entity (or series thereof) in its own or any representative capacity, in each case, whether domestic or foreign, and, solely for purposes of Article III, also includes a “group” as that term is used for purposes of Section 13(d)(3) of the Exchange Act and a group to which an Excepted Holder Limit applies.

“**Preferred Shares**” means a class of Shares that entitles the Record Holders thereof to a preference or priority over the Record Holders of any other class of Shares in (i) the right to shares Profits or Losses or items thereof, (ii) the right to share in Company distributions, and/or (iii) rights upon dissolution or liquidation of the Company.

“**Profits**” and “**Losses**” mean, for each Allocation Year, an amount equal to the Company’s taxable income or loss for such Allocation Year, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments (without duplication):

(i) any income of the Company that is exempt from U.S. federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition of “**Profits**” and “**Losses**” shall be added to such taxable income or loss;

(ii) any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) of the Code expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i) and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "**Profits**" and "**Losses**" shall be subtracted from such taxable income or loss;

(iii) in the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (ii) or (iii) of the definition of "**Gross Asset Value**," the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the Gross Asset Value of the asset) or an item of loss (if the adjustment decreases the Gross Asset Value of the asset) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses;

(iv) gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for U.S. federal income tax purposes (or would be recognized for U.S. federal income tax purposes if the adjusted tax basis differed from the amount realized in connection with such disposition) shall be computed by reference to the Gross Asset Value of the Property disposed of, notwithstanding that the adjusted tax basis of such Property differs from its Gross Asset Value;

(v) to the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) of the Code is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses; and

(vi) notwithstanding any other provision of this definition, any items which are specially allocated pursuant to Section 4.3 or 4.4 shall not be taken into account in computing Profits or Losses. The amounts of the items of Company income, gain, loss or deduction available to be specially allocated pursuant to Sections 4.3 and 4.4 shall be determined by applying rules analogous to those set forth in subparagraphs (i) through (v) above.

"**Prohibited Owner**" means, with respect to any purported Transfer (or other event), any Person who, but for the provisions of Section 3.1(a), would Beneficially Own or Constructively Own Shares in violation of the provisions of Section 3.1(a)(i), and if appropriate in the context, shall also mean any Person who would have been the Record Holder of the Shares that the Prohibited Owner would have owned.

"**Property**" means all real and personal property acquired by the Company, including cash, and any improvements thereto, and shall include both tangible and intangible property.

"**Record Date**" means the date established by the Board of Directors for determining (a) the identity of the Record Holders entitled to notice of, or to vote at, any meeting of Members or entitled to exercise rights in respect of any lawful action of Members or (b) the identity of Record Holders entitled to receive any report or distribution or to participate in any offer.

"**Record Holder**" means (a) with respect to any Common Shares, the Person in whose name such Shares are registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, and (b) with respect to any Shares of any other class, the Person in whose name such Shares are registered on the books that the Company has caused to be kept as of the opening of business on such Business Day.

“**Register**” has the meaning set forth in Section 2.5(a).

“**Regulations**” means the U.S. Treasury Department regulations, including temporary regulations, promulgated under the Code, as such regulations are amended from time to time (including corresponding provisions of succeeding regulations).

“**Regulatory Allocations**” has the meaning set forth in Section 4.4.

“**REIT**” means a real estate investment trust within the meaning of Section 856 of the Code.

“**REIT Entity**” has the meaning set forth in Section 3.1(d).

“**REMIC**” has the meaning set forth in Section 860D of the Code.

“**Repurchase Date**” has the meaning set forth in Section 2.3.

“**Rules and Regulations**” means the rules and regulations promulgated under the Exchange Act or the Securities Act.

“**Sale**” means, any voluntary or involuntary sale, transfer, pledge or hypothecation or other disposition. The terms “**Sell**” or “**Sold**” shall have the correlative meanings.

“**Secretary**” means the Secretary of the Company, with such powers and duties as set forth in Section 7.11.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**SEC”** means the United States Securities and Exchange Commission.

“**Share Designation**” has the meaning set forth in Section 2.1(e).

“**Share Ownership Limit**” means not more than 9.8% (in value or in number of Shares, whichever is more restrictive) of the aggregate of the outstanding Shares. The number and value of the outstanding Shares shall be determined by the Board of Directors in good faith, which determination shall be conclusive for all purposes hereof.

“**Shares**” means a share issued by the Company that evidences the ownership interest of a Member in the Company and includes any and all benefits to which such Member is entitled as provided in this Agreement, together with all obligations of such Member to comply with the terms and provisions of this Agreement. Shares may be Common Shares, Preferred Shares or LTIP Units, and may be issued in different classes or series.

“**Special Registration Meeting**” has the meaning set forth in Section 9.3(c).

“**Subsidiary**” means, with respect to any Person, any corporation, company, joint venture, limited liability company, association or other Person in which such Person owns, directly or indirectly, more than 50% of the Outstanding equity securities or interests, the holders of which are generally entitled to vote for the election of the Board of Directors or other governing body of such Person.

“**Tax Matters Member**” has the meaning set forth in Section 16.5.

“**Taxable Mortgage Pool**” has the meaning set forth in Section 7701(i)(2) of the Code.

“**Transfer**” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Shares or the right to vote or receive distributions on Shares, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable for Shares or any interest in Shares or any exercise of any such conversion or exchange right and (c) Transfers of interests in other entities that result in changes in Beneficial Ownership or Constructive Ownership of Shares, in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms “**Transferring**” and “**Transferred**” shall have the correlative meanings.

“**Transfer Agent**” means, with respect to the Shares, American Stock Transfer & Trust Company, or any successor thereto.

“**Trigger Date**” has the meaning set forth in Section 9.3(c).

“**Trustee**” means the Person unaffiliated with the Company and a Prohibited Owner, that is appointed by the Company to serve as trustee of the Charitable Trust.

“**Withheld Amount**” means any amount required to be withheld by the Company to pay over to any taxing authority as a result of any allocation or distribution to a Member.

Section 1.11. Partnership Qualification. The Board of Directors shall use its reasonable best efforts to take such actions as are necessary or appropriate to preserve the status of the Company as a partnership for U.S. federal (and applicable state) income tax purposes. If, however, the Board of Directors determines that it is no longer in the best interests of the Company to continue to qualify as a partnership for U.S. federal (and applicable state) income tax purposes, the Board of Directors may elect to treat the Company as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes. In the event that the Board of Directors determines the Company should seek relief pursuant to Section 7704(e) of the Code to preserve the status of the Company as a partnership for U.S. federal (and applicable state) income tax purposes, the Company and each Member shall agree to adjustments required by the tax authorities, and the Company shall pay such amounts as required by the tax authorities, to preserve the status of the Company as a partnership for U.S. federal (and applicable state) income tax purposes.

ARTICLE II

CLASSES AND ISSUANCE OF SHARES

Section 2.1. Authorization to Issue Shares.

(a) The Company, and the Board of Directors on behalf of the Company, may issue Shares (including LTIP Units) and options, rights, warrants and appreciation rights relating to Shares, for any Company purpose at any time and from time to time to such Persons for such consideration (which may be cash, property, services or any other lawful consideration) or for no consideration and on such terms and conditions as the Board of Directors shall determine, all without the approval of any Member or any other Person. Each Share shall have the rights and be governed by the provisions set forth in this Agreement (including any Share Designation). Except to the extent expressly provided in this Agreement (including any Share Designation), no Shares shall entitle any Member to any preemptive, preferential or similar rights with respect to the issuance of Shares.

(b) The Company is authorized to issue up to 100,000,000 Common Shares, 100,000,000 Preferred Shares and 10,000,000 LTIP Units. All Shares issued pursuant to, and in accordance with the requirements of, this Article II shall be validly issued, fully paid and nonassessable Shares in the Company.

(c) The aggregate number of Shares that are authorized (or the authorized number of any class of Shares) may be increased from time to time by an amendment to this Agreement upon the adoption of a resolution by the Board of Directors declaring such amendment to be advisable and the approval of such amendment by the affirmative vote of the holders of at least a majority of the Shares then Outstanding present in person or represented by proxy at a meeting of the Members.

(d) Except as may otherwise be specified in a Share Designation, each Share (other than an LTIP Unit) shall entitle the holder thereof to one vote on any and all matters submitted for the consent or approval of Members generally. The Board of Directors may reclassify any unissued Common Shares from time to time in one or more classes or series. The Board of Directors may classify any unissued Preferred Shares and reclassify any previously classified but unissued Preferred Shares of any series from time to time, in one or more classes or series. The Board of Directors may reclassify any unissued LTIP Units from time to time in one or more classes or series.

(e) In addition to the Common Shares and LTIP Units, and without receipt of the prior approval of any Members, additional Shares may be issued by the Company in one or more classes, with such designations, preferences, rights, powers and duties (which may be junior to, equivalent to, or senior or superior to, any existing classes of Shares), as shall be fixed by the Board of Directors and reflected in a written action or actions approved by the Board of Directors in compliance with Section 6.2 of this Agreement (each, a "Share Designation"), including, without limitation (i) the right to share Company profits and losses or items thereof; (ii) the right to share in Company distributions, the dates distributions will be payable and whether distributions with respect to such series will be cumulative or non-cumulative; (iii) rights upon dissolution and liquidation of the Company; (iv) whether, and the terms and conditions upon which, the Company may redeem the Shares; (v) whether such Shares are issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange; (vi) the terms and conditions upon which each Share will be issued, evidenced by certificates and assigned or transferred; (vii) the method for determining the Percentage Interest as to such Shares; (viii) the terms and amounts of any sinking fund provided for the purchase or redemption of Shares of the series; (ix) whether there will be restrictions on the issuance of Shares of the same series or any other class or series; and (x) the right, if any, of the holder of each such Share to vote on Company matters, including matters relating to the relative rights, preferences and privileges of such Share. A Share Designation (or any resolution of the Board of Directors amending any Share Designation) shall be effective when a duly executed original of the same is delivered to the Secretary of the Company for inclusion among the permanent records of the Company, and shall be annexed to, and constitute part of, this Agreement. Unless otherwise provided in the applicable Share Designation, the Board of Directors may at any time increase or decrease the amount of Preferred Shares of any series, but not below the number of Preferred Shares of such series then outstanding.

(f) The Board of Directors may, without the consent or approval of any Members, amend this Agreement and make any filings under the Act or otherwise to the extent the Board of Directors determines that it is necessary or desirable in order to effectuate any issuance of Shares pursuant to this Article II. The terms of any Share Designation adopted hereunder may amend the provisions of this Agreement or any other Share Designation.

(g) The Board of Directors may from time to time issue LTIP Units to Persons who provide services to the Company pursuant to the terms of the Incentive Plans, for such consideration as the Board of Directors may determine to be appropriate, and admit such Persons as Members.

Section 2.2. Certificates. Upon the Company's issuance of Shares to any Person, the Company shall issue one or more Certificates in the name of such Person evidencing the number of such Shares being so issued. Certificates shall be executed on behalf of the Company by the Chairman of the Board, or the President, or the Secretary, or any Vice President, or any Assistant Secretary or the Treasurer or any Assistant Treasurer. No Certificate representing Shares shall be valid for any purpose until it has been countersigned by the Transfer Agent; *provided*, *however*, that if the Board of Directors elects to issue Shares in global form, the Certificates representing Shares shall be valid upon receipt of a certificate from the Transfer Agent certifying that the Shares have been duly registered in accordance with the directions of the Company. Any or all of the signatures required on the Certificate may be by facsimile. If any Officer or Transfer Agent who shall have signed or whose facsimile signature shall have been placed upon any such Certificate shall have ceased to be such Officer or Transfer Agent before such Certificate is issued by the Company, such Certificate may nevertheless be issued by the Company with the same effect as if such Person were such Officer or Transfer Agent at the date of issue. Certificates for each class of Shares shall be consecutively numbered and shall be entered on the books and records of the Company as they are issued and shall exhibit the holder's name and number and type of Shares.

Section 2.3. Repurchase of Shares by the Company.

(a) The Board of Directors shall have authority to cause the Company to conduct a capital reduction, including the repurchase of any number of issued and Outstanding Shares; *provided*, *however*, that the Company shall not purchase or redeem any Shares for cash or other property if any such purchase or redemption would be inconsistent with the requirements of Section 18-607 or Section 18-804 of the Act.

(b) In the event the Board of Directors determines that the Company shall make an offer to repurchase any number of issued and Outstanding Shares, the Board of Directors shall deliver to the Transfer Agent notice of such offer to repurchase indicating the repurchase price and the date of repurchase (the "Repurchase Date") and shall cause the Transfer Agent to mail a copy of such notice to the Members at least 30 days prior to the Repurchase Date. Any Shares tendered and repurchased by the Company, in accordance with this Section 2.3, shall be deemed to be authorized and issued, but not Outstanding and, subject to Section 2.1, may subsequently be Sold for due consideration.

Section 2.4. Record Holders. The Company shall be entitled to recognize the Record Holder as the owner of a Share and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Share on the part of any other Person, regardless of whether the Company shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which such Shares are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Shares, as between the Company on the one hand, and such other Persons on the other, such representative Person shall be the Record Holder of such Shares.

Section 2.5. Registration and Sale of Shares.

(a) The Company shall keep or cause to be kept on behalf of the Company a register that will provide for the registration and transfer of Shares (the "Register"). The Transfer Agent is hereby appointed registrar and transfer agent for the purpose of registering the Shares and transfers of the Shares as herein provided. Upon surrender of a Certificate for registration of transfer of any Shares evidenced by a Certificate, the appropriate Officers of the Company shall execute and deliver, and in the case of Common Shares, the Transfer Agent shall countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the Record Holder's instructions, one or more new Certificates evidencing the same aggregate number and type of Shares as were evidenced by the Certificate so surrendered, provided that a transferor shall provide the address and facsimile number for each such transferee as contemplated by Section 19.1.

(b) The Company shall not recognize any transfer of Shares until the Certificates evidencing such Shares are surrendered for registration of transfer. No charge shall be imposed by the Company for such transfer; *provided*, that as a condition to the issuance of any new Certificate, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

(c) By acceptance of the transfer of any Share, each transferee of a Share (including any nominee holder or an agent or representative acquiring such Shares for the account of another Person) (i) shall automatically be admitted to the Company as a Member with respect to the Shares so transferred to such transferee upon the recording of such transfer and admission in the books and records of the Company, (ii) agrees to be bound by the terms of this Agreement, (iii) shall become the Record Holder of the Shares so transferred, (iv) grants powers of attorney to the officers of the Company and any Liquidator of the Company and their authorized officers and attorneys-in-fact, as specified herein, and (v) makes the consents and waivers contained in this Agreement. The transfer of any Shares and the admission of any new Member shall not constitute an amendment to this Agreement.

(d) Nothing contained in this Agreement shall preclude the settlement of any transactions involving Shares entered into through the facilities of any National Securities Exchange on which such Shares are listed for trading.

Section 2.6. Mutilated, Lost, Destroyed or Stolen Certificates. Each Record Holder of Shares shall promptly notify the Company of any mutilation, loss or destruction of any Certificate of which such holder is the record holder. The Company may, in its discretion, cause the Transfer Agent to issue a new Certificate in place of any Certificate theretofore issued by it and alleged to have been mutilated, lost, stolen or destroyed, upon surrender of the mutilated Certificate or, in the case of loss, theft or destruction of the Certificate, upon satisfactory proof of such loss, theft or destruction, and the Board of Directors may, in its discretion, require the Record Holder of the Shares evidenced by the lost, stolen or destroyed Certificate, or its, his or her legal representative, to give the Transfer Agent a bond sufficient to indemnify the Transfer Agent against any claim made against it on account of the alleged loss, theft or destruction of any such Certificate or the issuance of such new Certificate.

ARTICLE III

RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 3.1. Ownership of Shares.

(a) Ownership Limitations. During the period commencing on the Effective Date:

(i) Basic Restrictions.

(A) (1) No Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own Shares in excess of the Share Ownership Limit and (2) no Excepted Holder shall Beneficially Own or Constructively Own Shares in excess of the Excepted Holder Limit for such Excepted Holder.

(B) Unless otherwise determined by the Board of Directors, with respect to each class of our Shares, until such time as such Shares are "publicly-offered securities" or another exception applies under ERISA, participation in any class of our Shares by "benefit plan investors" (as defined under ERISA) will be limited to less than 25% in the aggregate (the "25% Limitation"), disregarding for such purposes any Shares held by persons or their affiliates who have discretionary authority or control over our assets or who provide investment advice for a fee with respect to our assets. Any transfer of Shares in violation of that restriction will be void *ab initio*. In addition, if ownership of any class of securities by "benefit plan investors" exceeds the 25% Limitation, the securities owned by all "benefit plan investors" will be transferred, pro rata, to a trust for the exclusive benefit of one or more charitable beneficiaries, pursuant to the procedures described in the next paragraph, to the extent necessary to reduce the ownership of our Shares by "benefit plan investors" below the 25% Limitation.

(ii) Transfer in Trust/Transfer Void *Ab Initio*.

Subject to Section 3.3, if any Transfer of Shares (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other National Securities Exchange or automated inter-dealer quotation system) which, if effective, would result in any Person Beneficially Owning or Constructively Owning Shares in violation of Section 3.1(a)(i)(A) or (B),

(A) then that number of Shares the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 3.1(a)(i)(A) or (B) (rounded up to the nearest whole share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in Section 3.2, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such Shares, or

(B) if the transfer to the Charitable Trust described in clause (A) of this sentence would not be effective for any reason to prevent the violation of Section 3.1(a)(i)(A) or (B), then, to the fullest extent permitted by law, the Transfer of that number of Shares that otherwise would cause any Person to violate Section 3.1(a)(i)(A) or (B) shall be void *ab initio* and the intended transferee shall acquire no rights in such Shares.

(C) In determining which Shares are to be transferred to the Charitable Trust in accordance with this Section 3.1(a)(ii) and Section 3.2, Shares shall be so transferred to a Charitable Trust in such manner that minimizes the aggregate value of the Shares that are transferred to the Charitable Trust (except to the extent that the Board of Directors determines that the Shares transferred to the Charitable Trust shall be those directly or indirectly held or Beneficially Owned or Constructively Owned by a Person or Persons that caused or contributed to the application of this Section 3.1(a)(ii)), and to the extent not inconsistent therewith, on a pro rata basis.

(D) To the extent that, upon a transfer of Shares pursuant to this Section 3.1(a)(ii), a violation of any provision of Section 3.1(a)(i) would nonetheless be continuing, the Shares shall be transferred to that number of Charitable Trusts, each having a distinct Trustee and a Charitable Beneficiary or Beneficiaries that are distinct from those of each other Charitable Trust, such that there is no violation of any provision of Section 3.1(a)(i).

(b) Remedies for Breach. If the Board of Directors of the Company or any duly authorized committee thereof or other designees if permitted by the Act and this Agreement shall at any time determine in good faith that a Transfer or other event has taken place that results in a violation of Section 3.1(a) or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any Shares in violation of Section 3.1(a) (whether or not such violation is intended), the Board of Directors or a committee thereof or other designees if permitted by the Act and this Agreement shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Company to redeem Shares, refusing to give effect to such Transfer on the books of the Company or instituting proceedings to enjoin such Transfer or other event; *provided*, *however*, that any Transfers or attempted Transfers or other events in violation of Section 3.1(a) shall automatically result in the transfer to the Charitable Trust described above, or, where applicable, such Transfer (or other event) shall be, to the fullest extent permitted by law, void *ab initio* as provided above irrespective of any action (or non-action) by the Board of Directors or a committee thereof.

(c) Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of Shares that will or may violate Section 3.1(a)(i) or any Person who would have owned Shares that resulted in a Transfer to the Charitable Trust pursuant to the provisions of Section 3.1(a)(ii) shall immediately give written notice to the Company of such event, or in the case of such a proposed or attempted transaction, give at least fifteen days prior written notice, and shall provide to the Company such other information as the Company may request in order to determine the effect, if any, of such Transfer on the Company and the Company's Subsidiaries.

(d) Remedies Not Limited. Nothing contained in this Section 3.1 shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to, subject to Section 1.11, protect the Company and the interests of its Members in preserving the status as a REIT for U.S. federal income tax purposes of any entity in which the Company owns an equity interest, directly or indirectly, that has elected, or intends to elect, to be a REIT (a "REIT Entity").

(e) Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article III, including any definition contained in Section 1.10 relating to this Article III, the Board of Directors shall have the power to determine the application of the provisions of this Article III with respect to any situation based on the facts known to it.

(f) Exceptions.

(i) The Board of Directors, in its sole discretion, may exempt a Person from the Share Ownership Limit and may establish or increase an Excepted Holder Limit for such Person if the Board of Directors obtains such representations, covenants and undertakings from such Person as the Board of Directors may deem appropriate in order to conclude that granting the exemption and/or establishing or increasing the Excepted Holder Limit, as the case may be, will not adversely affect the qualification as a REIT of any REIT Entity. In addition, prior to granting any exception pursuant to this Section 3.1(f)(i), the Board of Directors may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the status as a REIT of any REIT Entity. Notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(ii) Subject to Section 3.1(a)(i) an underwriter or placement agent that participates in a public offering or a private placement of Shares (or securities convertible into or exchangeable for Shares) may Beneficially Own or Constructively Own Shares (or securities convertible into or exchangeable for Shares) in excess of the Share Ownership Limit, but only to the extent necessary to facilitate such public offering or private placement and provided that the restrictions contained in Section 3.1(a)(i) will not be violated following the distribution by such underwriter or placement agent of such Shares.

(g) Change in Share Ownership Limit and Excepted Holder Limit. The Board of Directors may from time to time increase or decrease the Share Ownership Limit; *provided*, *however*, that a decreased Share Ownership Limit will not be effective for any Person whose percentage ownership of Shares is in excess of such decreased Share Ownership Limit until such time as such Person's percentage of Shares equals or falls below the decreased Share Ownership Limit, but until such time as such Person's percentage of Shares falls below such decreased Share Ownership Limit, any further acquisition of Shares will be in violation of the Share Ownership Limit.

(h) Legend. Each Certificate shall bear substantially the following legend. In addition, each Certificate shall bear, to the extent applicable, such legend or legends relating to transfer restrictions under the Securities Act or such other legends relating to any transfer restrictions as the Board of Directors shall determine applicable from time to time:

"The Shares represented by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer. Subject to certain further restrictions and except as expressly provided in the Company's Operating Agreement (i) each original purchaser of our securities will represent, warrant and agree (A) either (x) that no part of the assets to be used to purchase or hold the securities constitutes or will constitute the assets of any "employee benefit plan" (as defined in Section 3(3) of ERISA) that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), a plan described in Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), that is subject to Section 4975 of the Code, an entity whose underlying assets include "plan assets" by reason of such a plan's investment in such entity (including, but not limited to, an insurance company general account), or any entity that otherwise constitutes a "benefit plan investor" within the meaning of ERISA, or (y) that it is a "benefit plan investor" (within the meaning of Section 3(42) of ERISA) and its purchase and holding of our securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, and (B) it will not transfer or assign its interest in our securities to any person (including any change in the source of funds that is a result of a transfer to an affiliate or a different account) unless such transferee first delivers to such purchaser a letter containing the representation and warranty that such transferee is not, and is not acting on behalf of, a "benefit plan investor" (as defined under ERISA) or controlling person (as described under ERISA). The original purchaser shall also represent and warrant that such transferee will obtain from its transferee certain ERISA representations and covenants and (ii) each original purchaser shall also represent, warrant and agree that such purchaser will not own more than 9.8% (in value or number of Shares, whichever is more restrictive) of the aggregate of outstanding shares.

With respect to each class of our securities, until such time as it is "publicly-offered" or another exception applies under ERISA, participation in any class of our securities by benefit plan investors will be limited to less than 25% in the aggregate (the "25% Limitation"), disregarding for such purposes any securities held by persons or their affiliates who have discretionary authority or control over our assets or who provide investment advice for a fee with respect to our assets. Any transfer of securities in violation of that restriction will be void *ab initio*. In addition, if ownership of any class of securities by "benefit plan investors" exceeds the 25% Limitation, the securities owned by all "benefit plan investors" will be transferred, pro rata, to a trust for the exclusive benefit of one or more charitable beneficiaries to the extent necessary to reduce the ownership of our securities by "benefit plan investors" below the 25% Limitation. If any of the restrictions on transfer or ownership in (ii) above are violated, the Shares represented hereby will be automatically transferred to a Trustee of a Charitable Trust for the benefit of one or more Charitable Beneficiaries, and such Person shall acquire no rights in such Shares. If, notwithstanding the foregoing sentence, a Transfer to the Charitable Trust is not effective for any reason to prevent a violation of the restrictions on Transfer and ownership in (ii) above, then the attempted Transfer of that number of Shares that otherwise would cause any Person to violate such restrictions shall be void *ab initio* and the intended transferee shall acquire no rights in such Shares. In addition, the Company may redeem Shares upon the terms and conditions specified by the Board of Directors in its sole discretion if the Board of Directors determines that ownership or a Transfer or other event may violate the restrictions described above.

Instead of the foregoing legend, the Certificate may state that the Shares are subject to certain restrictions on transferability under this Agreement and that the Company will furnish a copy of this Agreement to a Member on request and without charge.

Section 3.2. Transfer of Shares in Trust.

(a) Ownership in Trust. Upon any purported Transfer or other event described in Section 3.1(a)(ii) that would result in a transfer of Shares to a Charitable Trust, such Shares shall be deemed to have been transferred to the Trustee as trustee for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Charitable Trust pursuant to Section 3.1(a)(ii). The Trustee shall be appointed by the Company and shall be a Person unaffiliated with the Company and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Company as provided in Section 3.2(f).

(b) Status of Shares Held by the Trustee. Shares held by the Trustee shall continue to be issued and outstanding Shares of the Company. The Prohibited Owner shall have no rights in the Shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any Shares held in trust by the Trustee, shall have no rights to distributions with respect to the Shares held in the Charitable Trust and shall not possess any rights to vote or other rights attributable to the Shares held in the Charitable Trust.

(c) Dividend and Voting Rights. The Trustee shall have all voting rights and rights to distributions with respect to Shares held in the Charitable Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any distribution paid to a Prohibited Owner prior to the discovery by the Company that the Shares have been transferred to the Trustee shall be paid with respect to such Shares by the Prohibited Owner to the Trustee upon demand and any distribution authorized but unpaid shall be paid when due to the Trustee. Any distributions so paid to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights (whether arising hereunder or under the Act) with respect to Shares held in the Charitable Trust and, subject to applicable law, effective as of the date that the Shares have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (1) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Company that the Shares have been transferred to the Trustee and (2) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; *provided*, *however*, that if the Company has already taken irreversible limited liability company action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article III, until the Company has received notification that Shares have been transferred into a Charitable Trust, the Company shall be entitled to rely on its Share transfer and other Member records, including its Register for purposes of preparing lists of Members entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of Members.

(d) Sale of Shares by Trustee. Within twenty days of receiving notice from the Company that Shares have been transferred to the Charitable Trust, the Trustee of the Charitable Trust shall sell the Shares held in the Charitable Trust to a Person, designated by the Trustee, whose ownership of the Shares will not violate the ownership limitations set forth in Section 3.1(a)(i). Upon such sale, the interest of the Charitable Beneficiary in the Shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 3.2(d). The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the Shares or, if the Prohibited Owner did not give value for the Shares in connection with the event causing the Shares to be held in the Charitable Trust (*e.g.*, in the case of a gift, devise or other such transaction), the Market Price of the Shares on the day of the event causing the Shares to be held in the Charitable Trust and (2) the price per Share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the Shares held in the Charitable Trust. The Trustee may reduce the amount payable to the Prohibited Owner by the amount of distributions paid to the Prohibited Owner and owed by the Prohibited Owner to the Trustee pursuant to Section 3.2(c). Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Company that Shares have been transferred to the Trustee, such Shares are sold by a Prohibited Owner, then (i) such Shares shall be deemed to have been sold on behalf of the Charitable Trust and (ii) to the extent that the Prohibited Owner received an amount for such Shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 3.2(d), such excess shall be paid to the Trustee upon demand.

(e) Purchase Right in Shares Transferred to the Trustee. Shares transferred to the Trustee shall be deemed to have been offered for sale to the Company, or its designee, at a price per Share equal to the lesser of (i) the price per Share in the transaction that resulted in such transfer to the Charitable Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Company, or its designee, accepts such offer. The Company may reduce the amount payable to the Prohibited Owner by the amount of distributions paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 3.2(c). The Company may pay the amount of such reduction to the Trustee for the benefit of the Charitable Beneficiary. The Company shall have the right to accept such offer until the Trustee has sold the Shares held in the Charitable Trust pursuant to Section 3.2(d). Upon such a sale to the Company, the interest of the Charitable Beneficiary in the Shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and any distributions held by the Trustee shall be paid to the Charitable Beneficiary.

(f) Designation of Charitable Beneficiaries. By written notice to the Trustee, the Company shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Charitable Trust such that (i) the Shares held in the Charitable Trust would not violate the restrictions set forth in Section 3.1(a)(i) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 50l(c)(3) of the Code and contributions to each such organization must be eligible for deduction under one of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Section 3.3. NYSE Transactions. Nothing in this Article III shall preclude the settlement of any transaction entered into through the facilities of the NYSE or any other National Securities Exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article III and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article III.

Section 3.4. Enforcement. The Company is authorized specifically to seek equitable relief, including injunctive relief to enforce the provisions of this Article III.

Section 3.5. Non-Waiver. No delay or failure on the part of the Company or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Company or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

ARTICLE IV

ALLOCATIONS

Section 4.1. General Application. The rules set forth below in this Article IV shall apply for the purposes of determining each Member's allocable share of the items of income, gain, loss and expense of the Company comprising Profits or Losses of the Company for each Allocation Year, determining special allocations of other items of income, gain, loss and expense, and adjusting the balance of each Member's Capital Account to reflect the aforementioned general and special allocations. For each Allocation Year, the special allocations in Section 4.3 shall be made immediately prior to the general allocations of Section 4.2.

Section 4.2. Allocations of Profits and Losses.

(a) Allocation of Profit. Profits for each Allocation Year shall be allocated to the Members in accordance with their Percentage Interests.

(b) Allocation of Losses. Losses for each Allocation Year shall be allocated, subject to the limitations of Section 4.5, to the Members in accordance with their Percentage Interests.

(c) Character of Allocations. Allocations to Members of Profits or Losses pursuant to Sections 4.2(a) and 4.2(b) shall consist of a proportionate share of each Company item of income, gain, expense and loss entering into the computation of Profits or Losses for such Allocation Year.

Section 4.3. Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. Except as otherwise provided in Regulations Section 1.704-2(f), notwithstanding any other provision of this Article IV, if there is a net decrease in Company Minimum Gain during any Allocation Year, each Member shall be specially allocated items of Company income and gain for such Allocation Year (and, if necessary, subsequent Allocation Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Regulations Section 1.704-2(g) and (h). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 4.3(a) is intended to comply with the minimum gain chargeback requirement in Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Except as otherwise provided in Regulations Section 1.704-2(i)(4), notwithstanding any other provision of this Article IV, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Allocation Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such Allocation Year (and, if necessary, subsequent Allocation Years) in an amount equal to such Member's share of the net decrease in Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2). This Section 4.3(b) is intended to comply with the minimum gain chargeback requirement in Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations or distributions described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of the Member as quickly as possible; provided, that an allocation pursuant to this Section 4.3(c) shall be made only if and to the extent that the Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article IV have been tentatively made as if this Section 4.3(c) were not in this Agreement.

(d) Nonrecourse Deductions. Nonrecourse Deductions for any Allocation Year shall be specially allocated to the Members in the manner elected by the Tax Matters Member in conformity with the provisions of Regulations Section 1.704-2, and in the absence of such an election, to the Members in proportion to their respective Percentage Interests.

(e) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Allocation Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(f) Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Company asset, pursuant to Code Section 734(b) or Code Section 743(b), is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(2) or (4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of such Member's interest in the Company, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in accordance with their interests in the Company in the event Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies or to the Member to whom such distribution was made in the event Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

(g) LTIP Unit Catch-up. Immediately prior to a conversion of an LTIP Unit pursuant to Section 4.9(c), the LTIP Unitholder of such LTIP Unit shall be specially allocated items of Company gross income and gain for such Allocation Year in an amount equal to the excess, if any, of the Capital Account associated with a Common Share over the Capital Account associated with the LTIP Unit that is to be converted. Immediately prior to (i) the occurrence of a Dissolution Event, or (ii) a sale of all or substantially of the Company's assets, items of Company gross income and gain shall also be specially allocated to LTIP Unitholders in respect of all LTIP Units in a manner so as to eliminate the disparity, if any, between the Capital Accounts of the LTIP Units and those associated with Common Shares, at that time.

Section 4.4. Ameliorative Allocations. The allocations set forth in Sections 4.3(a), 4.3(b), 4.3(c), 4.3(d), 4.3(e) and 4.3(f) (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 4.4. Therefore, notwithstanding any other provision of this Article IV (other than the Regulatory Allocations), the Board of Directors shall make such offsetting special allocations of Company income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of this Agreement and all Company items were allocated pursuant to Sections 4.1 and 4.2.

Section 4.5. Loss Limitation. Losses allocated pursuant to Section 4.2 shall not exceed the maximum amount of Losses that can be allocated without causing any Member to have an Adjusted Capital Account Deficit at the end of any Allocation Year. In the event some but not all of the Members would have Adjusted Capital Account Deficits as a consequence of an allocation of Losses pursuant to Section 4.2, the limitation set forth in this Section 4.5 shall be applied on a Member-by-Member basis, and Losses not allocable to any Member as a result of such limitation shall be allocated to the other Members in accordance with the positive balances in such Members' Capital Accounts so as to allocate the maximum permissible Losses to each Member under Regulations Section 1.704-1(b)(2)(ii)(d).

Section 4.6. Other Allocation Rules.

(a) For purposes of determining the Profits and Losses or any other items allocable to any period, Profits, Losses, and any other such items shall be allocated among the Members as determined by the Manager using any method and convention permissible under Section 706 of the Code and the Regulations thereunder; *provided, however*, that the Manager may adopt such other methods and conventions relating to allocations as it determines are necessary or appropriate. Without limiting the foregoing, the Members hereby agree that the Manager may utilize the method described in Regulations Section 1.706-1(c)(2)(ii).

(b) The Members are aware of the income tax consequences of the allocations made by this Article IV and hereby agree to be bound by the provisions of this Article IV in reporting their shares of Company income and loss for income tax purposes.

(c) Solely for purposes of determining a Member's proportionate share of the "excess nonrecourse liabilities" of the Company within the meaning of Regulations Section 1.752-3(a)(3), the Member's interests in Company Profits are in proportion to their Percentage Interests.

(d) To the extent permitted by Regulations Section 1.704-2(h)(3), the Manager shall endeavor to treat distributions as having been made from the proceeds of a Nonrecourse

Liability or a Member Nonrecourse Debt only to the extent that such distributions would cause or increase an Adjusted Capital Account Deficit for any Member.

(e) The Manager may apply certain methods, assumptions and conventions relating to allocations of items of income, gain, deduction, loss and credit in a manner intended to comply with applicable provisions of the Code and Regulations and to allocate such items in a manner that reflects the beneficial share of Company items of Members (and holders of Shares).

(f) Allocations that would otherwise be made to a Member under the provisions of this Article IV shall instead be made to the beneficial owner of Shares held by a nominee in any case in which the nominee has furnished the identity of such owner to the Company in accordance with Section 6031(c) of the Code or any other method determined by the Manager.

Section 4.7. Tax Allocations: Code Section 704(c).

(a) In accordance with Section 704(c) of the Code and the Regulations thereunder, income, gain, loss and deduction with respect to any Property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such Property to the Company for U.S. federal income tax purposes and its initial Gross Asset Value (computed in accordance with the definition of "Gross Asset Value") using a method, selected in the discretion of the Manager in accordance with Regulations Section 1.704-3.

(b) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (ii) of the definition of "Gross Asset Value," subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for U.S. federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

(c) Any elections or other decisions relating to such allocations shall be made by the Manager in any manner that reasonably reflects the purpose and intention of this Agreement, which includes, without limitation, the purpose and intention that each Common Share shall have the same economic interest in the Company and the same tax characteristics and shall otherwise be identical in all respects. Allocations pursuant to this Section 4.7 are solely for purposes of U.S. federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, other items or distributions pursuant to any provision of this Agreement.

Section 4.8. Percentage Interests. If the number of outstanding Common Shares and LTIP Units increases or decreases during a taxable year, each Member's Percentage Interest shall be adjusted by the Company effective as of the effective date of each such increase or decrease to a percentage equal to the number of Common Shares and LTIP Units held by such Member divided by the aggregate number of Common Shares and LTIP Units outstanding after giving effect to such increase or decrease. If the Members' Percentage Interests are adjusted pursuant to this Section 4.8, the Profits and Losses for the taxable year in which the adjustment occurs shall be allocated between the part of the year ending on the day when the Company's property is revalued and the part of the year beginning on the following day either (i) as if the taxable year had ended on the date of the adjustment or (ii) based on the number of days in each part. The Manager, in its sole and absolute discretion, shall determine which method shall be used to allocate Profits and Losses for the taxable year in which the adjustment occurs. The allocation of Profits and Losses for the earlier part of the year shall be based on the Percentage Interests before adjustment, and the allocation of Profits and Losses for the later part shall be based on the adjusted Percentage Interests.

Section 4.9. LTIP Units.

(a) Allocations and Adjustments. Subject to the terms of the Incentive Plans and the applicable award agreement governing the award of the LTIP Units under the Incentive Plans (the "Award Agreement"), or as otherwise provided herein, each LTIP Unit shall have economic rights that are the equivalent of one Common Share, including, without limitation, the Percentage Interest, rights to allocations pursuant to this Article IV, and rights to distributions in accordance with Article V hereof, *provided*, *however*, that, unless otherwise determined by the Board of Directors, the LTIP Units shall not be issued in consideration for cash, and, initially, shall have a Capital Account balance of zero. Upon the occurrence of any event that affects the Shares in such a way that an adjustment of outstanding LTIP Units is appropriate in order to prevent the dilution or enlargement of rights under the LTIP Units (including, without limitation, any extraordinary dividend or other distribution (whether in cash or in kind), recapitalization, share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar transaction or event) (an "Adjustment Event"), then the Board of Directors shall make a corresponding adjustment to the LTIP Units to maintain a one-for-one conversion and economic equivalence ratio between Common Shares and LTIP Units. If more than one Adjustment Event occurs, the adjustment to the LTIP Units need be made only once using a single formula that takes into account each and every Adjustment Event as if all Adjustment Events occurred simultaneously. For the avoidance of doubt, the following shall not be Adjustment Events: (x) the issuance of Shares in a financing, reorganization, acquisition or other similar business transaction, or (y) the issuance of Common Shares pursuant to any employee benefit or compensation plan or distribution reinvestment plan.

(b) Priority. Subject to the terms of the Incentive Plans and the applicable Award Agreement, or as otherwise provided herein, the LTIP Units shall rank pari passu with the Common Shares as to the payment of regular and special periodic or other distributions.

(c) Conversion of LTIP Units. Subject to the terms of the Incentive Plans and the applicable Award Agreement, or as otherwise provided herein, to the extent that an LTIP Unit is fully vested and no longer subject to forfeiture, the LTIP Unitholder of such LTIP Unit shall have the right (the "Conversion Right"), at his or her option, to convert the LTIP Unit into a Common Share; *provided*, *however*, that a holder may not exercise the Conversion Right for less than 1,000 LTIP Units or, if such holder holds less than 1,000 LTIP Units, all of the vested LTIP Units held by such holder, and such holder must comply with all applicable procedures and policies as may be required by the Board of Directors to effect such conversion. Notwithstanding the foregoing, the Board of Directors shall have the right, but not the obligation, at any time to cause a conversion of LTIP Units into Common Shares.

ARTICLE V

DISTRIBUTIONS

Section 5.1. Distributions to Members. Except as otherwise provided in Section 5.2 and Article XVIII, the Board of Directors may, in its sole discretion and at any time, and from time to time, declare and pay distributions with respect to the Shares to the Members, as of any

Record Date established by the Board of Directors with respect to such distributions, from Cash Available for Distribution. Subject to any Share Designation or as otherwise provided herein, distributions shall be paid to all Members in proportion to their respective Percentage Interests. Each distribution in respect of any Shares shall be paid by the Company, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holder of such Shares as of the Record Date set for such distribution. Such payment shall constitute full payment and satisfaction of the Company's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

Section 5.2. Amounts Withheld. All amounts withheld pursuant to the Code or any provision of any state, local or foreign tax law with respect to any payment, distribution or allocation to the Company or the Members shall be treated as amounts distributed pursuant to Section 5.1 or Section 18.2, as applicable, to the Members with respect to which such amounts were withheld pursuant to this Section 5.2, for all purposes under this Agreement; *provided*, *however*, that if the Company is unable to efficiently attribute such amounts withheld to those Members with respect to which such amounts were withheld, the Company may treat such amounts withheld as distributed to all Members in proportion to their respective Percentage Interests as set forth above. Notwithstanding any other provision of this Agreement, the Manager is authorized to take any action that it determines to be necessary or appropriate to cause the Company to comply with any withholding requirements established under the Code or any other federal, state, local or foreign law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Company derives Excess Inclusion Income that is allocable to a Member which is a Disqualified Organization, and, as a result thereof, the Company is required to pay an entity-level tax on such Excess Inclusion Income, the Company may, in that case, treat such tax as an amount withheld solely for purposes of this Section 5.2, and may correspondingly reduce the amount of distributions to which Members that are Disqualified Organizations would otherwise be entitled to pursuant to this Agreement.

Section 5.3. Limitations on Distributions.

(a) The Company shall pay no distributions to the Members except as provided in this Article V and Article XVIII.

(b) The Company, and Board of Directors on behalf of the Company shall not be required to make distributions from the Company to any Member to the extent such distribution is inconsistent with, or in violation of, the Act or any provision of this Agreement or other applicable law.

Section 5.4. Distributions Upon Liquidation. Any cash the Company receives or reductions in reserves made after commencement of the liquidation of the Company shall be distributed to the Members in accordance with Section 18.2.

ARTICLE VI

BOARD OF DIRECTORS

Section 6.1. Board. The Board of Directors is currently comprised of the five following individuals: Michael W. Vranos, Laurence Penn, Thomas F. Robards, Ronald I. Simon, Ph.D. and Edward Resendez (each, a "Director" and, collectively, the "Board"). Each Director shall hold office until his or her successor is elected or appointed and qualified, or until his or her earlier death, resignation or removal in accordance with this Article VI. The Board shall have all of the powers and authorities accorded to the Board of Directors, and each Director shall have all of the powers and authorities accorded the Directors of the Company under the terms of this Agreement.

Section 6.2. General Powers. Except as otherwise expressly provided in this Agreement, the business and affairs of the Company shall be managed by or under the direction of its Board of Directors. Each Director of the Company, when acting in such capacity, is a “manager” within the meaning of Section 18-402 of the Act and as such is vested with the powers and authorities necessary for the management of the Company, subject to the terms of this Agreement and the Management Agreement; *provided*, that no Director is authorized to act individually on behalf of the Company and the Board of Directors shall only take action in accordance with the requirements of this Agreement. In addition to the powers and authorities expressly conferred upon it by this Agreement, the Board of Directors may exercise all such powers of the Company and do all such lawful acts and things as are not prohibited by applicable law, including the Act, the Rules and Regulations, or by this Agreement are required to be exercised or done by the Members including, without limitation, the following:

(a) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into Shares, and the incurring of any other obligations;

(b) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Company;

(c) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Company or the merger or other combination of the Company with or into another Person (subject, however, to any prior approval of Members that may be required by this Agreement);

(d) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any Subsidiary of the Company or any or all of the assets of any Subsidiary of the Company or the merger or other combination of any Subsidiary of the Company with or into another Person;

(e) the use of the assets of the Company (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Company and its Subsidiaries; the lending of funds to other Persons (including other Affiliates of the Company); the repayment of obligations of the Company and its Subsidiaries; and the making of capital contributions to any Member of the Company or any of its Subsidiaries;

(f) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Company under contractual arrangements to all or particular assets of the Company);

(g) the declaration and payment of distributions of cash or other assets to Members;

(h) the selection and dismissal of officers, employees, agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring, and the creation and operation of employee benefit plans, employee programs and employee practices;

(i) the maintenance of insurance for the benefit of the Company and its Affiliates;

(j) the formation of, or acquisition or disposition of an interest in, and the contribution of property and the making of loans to, any limited or general partnership, joint venture, corporation, limited liability company or other entity or arrangement;

(k) the control of any matters affecting the rights and obligations of the Company, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation, arbitration or remediation, and the incurring of legal expense and the settlement of claims and litigation;

(l) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(m) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Shares from, or requesting that trading be suspended on, any such exchange;

(n) the issuance, sale or other disposition, and the purchase or other acquisition, of Shares or options, rights, warrants or appreciation rights relating to Shares;

(o) the registration of any offer, issuance, sale or resale of Shares or other securities issued or to be issued by the Company under the Securities Act and any other applicable securities laws (including any resale of Shares or other securities by Members or other securityholders); and

(p) the execution and delivery of agreements with Affiliates of the Company to render services.

Section 6.3. Duties of Directors. Except as provided in this Agreement or otherwise required by the Act, each Director of the Company shall have the same fiduciary duties to the Company and the Members as a director of a corporation incorporated under the DGCL has to such corporation and its stockholders, as if such Directors of the Company were directors of a corporation incorporated under the DGCL. Except as provided in this Agreement, the parties intend that the fiduciary duties of the Directors of the Company shall be interpreted consistently with the jurisprudence regarding such fiduciary duties of Directors of a corporation under the DGCL. It shall be expressly understood that, to the fullest extent permitted by law, no Director of the Company has any duties (fiduciary or otherwise) with respect to any action or inaction of the Manager, *provided*, *however*, that the Directors do owe fiduciary duties to the Members and the Company with respect to the oversight of the Manager and the Manager's compliance with its duties and obligations pursuant to the terms of the Management Agreement. To the fullest extent permitted by law, any actions or inactions of the Directors of the Company that cause the Company to act in compliance or in accordance with the Management Agreement shall be deemed consistent and compliant with the fiduciary duties of such Directors and shall not constitute a breach of any duty hereunder or existing in law, in equity or otherwise.

Section 6.4. Number, Tenure and Qualifications. As provided by Section 6.1, the Board shall be comprised of five Directors and at all times from and after the date hereof, the composition of the Board of Directors shall consist of at least a majority of Independent Directors. Subject to this Section 6.4, the number of Directors shall be fixed from time to time exclusively pursuant to a resolution adopted by the Board of Directors, but shall consist of not less than three nor more than thirteen Directors. However, no decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

The term of each Director shall be the period from the effective date of such Director's election until such Director's successor is duly elected or appointed and qualified, or until such Director's earlier death, resignation or removal. Directors need not be residents of the State of Delaware or Members.

Section 6.5. Election of Directors. Except as provided in Sections 6.1, 6.4 and 6.8, the Directors shall be elected at the annual meeting of Members. At any meeting of Members duly called and held for the election of Directors at which a quorum is present, Directors shall be elected by a plurality of the votes cast. Each Share may be voted for as many individuals as there are Directors to be elected and for whose election the holders of Shares are entitled to vote.

Section 6.6. Removal. Subject to the rights of holders of one or more classes or series of Shares, to elect or remove one or more Directors, any Director, or the entire Board of Directors, may be removed from office, at any time, but only for cause and then only by the affirmative vote of the Members holding at least two-thirds of the votes entitled to be cast in the election of Directors. For purposes of this paragraph, "cause" shall mean, with respect to any particular Director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such Director caused demonstrable, material harm to the Company through bad faith or active and deliberate dishonesty.

Section 6.7. Resignations. Any Director, whether elected or appointed, may resign at any time upon notice of such resignation to the Company. An Independent Director who ceases to be independent shall promptly resign to the extent required for the Company to comply with applicable laws, rules and regulations.

Section 6.8. Vacancies and Newly Created Directorships. Except as may be provided by the Board of Directors in setting the terms of any class or series of Shares, any vacancies on the Board of Directors, including vacancies resulting from any increase in the authorized number of Directors, shall be filled by a majority vote of the remaining Directors then in office, even if the remaining Directors do not constitute a quorum. Any Director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is duly elected and qualified.

Section 6.9. Annual and Regular Meetings. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of Members, no notice other than this provision of this Agreement being necessary. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors. The Board of Directors may provide, by resolution, the time and place for the holding of regular meetings of the Board of Directors without other notice than such resolution.

Section 6.10. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board of Directors, the Chief Executive Officer, the President or by a majority of the Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place as the place for holding any special meeting of the Board of Directors called by them. The Board of Directors may provide, by resolution, the time and place for the holding of special meetings of the Board of Directors without other notice than such resolution.

Section 6.11. Notice for Special Meetings. Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each Director at his or her business or residence address. Notice by personal delivery, telephone, electronic mail or facsimile transmission shall be given at least twenty-four hours prior to the meeting. Notice by United States mail shall be given at least three days prior to the meeting. Notice by courier shall be given at least two days prior to the meeting. Telephone notice shall be deemed to be given when the Director or his or her agent is personally given such notice in a telephone call to which the Director or his or her agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to the electronic mail address given to the Company by the Director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Company by the Director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by the Act or this Agreement.

Section 6.12. Quorum. A majority of the then total number of Directors in office shall constitute a quorum for transaction of business at any meeting of the Board of Directors; *provided*, that, if less than a majority of such Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice; and *provided further* that if, pursuant to the Act or this Agreement, the vote of a majority of a particular group of Directors is required for action, a quorum must also include a majority of such group.

The Directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough Directors to leave less than a quorum.

Section 6.13. Voting. The action of the majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by the Act or this Agreement. If enough Directors have withdrawn from a meeting to leave less than a quorum but the meeting is not adjourned, the action of the majority of that number of Directors necessary to constitute a quorum at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by the Act or this Agreement.

Section 6.14. Organization. At each meeting of the Board of Directors, the Chairman of the Board of Directors or, in the absence of the Chairman, the Vice Chairman of the Board of Directors, if any, shall act as chairman of the meeting. In the absence of both the Chairman and Vice Chairman of the Board of Directors, the Chief Executive Officer or in the absence of the Chief Executive Officer, the President or in the absence of the President, a Director chosen by a majority of the Directors present, shall act as chairman of the meeting. The Secretary or, in his or her absence, an Assistant Secretary of the Company, or in the absence of the Secretary and all Assistant Secretaries, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 6.15. Telephone Meetings. Directors may participate in a meeting by means of a conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 6.16. Consent by Directors Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, without a vote and without prior notice, if a consent in writing or by electronic transmission to such action is given by each Director and is filed with the minutes of proceedings of the Board of Directors.

Section 6.17. Vacancies. If for any reason any or all the Directors cease to be Directors, such event shall not dissolve or terminate the Company or affect this Agreement or the powers of the remaining Directors hereunder (even if fewer than three Directors remain). Except as may be provided by the Board of Directors in setting the terms of any class or series of Shares, any vacancy on the Board of Directors may be filled only by a majority of the remaining Directors, even if the remaining Directors do not constitute a quorum. Any Director elected to fill a vacancy shall serve for the remainder of the full term of the class in which the vacancy occurred and until a successor is elected and qualifies.

Section 6.18. Compensation. Directors shall not receive any stated salary for their services as Directors but, by resolution of the Board of Directors, may receive compensation per year and/or per meeting and/or per visit to real property or other facilities owned, leased or to be acquired by the Company and for any service or activity they performed or engaged in as Directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they performed or engaged in as Directors, but nothing herein contained shall be construed to preclude any Directors from serving the Company in any other capacity and receiving compensation therefor.

Section 6.19. Loss of Deposits. No Director shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or securities have been deposited.

Section 6.20. Surety Bonds. Unless required by the Act, no Director shall be obligated to give any bond or surety or other security for the performance of any of his or her duties.

Section 6.21. Reliance. Each Director, officer, employee and agent of the Company shall, in the performance of his or her duties with respect to the Company, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Company, upon an opinion of counsel or upon reports made to the Company by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Directors or officers of the Company, regardless of whether such counsel or expert may also be a Director.

Section 6.22. Resolution of Conflicts of Interest. Unless otherwise expressly provided in this Agreement, whenever a potential conflict of interest exists or arises between one or more Directors or their respective Affiliates, on the one hand, and the Company, any of the Company's Subsidiaries or any Member, on the other, any resolution or course of action by the Board of Directors in respect of such conflict of interest shall be permitted and deemed approved by all Members, and shall not constitute a breach of this Agreement, of any agreement contemplated herein, or of any duty stated or implied by law or equity, including any fiduciary duty, if the resolution or course of action in respect of such conflict of interest is (i) approved by the Nominating and Corporate Governance Committee of the Board of Directors, (ii) approved by the Members holding a majority of the total voting power of the Company's Outstanding Common Shares that are disinterested parties, (iii) on terms no less favorable to the Company, a Subsidiary of the Company or Member, as applicable, than those generally being provided to or available from unrelated third parties or (iv) fair and reasonable to the Company taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Company, a Subsidiary of the Company or Member, as applicable). Notwithstanding anything to the contrary in this Agreement, any transaction or other arrangement that involves a conflict of interest and that (i) is expressly contemplated under the Management Agreement without the express requirement thereunder that further approval by the Board of Directors be obtained or (ii) prior to the effectiveness of any such transaction or arrangement, is described in any of the Company's periodic reports filed with the SEC under the Exchange Act, shall not constitute a breach of this Agreement or of any duty otherwise existing at law, in equity or otherwise.

Section 6.23. Committees.

(a) Number, Tenure and Qualifications. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and such other committees as the Board of Directors may deem appropriate, composed of one or more Directors, to serve at the pleasure of the Board of Directors.

(b) Power. The Board of Directors may delegate to committees appointed under Section 6.23 of any of the powers of the Board of Directors, except as prohibited by the Act.

(c) Meetings. Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors. A majority of the members of any committee shall constitute a quorum for the transaction of business at any meeting of the committee. The act of a majority of the committee members present at a meeting shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or, in the absence of such chairman, any two members of any committee (if there are at least two members of the committee) may fix the time and place of its meeting unless the Board of Directors shall otherwise provide. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another Director to act in the place of such absent member. Each committee shall keep minutes of its proceedings.

(d) Telephone Meetings. Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

(e) Consent by Committees Without a Meeting. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee.

(f) Vacancies. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternate members to replace any absent or disqualified member or to dissolve any such committee.

ARTICLE VII

OFFICERS

Section 7.1. General.

(a) The officers of the Company shall be elected by the Board of Directors, subject to Section 7.1(b) and Article VIII. The officers of the Company shall consist of a President, a Secretary and a Chief Financial Officer and may include a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a Chief Executive Officer, one or more Vice Presidents, a Chief Operating Officer, a Chief Investment Officer or Co-Chief Investment Officers, a Treasurer, a Controller, a General Counsel, one or more Assistant Secretaries and one or more Assistant Treasurers. In addition, the Board of Directors may from time to time elect such other officers with such powers and duties as it shall deem necessary or desirable. The officers of the Company shall be elected annually by the Board of Directors, except that the Chief Executive Officer or President may from time to time appoint one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers or other officers. Each officer shall hold office until his or her successor is elected and qualifies or until his or her death, or his or her resignation or removal in the manner hereinafter provided. Any two or more offices may be held by the same person. Election of an officer or agent shall not in and of itself create contract rights between the Company and such officer or agent. The officers of the Company need not be Members or Directors of the Company.

(b) For so long as the Management Agreement is in effect, the Manager shall secund personnel to serve as the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer and in such other capacities as set forth in the Management Agreement, subject to Section 8.5. The Board of Directors shall elect nominated personnel as officers of the Company in accordance with this Article VII. Upon termination of the Management Agreement, if no replacement manager is retained by the Company to assume the Manager’s rights and obligations hereunder, the Nominating and Corporate Governance Committee shall nominate, and the Board of Directors shall elect, the officers of the Company.

Section 7.2. Removal and Resignation. Any officer or agent of the Company may be removed, with or without cause, by the Board of Directors if in its judgment the best interests of the Company would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Company may resign at any time by giving written notice of his or her resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the notice of resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Company.

Section 7.3. Vacancies. A vacancy in any office may be filled by the Board of Directors for the balance of the term.

Section 7.4. Chief Executive Officer. The Board of Directors may designate a Chief Executive Officer. In the absence of such designation, the Chairman of the Board of Directors shall be the Chief Executive Officer of the Company. The Chief Executive Officer shall have general responsibility for implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by this Agreement to some other officer or agent of the Company or shall be required by the Act to be otherwise executed; and in general shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board of Directors from time to time.

Section 7.5. Chief Operating Officer. The Board of Directors may designate a Chief Operating Officer. The Chief Operating Officer shall have the responsibilities and duties as set forth by the Board of Directors or the Chief Executive Officer.

Section 7.6. Chief Investment Officer. The Board of Directors may designate a Chief Investment Officer or Co-Chief Investment Officers. The Chief Investment Officer or Co-Chief Investment Officers shall have the responsibilities and duties as set forth by the Board of Directors or the Chief Executive Officer.

Section 7.7. Chief Financial Officer. The Chief Financial Officer shall have the custody of the funds and securities of the Company and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors.

The Chief Financial Officer shall disburse the funds of the Company as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and Board of Directors, at the regular meetings of the Board of Directors or whenever it may so require, an account of all his or her transactions as Chief Financial Officer and of the financial condition of the Company.

If required by the Board of Directors, the Chief Financial Officer shall give the Company a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Company, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, moneys and other property of whatever kind in his or her possession or under his or her control belonging to the Company.

Section 7.8. Chairman of the Board. The Board of Directors shall designate a Chairman of the Board of Directors. The Chairman of the Board of Directors shall preside over the meetings of the Board of Directors and of the Members at which he or she shall be present. The Chairman of the Board of Directors shall perform such other duties as may be assigned to him or her by the Board of Directors.

Section 7.9. President. In the absence of a Chief Executive Officer, the President shall in general supervise and control all of the business and affairs of the Company. In the absence of a designation of a Chief Operating Officer by the Board of Directors, the President shall be the Chief Operating Officer. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by this Agreement to some other officer or agent of the Company or shall be required by the Act to be otherwise executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 7.10. Vice Presidents. In the absence of the President or in the event of a vacancy in such office, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the President and when so acting shall have all the powers of and be subject to all the restrictions upon the President; and shall perform such other duties as from time to time may be assigned to such Vice President by the President or by the Board of Directors. The Board of Directors may designate one or more Vice Presidents as Executive Vice President, Senior Vice President or as Vice President for particular areas of responsibility.

Section 7.11. Secretary. The Secretary shall (a) keep the minutes of the proceedings of the Members, the Board of Directors and committees of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of this Agreement or as required by the Act; (c) be custodian of the limited liability company records and of the seal of the Company, if any; (d) keep a register of the post office address of each Member which shall be furnished to the Secretary by such Member; (e) have general responsibility for oversight of the Share transfer books and other Member records, including the Register; and (f) in general perform such other duties as from time to time may be assigned to him or her by the Chief Executive Officer, the President or by the Board of Directors.

Section 7.12. Treasurer. In the absence of the Chief Financial Officer or in the event of a vacancy in such office, the Treasurer shall perform the duties of the Chief Financial Officer and when so acting shall have all the powers of and be subject to all the restrictions upon the Chief Financial Officer; and shall perform such other duties as from time to time may be assigned to such Treasurer by the President or by the Board of Directors.

Section 7.13. Controller. The Controller shall report directly to the Chief Financial Officer and shall assist with the compilation of financial statements for external reporting in accordance with applicable financial reporting guidelines and the requirements of the Sarbanes-Oxley Act. The Controller shall review general ledger account reconciliations monthly to ensure that financial statements are properly stated in accordance with GAAP and in general shall perform such other duties as from time to time may be assigned to the Controller by the Chief Financial Officer.

Section 7.14. General Counsel. The General Counsel shall oversee all legal matters for the Company. The General Counsel shall report to the General Counsel of Ellington Management Group, L.L.C., other than with respect to matters involving a conflict of interest between the Company and the Manager, in which case the General Counsel shall report directly to the Board of Directors.

Section 7.15. Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or Treasurer, respectively, or by the President or the Board of Directors. The Assistant Treasurers shall, if required by the Board of Directors, give bonds for the faithful performance of their duties in such sums and with such surety or sureties as shall be satisfactory to the Board of Directors.

Section 7.16. Salaries. The salaries and other compensation of the officers shall be fixed from time to time by the Manager and no officer shall be prevented from receiving such salary or other compensation by reason of the fact that he or she is also a Director.

Section 7.17. Duties of Officers. Except as provided in this Agreement (or as required by the Act), each officer of the Company shall have the same fiduciary duties applicable to officers of a corporation incorporated under the DGCL, as if such officers were officers of a corporation incorporated under the DGCL. Except as provided in this Agreement, the parties hereto intend that the fiduciary duties of the officers of the Company shall be interpreted consistently with the jurisprudence regarding such fiduciary duties of officers of a corporation under the DGCL. It shall be expressly understood that, to the fullest extent permitted by law, no officer of the Company owes any duties (fiduciary or otherwise) to the Members or the Company with respect to any action or inaction of the Manager pursuant to the terms of the Management Agreement; *provided*, *however*, that officers of the Company do owe fiduciary duties to the Members and the Company with respect to the oversight of the Manager's and the Company's compliance with their respective duties and obligations pursuant to the terms of the Management Agreement.

ARTICLE VIII

MANAGEMENT

Section 8.1. Duties of the Manager. For so long as the Management Agreement is in effect and subject at all times to the oversight of the Board of Directors, the Manager will manage the business of the Company and provide its services to the Company in accordance with the terms and conditions of the Management Agreement.

Section 8.2. Secondment of the Chief Executive Officer, Chief Financial Officer, Controller and General Counsel. Pursuant to the terms of the Management Agreement, the Manager will second to the Company natural Persons to serve as the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Controller and General Counsel.

Section 8.3. Secondment of Additional Officers. Pursuant to the terms of the Management Agreement, the Manager and the Company may agree from time to time that the Manager will second to the Company one or more additional natural Persons to serve as officers of the Company, upon such terms as the Manager and the Company may mutually agree. Any such natural Persons will have such titles and fulfill such functions as the Manager and the Company may mutually agree.

Section 8.4. Status of Seconded Officers and Employees. Any officers or employees of the Manager seconded to the Company pursuant to Section 8.2 and/or 8.3 shall not be employees of the Company; *provided*, that, except as provided in this Agreement (or as required by the Act), any such seconded officers and employees of the Manager shall have the same fiduciary duties with respect to the Company applicable to officers or similarly situated employees, as the case may be, of a corporation incorporated under the DGCL, as if such officers or employees, as the case may be, were officers or employees, as the case may be, of a corporation incorporated under the DGCL. Except as provided in this Agreement, the parties hereto intend that the fiduciary duties of any such seconded officers and employees of the Manager shall be interpreted consistently with the jurisprudence regarding such fiduciary duties of officers or similarly situated employees, as the case may be, of a corporation under the DGCL. It shall be expressly understood that, to the fullest extent permitted by applicable law, no seconded officer or employee of the Manager owes any duties (fiduciary or otherwise) to the Members or the Company with respect to any action or inaction of the Manager except in accordance with the terms of the Management Agreement.

Section 8.5. Removal of Seconded Officers. The Board of Directors shall have the right to remove any officer of the Company at any time, with or without cause; *provided, however*, that for so long as the Management Agreement is in effect, the Board of Directors may remove officers of the Company seconded by the Manager only pursuant to the terms of the Management Agreement.

Section 8.6. Replacement Manager. In the event that the Management Agreement is terminated and the Board of Directors determines that a replacement manager should be retained to provide for the management of the Company pursuant to a management or other services agreement, the affirmative vote of a majority of the outstanding Shares shall be required to retain such replacement manager.

ARTICLE IX

THE MEMBERS

Section 9.1. Rights or Powers. A Person shall be admitted as a Member and shall become bound by the terms of this Agreement if such Person purchases or otherwise lawfully acquires any Share and becomes a Record Holder of such Share in accordance with the provisions of this Agreement. A Person may not become a Member without acquiring a Share. Except as otherwise expressly set forth in this Agreement, the Members acting as such shall not have any right or power to take part in the management or control of the Company or its business and affairs or to act for or bind the Company in any way. Notwithstanding the foregoing, the Members have all the rights and powers specifically set forth in this Agreement, including, without limitation, those rights and powers set forth in Article XV and, to the extent not inconsistent with this Agreement, in the Act. Members shall not have any right to resign from the Company; *provided*, that when a transferee of the Shares of a Member becomes a Record Holder of such Shares, as permitted by this Agreement, such transferring Member shall cease to be a Member of the Company with respect to the Shares so transferred. Members are not entitled to dissenters' rights of appraisal in the event of a merger, consolidation or conversion, a sale of all or substantially all of the assets of the Company or the Company's Subsidiaries, or any other similar transaction or event.

Section 9.2. Annual Meetings of Members. Beginning in calendar year 2008, an annual meeting of the Members for the election of Directors and the transaction of any business within the powers of the Company shall be held on a date and at the time set by the Board of Directors during the month of May in each year.

Section 9.3. Special Meetings of Members.

(a) General. The Chairman of the Board of Directors, the President, the Chief Executive Officer or the Board of Directors may call a special meeting of the Members. Subject to subsection (b) of this Section 9.3, a special meeting of Members shall also be called by the Secretary of the Company upon the written request of the Members entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

(b) Member Requested Special Meetings. Any Record Holder seeking to have Members request a special meeting of Members shall, by sending written notice to the Secretary of the Company (the "Record Date Request Notice") by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the Members entitled to request a special meeting of Members (the "Request Record Date"). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more Record Holders as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such Member (or such agent) and shall set forth all information relating to each such Member that must be disclosed in solicitations of proxies for election of Directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act. Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within ten days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the tenth day after the first date on which the Record Date Request Notice is received by the Secretary.

(1) In order for any Member to request a special meeting of Members, one or more written requests for a special meeting of Members signed by Record Holders (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority (the "Special Meeting Percentage") of all of the votes entitled to be cast at such meeting (the "Special Meeting Request") shall be delivered to the Secretary. In addition, the Special Meeting Request (a) shall set forth the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the secretary), (b) shall bear the date of signature of each such Member (or such agent) signing the Special Meeting Request, (c) shall set forth the name and address, as they appear in the Company's books, of each Member signing such request (or on whose behalf the Special Meeting Request is signed), the class, series and number of all Shares of the Company which are owned by each such Member, and the nominee holder for, and number of, Shares owned by such Member beneficially but not of record, (d) shall be sent to the Secretary by registered mail, return receipt requested, and (e) shall be received by the Secretary within 60 days after the Request Record Date. Any requesting Member (or agent duly authorized in a writing accompanying the revocation or Special Meeting Request) may

revoke his, her or its request for a special meeting of Members at any time by written revocation delivered to the Secretary.

(2) The Secretary shall inform the requesting Member of the reasonably estimated cost of preparing and mailing the notice of meeting (including the Company's proxy materials). The Secretary shall not be required to call a special meeting of Members upon Member request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 9.3(b), the Secretary on behalf of the Company receives payment of such reasonably estimated cost prior to the preparation and mailing of any notice of the meeting.

(3) Except as provided in the next sentence, any special meeting of Members shall be held at such place, date and time as may be designated by the Chairman of the Board of Directors, President, Chief Executive Officer or Board of Directors, whoever has called the meeting. In the case of any special meeting of Members called by the Secretary upon the request of Members (a "Member Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; *provided*, *however*, that the date of any Member Requested Meeting shall be not more than 90 days after the record date for such meeting (the "Meeting Record Date"); and *provided further* that if the Board of Directors fails to designate, within ten days after the date that a valid Special Meeting Request is actually received by the Secretary (the "Delivery Date"), a date and time for a Member Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the 90th day after the Meeting Record Date or, if such 90th day is not a Business Day (as defined below), on the first preceding Business Day; and *provided further* that in the event that the Board of Directors fails to designate a place for a Member Requested Meeting within ten days after the Delivery Date, then such meeting shall be held at the principal executive office of the Company. In fixing a date for any special meeting of Members, the Chairman of the Board of Directors, President, Chief Executive Officer or Board of Directors may consider such factors as he, she or it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Directors to call an annual meeting of Members or a special meeting of Members. In the case of any Member Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within 30 days after the Delivery Date, then the close of business on the 30th day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Member Requested Meeting in the event that the requesting Members fail to comply with the provisions of paragraph (3) of this Section 9.3(b).

(4) If written revocations of requests for the special meeting of Members have been delivered to the Secretary and the result is that Members of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting of Members to the Secretary, the Secretary shall: (i) if the notice of meeting has not already been mailed, refrain from mailing the notice of the meeting and send to all requesting Members who have not revoked such requests written notice of any revocation of a request for the special meeting, or (ii) if the notice of meeting has been mailed and if the Secretary first sends to all requesting Members who have not revoked requests for a special meeting of Members written notice of any revocation of a request for the special meeting and written

notice of the Secretary's intention to revoke the notice of the meeting revoke the notice of the meeting at any time before ten days before the commencement of the meeting. Any request for a special meeting of Members received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting of Members.

(5) The Chairman of the Board of Directors, a Chief Executive Officer, President or Board of Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Company for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported request shall be deemed to have been delivered to the Secretary until the earlier of (i) ten Business Days after receipt by the Secretary of such purported request and (ii) such date as the independent inspectors certify to the Company that the valid requests received by the Secretary represent at least a majority of the Outstanding Shares that would be entitled to vote at such meeting. Nothing contained in this paragraph (5) shall in any way be construed to suggest or imply that the Company or any Member shall not be entitled to contest the validity of any request, whether during or after such ten Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(c) Special Meeting Pursuant to the Registration Rights Agreement. Notwithstanding anything to the contrary within this Agreement, if an initial public offering of the Company's Common Shares has not been completed by August 10, 2010 (the "Trigger Date"), the Secretary of the Company shall call a special meeting of the Members, which meeting will occur as soon as possible following the Trigger Date but in no event later than 30 days after such date, for the purpose of considering and voting upon a proposal to approve the filing by the Company of a shelf registration statement to register for resale the issued and outstanding common shares of the Company (the "Special Registration Meeting").

(1) The Secretary will be required to give not less than 15 and not more than 30 days notice of the Special Registration Meeting.

(2) The record date of the Special Registration Meeting will be the close of business on the Trigger Date or, if not a business day, the first business day thereafter.

(3) The time, date and place of the Special Registration Meeting shall be as determined pursuant to Section 9.3(b) hereof.

Section 9.4. Place of Meeting. All meetings of Members shall be held at the principal executive office of the Company or at such other place as shall be set by the Board of Directors and stated in the notice of the meeting.

Section 9.5. Notice of Meeting. Not less than ten nor more than 90 days before each meeting of Members, the Secretary shall give to each Member entitled to vote at such meeting and to each Member not entitled to vote who is entitled to notice of the meeting written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called, either by mail, by presenting it to such Member personally or by any other means permitted by applicable law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the Member at the Member's address as it appears on the records of the Company, with postage thereon prepaid.

Subject to Section 9.11, any business of the Company may be transacted at an annual meeting of Members without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice. No business shall be transacted at a special meeting of Members except as specifically designated in the notice.

Section 9.6. Record Date. The Board of Directors may set, in advance, a record date for the purpose of determining Members entitled to notice of or to vote at any meeting of Members or determining Members entitled to receive payment of any distribution or the allotment of any other rights, or in order to make a determination of Members for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of Members, not less than ten days, before the date on which the meeting or particular action requiring such determination of Record Holders is to be held or taken.

In lieu of fixing a record date, the Board of Directors may provide that the Shares transfer books shall be closed for a stated period but not longer than twenty days. If the Shares transfer books are closed for the purpose of determining Members entitled to notice of or to vote at a meeting of Members, such books shall be closed for at least ten days before the date of such meeting.

If no record date is fixed and the Shares transfer books are not closed for the determination of Members, (a) the record date for the determination of Members entitled to notice of or to vote at a meeting of Members shall be at the close of business on the day on which the notice of meeting is mailed or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of Members entitled to receive payment of a distribution or an allotment of any other rights shall be the close of business on the day on which the resolution of the Board of Directors, declaring the distribution or allotment of rights, is adopted.

When a determination of Members entitled to vote at any meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof, except when (i) the determination has been made through the closing of the Share transfer books and the stated period of closing has expired or (ii) the meeting is adjourned to a date more than 120 days after the record date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

Section 9.7. Organization and Conduct. Every meeting of Members shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting or, in the absence of such appointment, by the Chairman of the Board of Directors or, in the case of a vacancy in the office or absence of the Chairman of the Board of Directors, by one of the following officers present at the meeting: the Vice Chairman of the Board of Directors, if there be one, the Chief Executive Officer, the President, the Vice Presidents in their order of rank and seniority, or, in the absence of such officers, a chairman chosen by the Members by the vote of a majority of the votes cast by Members present in person or by proxy. The Secretary, or, in the Secretary's absence, an Assistant Secretary, or in the absence of both the Secretary and Assistant Secretaries, an individual appointed by the Board of Directors or, in the absence of such appointment, an individual appointed by the chairman of the meeting shall act as secretary. In the event that the Secretary presides at a meeting of the Members, an Assistant Secretary, or in the absence of an Assistant Secretary, an individual appointed by the Board of Directors or the chairman of the meeting, shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of Members shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chairman, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to Members that are Record Holders, their duly authorized proxies or other such individuals as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to Members that are Record Holders entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments by participants; (e) determining when the polls should be opened and closed, (f) maintaining order and security at the meeting; (g) removing any Members or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; and (h) concluding the meeting or recessing or adjourning the meeting to a later date and time and place announced at the meeting. Unless otherwise determined by the chairman of the meeting, meetings of Members shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 9.8. Quorum. At any meeting of Members, the presence in person or by proxy of Members entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum; but this section shall not affect any requirement under applicable law for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the Members, the chairman of the meeting shall have the power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

The Members present either in person or by proxy, at a meeting which has been duly called and convened, may continue to transact business until adjournment, notwithstanding the withdrawal of enough Members to leave less than a quorum.

Section 9.9. Proxies. At all meetings of Members, a Member may vote by proxy as may be permitted by law; *provided*, that no proxy shall be voted after eleven months from its date. Any proxy to be used at a meeting of Members must be filed with the Secretary of the Company or his or her representative at or before the time of the meeting. A Member may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by delivering to the Secretary a revocation of the proxy or a new proxy bearing a later date. With respect to the use of proxies at any meeting of Members, the Company shall be governed by paragraphs (b), (c), (d) and (e) of Section 212 of the DGCL, as though the Company were a Delaware corporation and as though the Members were stockholders of a Delaware corporation.

Section 9.10. Voting of Shares by Certain Holders. Shares registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other Person who has been appointed to vote such Shares pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such Person may vote such Shares. Any Director or other fiduciary may vote Shares registered in his or her name as such fiduciary, either in person or by proxy.

Shares of the Company directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of Outstanding Shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of Outstanding Shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a Member may certify in writing to the Company that any Shares registered in the name of the Member are held for the account of a specified Person other than the Member. The resolution shall set forth the class of Members who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the Shares transfer books, the time after the record date or closing of the Shares transfer books within which the certification must be received by the Company; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the Person specified in the certification shall be regarded as, for the purposes set forth in the certification, the Record Holder the specified Shares in place of the Member who makes the certification.

Section 9.11. Notice of Member Business and Nominations.

(a) Annual Meetings of Members.

(1) Nominations of individuals for election to the Board of Directors and the proposal of other business to be considered by the Members may be made at an annual meeting of Members (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any Member who was a Member of record both at the time of giving of notice by the Member as provided for in this Section 9.11(a) and at the time of the annual meeting, who is entitled to vote at the meeting and who has complied with this Section 9.11(a).

(2) For nominations or other business to be properly brought before an annual meeting of Members by a Member pursuant to clause (iii) of paragraph (a)(1) of this Section 9.11, the Member must have given timely notice thereof in writing to the Secretary and such other business must otherwise be a proper matter for action by the Members. To be timely, a Member's notice shall set forth all information required under this Section 9.11 and shall be delivered to the Secretary at the principal executive office of the Company not earlier than the 150th day nor later than 5:00 p.m., Eastern Time on the 120th day prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting; *provided*, *however*, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, notice by the Member to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an

annual meeting shall not commence a new time period for the giving of a Member's notice as described above. Such Member's notice shall set forth (i) as to each individual whom the Member proposes to nominate for election or reelection as a Director, (A) the name, age, business address and residence address of such individual, (B) the class, series and number of any Shares that are beneficially owned by such individual, (C) the date such Shares were acquired and the investment intent of such acquisition and (D) all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of Directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder (including such individual's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (ii) as to any other business that the Member proposes to bring before the meeting, a description of such business, the reasons for proposing such business at the meeting and any material interest in such business of such Member and any Member Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the Member and the Member Associated Person therefrom; (iii) as to the Member giving the notice and any Member Associated Person, the class, series and number of all Shares which are owned by such Member and by such Member Associated Person, if any, and the nominee holder for, and number of, Shares owned beneficially but not of record by such Member and by any such Member Associated Person; (iv) as to the Member giving the notice and any Member Associated Person covered by clauses (ii) or (iii) of this paragraph (2) of this Section 9.11(a), the name and address of such Member, as they appear on the Register and current name and address, if different, and of such Member Associated Person; and (v) to the extent known by the Member giving the notice, the name and address of any other Member supporting the nominee for election or reelection as a Director or the proposal of other business on the date of such Member's notice.

(3) Notwithstanding anything in this subsection (a) of this Section 9.11 to the contrary, in the event the Board of Directors increases the number of Directors in accordance with Section 6.4 of this Agreement, and there is no public announcement of such action at least 130 days prior to the first anniversary of the date of mailing of the notice of the preceding year's annual meeting, a Member's notice required by this Section 9.11(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Company not later than 5:00 p.m., Eastern Time on the tenth day following the day on which such public announcement is first made by the Company.

(4) For purposes of this Section 9.11, "Member Associated Person" of any Member shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such Member, (ii) any Owner of Shares owned of record or beneficially by such Member and (iii) any person controlling, controlled by or under common control with such Member Associated Person.

(b) Special Meetings of Members. Only such business shall be conducted at a special meeting of Members as shall have been brought before the meeting pursuant to the Company's notice of meeting. Nominations of individuals for election to the Board of Directors may be made at a special meeting of Members at which Directors are to be elected (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that Directors shall be elected at such special meeting, by any Member who is a Record Holder Member both at the time of giving of notice provided for in this Section 9.11 and at the time of the special meeting, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 9.11. In the event the Company calls a special meeting of Members for the purpose of electing one or more individuals to the Board of Directors, any such Member may nominate an individual or individuals (as the case may be) for election as a Director as specified in the Company's notice of meeting, if the Member's notice required by paragraph (2) of this Section 9.11(a) shall be delivered to the Secretary at the principal executive office of the Company not earlier than the 120th day prior to such special meeting and not later than 5:00 p.m., Eastern Time on the later of the 90th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a Member notice as described above.

(c) General.

(1) Upon written request by the Secretary or the Board of Directors or any committee thereof, any Member proposing a nominee for election as a Director or any proposal for other business at a meeting of Members shall provide, within five Business Days of delivery of such request (or such other period as may be specified in such request), written verification, satisfactory, in the discretion of the Board of Directors or any committee thereof or any authorized officer of the Company, to demonstrate the accuracy of any information submitted by the Member pursuant to this Section 9.11. If a Member fails to provide such written verification within such period, the information as to which written verification was requested may be deemed not to have been provided in accordance with this Section 9.11.

(2) Only such individuals who are nominated in accordance with this Section 9.11 shall be eligible for election by Members as Directors, and only such business shall be conducted at a meeting of Members as shall have been brought before the meeting in accordance with this Section 9.11. The chairman of the meeting shall have the power to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with this Section 9.11.

(3) For purposes of this Section 9.11, (a) the "date of mailing of the notice" shall mean the date of the proxy statement for the solicitation of proxies for election of Directors and (b) "public announcement" shall mean disclosure (i) in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or comparable news service or (ii) in a document publicly filed or furnished by the Company with the Commission pursuant to the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 9.11, a Member shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 9.11. Nothing in this Section 9.11 shall be deemed to affect any right of a Member to request inclusion of a proposal in, nor the right of the Company to omit a proposal from, the Company's proxy statement pursuant to Rule l4a-8 (or any successor provision) under the Exchange Act.

Section 9.12. Procedure for Election of Directors; Voting. The election of Directors submitted to Members at any meeting shall be decided by a plurality of the votes cast by the Members entitled to vote thereon. Except as otherwise provided by applicable law or this Agreement, all matters other than the election of Directors submitted to the Members at any meeting shall be decided by the affirmative vote of the holders of a majority of the then Outstanding Shares entitled to vote thereon present in person or represented by proxy at the meeting of Members. The vote on any matter at a meeting, including the election of Directors, shall be by written ballot. Each ballot shall be signed by the Member voting, or by such Member's proxy, and shall state the number of Shares voted.

Section 9.13. Inspectors of Elections. The Board of Directors, in advance of any meeting, may, but need not, appoint one or more individual inspectors or one or more entities that designate individuals as inspectors to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the individual presiding at the meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the chairman of the meeting. The inspectors, if any, shall determine the number of Outstanding Shares and the voting power of each, the Shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all Members. Each such report shall be in writing and signed by him or her or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of Shares represented at the meeting and the results of the voting shall be prima facie evidence thereof. The inspectors shall have the duties prescribed by the DGCL as if the Company were a Delaware corporation.

Section 9.14. Waiver of Notice. Whenever any notice is required to be given to any Member by the terms of this Agreement or pursuant to applicable law, a waiver thereof in writing, signed by the Person or Persons entitled to such notice, or a waiver thereof by electronic transmission by the Person or Persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the Members need be specified in any written waiver of notice or any waiver by electronic transmission of such meeting, unless specifically required by statute. Notice of any meeting of Members need not be given to any Member if waived by such Member either in a writing signed by such Member or by electronic transmission, whether such waiver is given before or after such meeting is held. If any such waiver is given by electronic transmission, the electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the Member. The attendance of any Person at any meeting shall constitute a waiver of notice of such meeting, except where such Person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 9.15. Remote Communication. For the purposes of this Agreement, if authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, Members and proxyholders may, by means of remote communication:

(a) participate in a meeting of Members; and

(b) to the fullest extent permitted by applicable law, be deemed present in person and vote at a meeting of Members, whether such meeting is to be held at a designated place or solely by means of remote communication; *provided, however*, that (i) the Company shall implement reasonable measures to verify that each Person deemed present and permitted to vote at the meeting by means of remote communication is a Member or proxyholder, (ii) the Company shall implement reasonable measures to provide such Members and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the Members, including an opportunity to read or hear the proceedings of the meeting substantially and concurrently with such proceedings, and (iii) if any Member or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Company.

Section 9.16. Member Action Without a Meeting. On any matter that is to be voted on, consented to or approved by Members, the Members may take such action without a meeting, without prior notice and without a vote if a unanimous written consent, setting forth the action so taken, shall be signed by all of the Members.

Section 9.17. Return on Capital Contribution. Except as otherwise provided in Article XVIII, no Member shall demand a return on or of its Capital Contributions.

Section 9.18. Member Compensation. No Member shall receive any interest, salary or draw with respect to its Capital Contributions or its Capital Account or for services rendered on behalf of the Company, or otherwise, in its capacity as a Member, except as otherwise provided in this Agreement or in the Management Agreement.

Section 9.19. Member Liability. Except as required by the Act, no Member shall be liable under a judgment, decree or order of a court, or in any other manner, for the Debts or any other obligations or liabilities of the Company. A Member shall be liable only to make its Capital Contributions and shall not be required to restore a deficit balance in its Capital Account or to lend any funds to the Company or, after its Capital Contributions have been made, to make any additional contributions, assessments or payments to the Company except as otherwise specifically provided herein; *provided*, *however*, that a Member may be required to repay any distribution made to it in contravention of Section 5.3 or Sections 18-607 or 18-804 of the Act. The Manager shall not have any personal liability for the repayment of any Capital Contributions of any Member.

ARTICLE X

INVESTMENT POLICIES

Section 10.1. Investment Policies. Subject to the provisions of this Agreement, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Company as it shall deem appropriate in its sole discretion.

ARTICLE XI

SEAL

Section 11.1. Seal. The Board of Directors may authorize the adoption of a seal by the Company. The seal shall contain the name of the Company, the year of its formation, and the words “Delaware Limited Liability Company.” The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

Section 11.2. Affixing Seal. Whenever the Company is permitted or required to affix its seal to a document, except as otherwise required by applicable law, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word “(SEAL)” adjacent to the signature of the Person authorized to execute the document on behalf of the Company.

ARTICLE XII

CONTRACT, LOANS, CHECKS AND DEPOSITS

Section 12.1. Contracts. The Board of Directors, the Executive Committee or another committee of the Board of Directors within the scope of its delegated authority, may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Company and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Company when duly authorized or ratified by action of the Board of Directors, or the Executive Committee or such other committee and executed by an authorized person.

Section 12.2. Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Company shall be signed by such officer or agent of the Company in such manner as shall from time to time be determined by the Board of Directors.

Section 12.3. Deposits. All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may designate.

ARTICLE XIII

INDEMNIFICATION

Section 13.1. Indemnification and Advances.

(a) Subject to other applicable provisions of this Article XIII, each Person that is or was a Director, officer, employee, Tax Matters Member or agent of the Company shall not be liable to the Company, any Subsidiary of the Company, any Director of the Company, any Member or any holder of any equity interest in any Subsidiary of the Company for any acts or omissions by any such Person arising from the performance of their duties and obligations in connection with the Company or this Agreement, including with respect to any acts or omissions made while serving at the request of the Company as an officer, director, member, partner, Tax Matters Member, fiduciary or trustee of another corporation, partnership, joint venture, trust or other enterprise, except (i) for any breach of such Person’s duty of loyalty to the Company or the Members, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law or (iii) for any transaction from which such Person derived an improper personal benefit. The Company may indemnify, to the fullest extent permitted by law, each Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company), by reason of the fact that the Person is or was a Director, officer, employee, Tax Matters Member or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Person in connection with such action, suit or proceeding, if the Person acted in good faith and in a manner the Person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the Person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Person did not act in good faith and in a manner which the Person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the Person's conduct was unlawful.

(b) The Company may indemnify, to the fullest extent permitted by law, any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Person is or was a Director, officer, employee, Tax Matters Member or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the Person in connection with the defense or settlement of such action or suit if the Person acted in good faith and in a manner the Person reasonably believed to be in or not opposed to the best interests of the Company and except that no indemnification shall be made in respect of any claim, issue or matter as to which such Person shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such Person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(c) To the extent that a present or former Director, officer or Tax Matters Member of the Company has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in this Section 13.1(a), or in defense of any claim, issue or matter therein, such Person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such Person in connection therewith.

(d) Each of the Persons entitled to be indemnified for expenses and liabilities as contemplated above may, in the performance of his, her or its duties, consult with legal counsel and accountants, and any act or omission by such Person on behalf of the Company in furtherance of the interests of the Company in good faith in reliance upon, and in accordance with, the advice of such legal counsel or accountants will be full justification for any such act or omission, and such Person will be fully protected for such acts and omissions; provided, that such legal counsel or accountants were selected with reasonable care by or on behalf of the Company.

(e) Any indemnification of a present or former Director, officer, employee, Tax Matters Member or agent of the Company under Section 13.1(a) or (c) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the present or former Director, officer, employee, Tax Matters Member or agent of the Company is proper in the circumstances because the Person has met the applicable standard of conduct set forth in Section 13.1(a) or pursuant to Section 13.1(c), as the case may be. Such determination shall be made, with respect to a Person who is a Director, officer, employee, Tax Matters Member or agent of the Company at the time of such determination, (1) by a majority vote of the Directors who are not parties to any such action, suit or proceeding, even though less than a quorum, (2) by a committee of such Directors designated by a majority vote of such Directors, even though less than a quorum, (3) if there are no such Directors, or if a majority, even though less than a quorum, of such Directors so direct, by independent legal counsel in a written opinion, or (4) by the Members. The indemnification, and the advancement of expenses incurred in defending a action, suit or proceeding prior to its final disposition, provided by or granted pursuant to this Agreement shall not be exclusive of any other right which any Person may have or hereafter acquire under any statute, other provision of this Agreement, vote of Members or Disinterested Directors or otherwise. No repeal, modification or amendment of, or adoption of any provision inconsistent with, this Section 13.1, nor, to the fullest extent permitted by applicable law, any modification of law, shall adversely affect any right or protection of any Person granted pursuant hereto existing at, or with respect to any events that occurred prior to, the time of such repeal, amendment, adoption or modification. The indemnification and advancement of expenses provided by, or granted pursuant to, this Agreement shall, unless otherwise provided when authorized or ratified, continue as to a Person who has ceased to be a Director, officer, Tax Matters Member, employee or agent of the Company and shall inure to the benefit of the heirs, executors and administrators of such a Person.

(f) The Company may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Company the expenses incurred in defending any such action, suit or proceeding in advance of its final disposition, to any Person who is or was an employee or agent of the Company or any Subsidiary of the Company (other than those Persons indemnified pursuant to clause (a) of this Section 13.1) and to any Person who is or was serving at the request of the Company or a Subsidiary of the Company as a director, officer, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the Company or a Subsidiary of the Company, to the fullest extent of the provisions of this Agreement with respect to the indemnification and advancement of expenses of directors, officers, employees, Tax Matters Members and agents of the Company. The payment of any amount to any Person pursuant to this clause (f) shall subrogate the Company to any right such Person may have against any other Person.

(g) To the fullest extent permitted by law, expenses (including attorneys' fees) incurred by a Director, officer, employee, Tax Matters Member or agent of the Company in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Person to repay such amount if it shall ultimately be determined that such Person is not entitled to be indemnified by the Company as authorized in this Section 13.1.

(h) With respect to any Person who is a present or former Director, officer, employee, Tax Matters Member or agent of the Company, any undertaking required by this Section 13.1(d) shall be an unlimited general obligation but need not be secured and shall be accepted without reference to financial ability to make repayment; *provided*, *however*, that such present or former Director, officer, employee, Tax Matters Member or agent of the Company does not transfer assets with the intent of avoiding such repayment.

(i) The indemnification and advancement provided in this Section 13.1 is intended to comply with the requirements of, and provide indemnification and advancement rights substantially similar to those that may be available to directors, officers, employees and agents of corporations incorporated under, the DGCL as it relates to the indemnification of officers, directors, employees and agents of a Delaware corporation and, as such (except to the extent greater rights are expressly provided in this Agreement), the parties intend that they should be interpreted consistently with the provisions of, and jurisprudence regarding, the DGCL.

(j) Any notice, request or other communications required or permitted to be given to the Company under this Section 13.1 shall be in writing and either delivered in person or sent by facsimile, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the Secretary and shall be effective only upon receipt by the Secretary, as the case may be.

(k) To the fullest extent permitted by the law of the State of Delaware, each Director, officer, employee, Tax Matters Member and agent of the Company agrees that all actions for the advancement of expenses or indemnification brought under this Section 13.1 or under any vote of Members or Disinterested Directors or otherwise shall be a matter to which Section 18-111 of the Act shall apply and which shall be brought exclusively in the Court of Chancery of the State of Delaware. Each of the parties hereto agrees that the Court of Chancery of the State of Delaware may summarily determine the Company's obligations to advance expenses (including attorneys' fees) under this Section 13.1.

Section 13.2. Insurance. The Company may maintain insurance, at its expense, to protect itself and any Person who is or was a Director, officer, partner, the Manager (or manager), Member (or member), employee, Tax Matters Member or agent of the Company or a Subsidiary of the Company or of another corporation, partnership, limited liability company, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Company would have the power to indemnify such Person against such expense, liability or loss under the DGCL (if the Company were a corporation incorporated thereunder) or the Act.

Section 13.3. Reliance; Limitations in Liability.

(a) Each Director of the Company shall, in the performance of such Director's duties, be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by the Manager, or employees of the Manager, or any of the officers of the Company, or committees of the Board of Directors, or by any other Person as to matters the Director reasonably believes are within such other Person's professional or expert competence, including, without limitation, information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits or losses of the Company, or the value and amount of assets or reserves or contracts, agreements or other undertakings that would be sufficient to pay claims and obligations of the Company or to make reasonable provision to pay such claims or obligations, or any other facts pertinent to the existence and amount of the assets of the Company from which distributions to Members might properly be paid.

(b) No Director shall be liable to the Company, any Subsidiary of the Company or the Members for monetary damages for any acts or omissions arising from the performance of any of such Director's obligations or duties in connection with the Company, including any breach of fiduciary duty, except as follows: (i) for breach of the Director's duty of loyalty to the Company or its Members, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or (iii) for any transaction from which the Director derived an improper personal benefit. To the extent the provisions of this Agreement restrict or eliminate the duties and liabilities of a Director of the Company or the Members or the Manager otherwise existing at law or in equity, the provisions of this Agreement shall replace such duties and liabilities.

(c) To the fullest extent permitted by law, a Director of the Company shall not be liable to the Company, any Member or any other Person for: (i) any action taken or not taken as required by this Agreement; (ii) any action taken or not taken as permitted by this Agreement and, with respect to which, such Director acted on an informed basis, in good faith and with the honest belief that such action, taken or not taken, was in the best interests of the Company; or (iii) the Company's compliance with an obligation incurred or the performance of any agreement entered into prior to such Director having become a Director of the Company.

(d) Any Director shall not be liable to the Company or to any other Director or Member of the Company or any such other Person that is a party to or otherwise bound by this Agreement for breach of fiduciary duty for the Director's good faith reliance on the provisions of this Agreement.

(e) Except as otherwise required by the Act, the debts, obligations and liabilities of the Company shall be solely the debts, obligations and liabilities of the Company and no Director shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Director of the Company.

ARTICLE XIV

ACCOUNTING YEAR

Section 14.1. Accounting Year. The Manager shall have the power, from time to time, to fix the fiscal year end of the Company, which initially shall be December 31.

ARTICLE XV

MEMBER VOTE REQUIRED IN CONNECTION WITH CERTAIN BUSINESS COMBINATIONS OR TRANSACTIONS

Section 15.1. Vote Generally Required. Subject to the provisions of Section 15.2, the Company shall not (a) merge or consolidate with or into any limited liability company, corporation, statutory trust, business trust or association, real estate investment trust, common-law trust or any other unincorporated business, including a partnership, or (b) sell, lease or exchange all or substantially all of its Property and assets in a single transaction or series of related transactions, unless the Board of Directors shall adopt a resolution, by the affirmative vote of at least a majority of the Board of Directors, approving such action and unless such action shall be approved by the affirmative vote of the holders of a majority of each class of Shares (other than LTIP Units), in each case, Outstanding and entitled to vote thereon, unless such action is as contemplated by Section 6.2(d) or this Article XV, in which event no vote by the holders of shares shall be required. The notice of the meeting at which such resolution is to be considered will so state.

Section 15.2. Vote for Business Combinations. The affirmative vote of the holders of record of at least a majority of each class of Shares (other than LTIP Units) then Outstanding (excluding Shares Owned by the Interested Member or any Affiliate or Associate of the Interested

Member) and entitled to vote thereon shall be required to approve any Business Combination. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by applicable law or in any agreement with any securities exchange or otherwise.

Section 15.3. Power of Continuing Directors. The Continuing Directors shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article XV, including, without limitation, (a) whether a Person is an Interested Member, (b) the number of Shares of the Company beneficially owned by any Person, (c) whether a Person is an Affiliate or Associate of another, and (d) the Fair Market Value of the equity securities of the Company or any Subsidiary thereof, and the good faith determination of the Continuing Directors on such matters shall be conclusive and binding for all the purposes of this Article XV.

Section 15.4. No Effect on Fiduciary Obligations. Nothing contained in this Article shall be construed to relieve the Directors or an Interested Member from any fiduciary obligation imposed by applicable law.

ARTICLE XVI

BOOKS AND RECORDS

Section 16.1. Books and Records; Inspection by Members.

(a) The Company, other than as provided in the Management Agreement, shall keep or cause to be kept at its principal executive office appropriate books and records with respect to the Company's business, including, without limitation, all books and records necessary to provide to the Members any information, lists and copies of documents required to be provided pursuant to applicable law. Any books and records maintained by or on behalf of the Company in the regular course of its business, including, without limitation, the record of the Members, books of account and records of Company proceedings, may be kept in electronic or any other form; provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time.

(b) The Secretary shall make, at least ten days before every meeting of Members, a complete list of the Members entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each Member and the number of Shares registered in the name of each Member. Such list shall be open to the examination of any Member, for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network; *provided*, that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Company. In the event that the Company determines to make the list available on an electronic network, the Company may take reasonable steps to ensure that such information is available only to Members. If the meeting of Members is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any Member who is present.

(c) Any Member or Owner, in person or by attorney or other agent, shall, upon written demand stating the purpose thereof, have the right during the usual business hours to inspect for any proper purpose, and to make copies and extracts from the Register, a list of the Members, and its other books and records; *provided*, that as of the date of the making of the demand inspection of such books and records would not constitute a breach of any confidentiality agreement. In every instance where a Person purports to be an Owner of Shares but who is not the Record Holder as identified on the Register, the demand shall state under oath such Person's status as an Owner of Shares, be accompanied by documentary evidence of Ownership of Shares, and state that such documentary evidence is a true and correct copy of what it purports to be. A proper purpose shall mean a purpose reasonably related to such Person's interest as a Member or Owner of Shares. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the Member. The demand under oath shall be directed to the Company at its principal place of business.

Section 16.2. Reports.

(a) As soon as practicable, but in no event later than 120 days after the close of each fiscal year of the Company, the Board of Directors shall cause to be mailed or made available to each Record Holder of a Share, as of a date selected by the Board of Directors, an annual report containing financial statements of the Company for such fiscal year of the Company, presented in accordance with GAAP, including a balance sheet and statements of operations, equity and cash flows, such statements to be audited by a registered public accounting firm selected by the Board of Directors.

(b) As soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each fiscal year, the Board of Directors shall cause to be mailed or made available to each Record Holder of a Share, as of a date selected by the Board of Directors, a report containing unaudited financial statements of the Company and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Shares are listed for trading, or as the Board of Directors determines to be necessary or appropriate.

Section 16.3. Preparation of Tax Returns. The Manager shall arrange for the preparation and timely filing of all returns of Company income, gains, deductions, losses and other items required of the Company for U.S. federal and state income tax purposes. The Company shall use reasonable efforts to furnish to all Members necessary tax information as promptly as practicable after the end of the taxable year of the Company; *provided*, *however*, that delivery of such tax information may be subject to delay as a result of the late receipt of any necessary tax information from any entity in which the Company or any of its Subsidiaries holds an interest. The classification, realization and recognition of income, gains, deductions, losses and other items shall be on the accrual method of accounting for U.S. federal income tax purposes.

Section 16.4. Tax Elections. The Manager may, in its sole discretion and without any further consent of the Members being required (except as specifically required herein), make (i) the election to adjust the basis of Property pursuant to Sections 754, 734(b) and 743(b) of the Code, or comparable provisions of state, local or foreign law, in connection with Sales of Shares and Company distributions; and (ii) any and all other elections for U.S. federal, state, local and foreign tax purposes, including, without limitation, any election, if permitted by applicable law: (x) to extend the statute of limitations for assessment of tax deficiencies against the Members with respect to adjustments to the Company's U.S. federal, state, local or foreign tax returns; or (y) cause the

Company to be treated as an "electing large partnership" within the meaning of Section 775 of the Code.

Section 16.5. Tax Matters Member. The Manager is appointed and specifically authorized to act as the "tax matters partner" of the Company under the Code and in any similar capacity under state or local law (the "Tax Matters Member"). The Tax Matters Member is authorized and required to represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Company funds for professional services and costs associated therewith. Each Member agrees to cooperate with the Tax Matters Member and to do or refrain from doing any or all things reasonably required by the Tax Matters Member to conduct such proceedings. Should the Manager no longer be a Member or no longer be the Manager pursuant to the Management Agreement, then, upon such event, the Board of Directors, without any further consent of the Members being required, may designate a replacement "Tax Matters Member."

ARTICLE XVII
AMENDMENTS

Section 17.1. General. Except as provided in Section 17.2, Section 17.3 and Section 17.4, the Board of Directors may amend any of the terms of this Agreement but only in compliance with the terms, conditions and procedures set forth in this Section 17.1. If the Board of Directors desires to amend any provision of this Agreement other than pursuant to Section 17.3, then it shall first adopt a resolution setting forth the amendment proposed, declaring its advisability, and then (i) call a special meeting of the Members entitled to vote in respect thereof for the consideration of such amendment, (ii) direct that the amendment proposed be considered at the next annual meeting of the Members or (iii) seek the written consent of the Members. Amendments to this Agreement may be proposed only by or with the consent of the Board of Directors. Such special or annual meeting shall be called and held upon notice in accordance with Article IX of this Agreement. The notice shall set forth such amendment in full or a brief summary of the changes to be effected thereby, as the Board of Directors shall deem advisable. A proposed amendment shall be effective upon its approval by the Members holding a majority of the total voting power of the Company's Outstanding Common Shares, unless a greater percentage is required under this Agreement or by Delaware law.

Section 17.2. Super-Majority Amendments. Notwithstanding Section 17.1, the affirmative vote of the Members representing at least two-thirds of the total voting power of the Company's Outstanding Common Shares, shall be required to alter or amend any provision of this Section 17.2 or Section 17.4.

Section 17.3. Amendments to be Adopted Solely by the Board of Directors.

(a) Notwithstanding Section 17.1, the Board of Directors, without the approval of any Member, may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(i) a change in the Company's name, the location of principal place of business, registered agent or registered office;

(ii) the admission, substitution, withdrawal or removal of Members in accordance with the terms of this Agreement;

(iii) the merger of the Company or any of its Subsidiaries into, or the conveyance of all or substantially all of the Company's assets to, a newly-formed entity if the sole purpose of that merger or conveyance is to effect a mere change in the Company's legal form into another limited liability entity;

(iv) a change that the Board of Directors determines to be necessary or appropriate for the Company to qualify or continue the Company's qualification as a company in which the Members have limited liability under the laws of any state or to ensure that the Company will not be treated as an association taxable as a corporation or otherwise taxed as an entity for U.S. federal income tax purposes other than as the Board of Directors specifically so designates;

(v) an amendment that the Board of Directors determines, based upon the advice of counsel, to be necessary or appropriate to prevent the Company, members of the Board of Directors, or the Company's officers, agents or trustees from in any manner being subjected to the provisions of the Investment Company Act, the Investment Advisers Act of 1940, or "plan asset" regulations adopted under ERISA whether or not substantially similar to plan asset regulations currently applied or proposed;

(vi) an amendment that the Board of Directors determines, based on advice of counsel, to be necessary to cause the allocations of Profit and Loss in Article IV to conform to the requirements of Section 704(b) of the Code;

(vii) an amendment or issuance that the Board of Directors determines to be necessary or appropriate for the authorization of additional securities;

(viii) any amendment expressly permitted by this Agreement to be made by the Board of Directors acting alone;

(ix) an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of this Agreement;

(x) any amendment that the Board of Directors determines to be necessary or appropriate for the formation by the Company of, or the Company's investment in, any corporation, partnership or other entity, as otherwise permitted by this Agreement;

(xi) a change in the Company's fiscal year or taxable year and related changes; and

(xii) any other amendments substantially similar to any of the matters described in the clauses above.

(b) Notwithstanding Section 17.1 and Section 17.3(a), the Board of Directors may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, without the approval of any Member if the Board of Directors determines that any such amendments:

(i) do not adversely affect the Members (including any Members holding a particular class or series of Shares as compared to other classes or series of Shares) in any material respect;

(ii) are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

(iii) are necessary or appropriate to facilitate the trading of Shares or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the Shares are or will be listed for trading, compliance with any of which the Board of Directors deems to be in the best interests of the Company and the Members;

(iv) are necessary or appropriate for any action taken by the Board of Directors relating to splits or combinations of shares under the provisions this Agreement; or

(v) are required to effect the intent expressed in this Agreement or are otherwise contemplated by this Agreement.

Section 17.4. Amendment Requirements.

(a) Notwithstanding the provisions of Sections 17.1 and 17.3, but subject to the provisions of Section 17.2, no amendment to this Agreement may (i) enlarge the obligations of any Member without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 17.4(b), (ii) change Section 18.1(i), (iii) change the term of existence of the Company or, (iv) except as set forth in Section 18.1(i), give any Person the right to dissolve the Company.

(b) Except as provided in Section 15.2, and without limitation of the Board of Directors' authority to adopt amendments to this Agreement without the approval of any Members as contemplated in Section 17.1, notwithstanding the provisions of Section 17.1, any amendment that would have a material adverse effect on the rights or preferences of any class or series of Shares in relation to other classes or series of Shares must be approved by the holders of a majority of the Outstanding Shares of the class or series affected.

ARTICLE XVIII

DISSOLUTION AND WINDING UP

Section 18.1. Dissolution Events. The Company shall dissolve and shall commence winding up upon the first to occur of any of the following (each a "Dissolution Event"):

(i) the Board of Directors adopts a resolution, by the affirmative vote of at least a majority of the Board of Directors, approving the dissolution of the Company and such action has been approved by the affirmative vote of the holders of a majority of the Outstanding Shares and entitled to vote thereon;

(ii) the sale, exchange or other disposition of all or substantially all of the Company's assets and those of its Subsidiaries;

(iii) the entry of a judicial decree that an event has occurred that makes it not reasonably practicable to carry on the business of the Company as then currently operated as determined in accordance with Section 18-802 of the Act; or

(iv) upon the termination of the legal existence of the last remaining Member or the occurrence of any other event that terminates the continued membership of the last remaining Member in the Company unless the Company is continued without dissolution in a manner permitted by this Agreement or the Act.

The Members hereby agree that, notwithstanding any provision of the Act, the Company shall not dissolve prior to the occurrence of a Dissolution Event.

Section 18.2. Winding Up. Upon the occurrence of a Dissolution Event, the Company shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Members, and no Member shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Company's business and affairs; *provided*, *however*, that all covenants contained in this Agreement and obligations provided for in this Agreement shall continue to be fully binding upon the Members until such time as the Property has been distributed pursuant to this Section 18.2 and the Certificate of Formation has been canceled pursuant to the Act. The Liquidator shall be responsible for overseeing the winding up of the Company, and shall endeavor to complete the winding up no later than 90 days after the occurrence of the Dissolution Event. The Liquidator shall take full account of the Company's liabilities and Property and shall cause the Property or the proceeds from the sale thereof (as determined pursuant to Section 18.9), to the extent sufficient therefor, to be applied and distributed, to the maximum extent permitted by law, in the following order:

(a) First, to creditors (including the Manager and the Members who are creditors, to the extent otherwise permitted by law) in satisfaction of all of the Company's Debts and other liabilities (whether by payment or the making of reasonable provision for payment thereof), other than liabilities for distributions to Members under Section 18-601 or 18-604 of the Act;

(b) Second, except as provided in this Agreement, to Members and former Members of the Company in satisfaction of liabilities for distributions under Section 18-601 or 18-604 of the Act; and

(c) The balance, if any, to the Members, subject to the terms of any Share Designation, in accordance with the positive balance in their Capital Accounts, after giving effect to all contributions, distributions and allocations for all periods. It is intended that each Common Share receive an identical amount under this provision, and this Agreement shall be construed so as to achieve that result.

Notwithstanding Section 18.9, no Member or Manager shall receive additional compensation for any services performed pursuant to this Article XVIII.

Section 18.3. Compliance with Certain Requirements of Regulations; Deficit Capital Accounts. In the event the Company is "liquidated" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) (other than a "liquidation" as the result of termination under Section 708(b)(1)(B)) of the Code), distributions shall be made in compliance with Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Member has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations for all Allocation Years, including the Allocation Year during which such liquidation occurs), such Member shall have no obligation to make any contribution to the capital of the Company with respect to such deficit, and such deficit shall not be considered a debt owed to the Company or to any other Person for any purpose whatsoever. In the discretion of the Liquidator, a pro rata portion of the distributions that would otherwise be made to the Members pursuant to this Article XVIII may be:

(a) Distributed to a trust established for the benefit of the Members for the purposes of liquidating Company assets, collecting amounts owed to the Company, and paying any contingent, conditional or unmatured liabilities or obligations of the Company; the assets of any such trust shall be distributed to the Members from time to time, in the reasonable discretion of the Liquidator, in the same proportions as the amount distributed to such trust by the Company would otherwise have been distributed to the Members pursuant to Section 18.2; or

(b) Withheld to provide a reasonable reserve for Company liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Company; *provided*, *however*, that such withheld amounts shall be distributed to the Members as soon as practicable.

Section 18.4. Deemed Contribution and Distribution. Notwithstanding any other provision of this Article XVIII, in the event the Company terminates under Section 708(b)(1)(B) of the Code and no Dissolution Event has occurred, the Property shall not be liquidated, the Company's Debts and other Liabilities shall not be paid or discharged, and the Company's affairs shall not be wound up. Instead, solely for U.S. federal income tax purposes, the Company shall be deemed to have contributed all its Property and liabilities to a new limited liability company in exchange for interests in such new company and, immediately thereafter, the Company will be deemed to liquidate by distributing interests in the new company to the Members.

Section 18.5. Rights of Members. Except as otherwise provided in this Agreement, each Member shall look solely to the Property of the Company for the return of its Capital Contribution and has no right or power to demand or receive Property other than cash from the Company. If the assets of the Company remaining after payment or discharge of the debts or liabilities of the Company are insufficient to return such Capital Contribution, the Member shall have no recourse against the Company or any other Member or the Manager.

Section 18.6. Notice of Dissolution/Termination.

(a) In the event a Dissolution Event occurs or an event occurs that would, but for the provisions of Section 18.1, result in a dissolution of the Company, the Board of Directors shall, within thirty days thereafter, provide written notice thereof to each of the Members and to all other parties with whom the Company regularly conducts business (as determined in the discretion of the Board of Directors) and shall publish notice thereof in a newspaper of general circulation in each place in which the Company regularly conducts business (as determined in the discretion of the Board of Directors).

(b) Upon completion of the winding up, including distribution of the Company's assets as provided in this Article XVIII, the Board of Directors or the Liquidator shall cause the filing of the Certificate of Cancellation pursuant to Section 18-203 of the Act and shall take all such other actions as may be necessary to terminate the Company.

Section 18.7. Allocations During Period of Winding Up. During the period commencing on the first day of the Allocation Year during which a Dissolution Event occurs and ending on the date on which all of the remaining assets of the Company have been distributed to the Members pursuant to Section 18.2 (the "Liquidation Period"), the Members shall continue to share Profits, Losses, gain, loss and other items of Company income, gain, loss or deduction in the manner provided in Article IV (but subject to the special allocations in respect of LTIP Units as prescribed by Section 4.3(g)).

Section 18.8. The Liquidator.

(a) Fees. Subject to Section 18.2, the Company is authorized to pay a reasonable fee to the Liquidator for its services performed pursuant to this Article XVIII and to reimburse the Liquidator for its reasonable costs and expenses incurred in performing those services.

(b) Indemnification. The Company shall indemnify, hold harmless and pay all judgments and claims against the Liquidator or any officers, directors, agents or employees of the Liquidator relating to any liability or damage incurred by reason of any act performed or omitted to be performed by the Liquidator or any officers, directors, agents or employees of the Liquidator in connection with the liquidation of the Company, including reasonable attorneys' fees incurred by the Liquidator, officer, director, agent or employee in connection with the defense of any action based on any such act or omission, which attorneys' fees may be paid as incurred, except to the extent such liability or damage is caused by the fraud or intentional misconduct of, or a knowing violation of the laws by, the Liquidator which was material to the cause of action.

Section 18.9. Form of Liquidating Distributions. For purposes of making distributions required by Section 18.2, the Liquidator shall sell all or any portion of the Property and distribute the proceeds therefrom.

ARTICLE XIX
MISCELLANEOUS

Section 19.1. Addresses and Notices. Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Member under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Member at the address described below. Any notice, payment or report to be given or made to a Member hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Shares at his, her or its address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Company, regardless of any claim of any Person who may have an interest in such Shares by reason of any assignment or otherwise. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 19.1 executed by the Company, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books and records of the Transfer Agent or the Company is returned by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Company of a change in his, her or its address) if they are available for the Member at the principal office of the Company for a period of one year from the date of the giving or making of such notice, payment or report to the other Members. Any notice to the Company shall be deemed given if received by the Secretary at the principal office of the Company designated pursuant to Section 1.5. The Board of Directors and the Officers may rely and shall be protected in relying on any notice or other document from a Member or other Person if believed by it to be genuine.

Section 19.2. Binding Effect. Except as otherwise provided in this Agreement, every covenant, term and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective successors, transferees and assigns.

Section 19.3. Construction. It is the intent of the parties hereto that every covenant, term and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any party.

Section 19.4. Time. In computing any period of time pursuant to this Agreement, the day of the act, event or default from which the designated period of time begins to run shall not be included, but the time shall begin to run on the next succeeding day. The last day of the period so computed shall be included, unless it is a Saturday, Sunday or any other day on which banks in The City of New York are required or authorized by law or executive order to close, in which event the period shall run until the end of the next day which is not a Saturday, Sunday or any other day on which banks in The City of New York are required or authorized by law or executive order to close.

Section 19.5. Headings. Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

Section 19.6. Severability. Except as otherwise provided in the succeeding sentence, every provision of this Agreement is intended to be severable, and, if any term or provision of this Agreement is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or legality of the remainder of this Agreement. The preceding sentence of this Section 19.6 shall be of no force or effect if the consequence of enforcing the remainder of this Agreement without such illegal or invalid term or provision would be to cause any Member to lose the material benefit of its economic bargain.

Section 19.7. Incorporation by Reference. Every exhibit, schedule and other appendix attached to this Agreement and referred to herein is not incorporated in this Agreement by reference unless this Agreement expressly otherwise provides.

Section 19.8. Variation of Terms. All terms and any variations thereof shall be deemed to refer to masculine, feminine or neuter, singular or plural, as the identity of the Person or Persons may require.

Section 19.9. Governing Law and Consent to Jurisdiction/Service of Process. The laws of the State of Delaware (without regard to conflict of laws principles) shall govern this Agreement, including the validity of this Agreement, the construction of its terms and the interpretation of the rights and duties arising hereunder.

Each party hereto and any Person acquiring an Share, from time to time, (i) irrevocably submits to the non-exclusive jurisdiction and venue of any Delaware state court or U.S. federal court sitting in Wilmington, Delaware in any action arising out of this Agreement (subject to Section 13.1) and (ii) consents to the service of process by mail. Nothing herein shall affect the right of any party to serve legal process in any manner permitted by law or affect its right to bring any action in any other court.

Section 19.10. Waiver of Jury Trial. Each of the Members irrevocably waives, to the extent permitted by law, all rights to trial by jury and all rights to immunity by sovereignty or otherwise in any action, proceeding or counterclaim arising out of or relating to this Agreement.

Section 19.11. Counterpart Execution. This Agreement may be executed in any number of counterparts with the same effect as if all of the Members had signed the same document. All counterparts shall be construed together and shall constitute one agreement.

Section 19.12. Specific Performance. Each Member agrees with the other Members that the other Members would be irreparably damaged if any of the provisions of this Agreement were not performed in accordance with their specific terms and that monetary damages would not provide an adequate remedy in such event. Accordingly, it is agreed that, in addition to any other remedy to which the nonbreaching Members may be entitled, at law or in equity, the nonbreaching Members shall be entitled to injunctive relief to prevent breaches of the provisions of this Agreement and specifically to enforce the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having subject matter jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have executed and entered into this Second Amended and Restated Operating Agreement of the Company as of the day first above set forth.

ELLINGTON FINANCIAL LLC

By: /s/ Laurence Penn
Name: Laurence Penn
Title: Chief Executive Officer and President

ELLINGTON FINANCIAL MANAGEMENT LLC

By: /s/ Lisa Mumford
Name: Lisa Mumford
Title: Chief Financial Officer

EXHIBIT A

Certificate Evidencing Common Shares
in
Ellington Financial LLC

ELLINGTON FINANCIAL LLC

COMMON SHARES

No.: CUSIP No.:
Common Shares:

In accordance with the Second Amended and Restated Operating Agreement of Ellington Financial LLC, as amended, supplemented or restated from time to time (the “Operating Agreement”), Ellington Financial LLC, a Delaware limited liability company (the “Company”), hereby certifies that ________ (the “Holder”) is the registered owner of _________ Common Shares in the Company transferable on the books of the Company, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. The rights, preferences and limitations of the Common Shares are set forth in, and this Certificate and the Common Shares represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Operating Agreement. Copies of the Operating Agreement are on file at, and will be furnished without charge on delivery of written request to the Company at, the principal office of the Company located at 53 Forest Avenue, Old Greenwich, CT 06870 or such other address as may be specified by notice under the Operating Agreement. Capitalized terms used herein but not defined shall have the meanings given them in the Operating Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Member and to have agreed to comply with and be bound by the Operating Agreement, (ii) granted the powers of attorney provided for in the Operating Agreement and (iii) made the waivers and given the consents and approvals contained in the Operating Agreement.

This Certificate shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to principles of conflict of laws thereof.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

THE COMMON SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE RESTRICTIONS ON BENEFICIAL AND CONSTRUCTIVE OWNERSHIP AND TRANSFER, AND THE RIGHTS OF REDEMPTION BY THE COMPANY, CONTAINED IN THE AGREEMENT. EVERY HOLDER OF THIS CERTIFICATE, BY HOLDING AND RECEIVING THE SAME, AGREES WITH THE COMPANY TO BE BOUND BY THE TERMS OF THE AGREEMENT.

Dated:

Countersigned and Registered by:

____
as Transfer Agent and Registrar

Ellington Financial LLC

By: ______________________________
Name: ______________________________
Title: ______________________________

Reverse of Certificate
ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM—	as tenants in common	UNIF GIFT/TRANSFERS MIN ACT
TEN ENT—	as tenants by the entireties	Custodian
		(Cust) (Minor)
JT TEN—	as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts/Transfers to CD Minors Act (State)

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF SHARES
in
ELLINGTON FINANCIAL LLC

FOR VALUE RECEIVED, hereby assigns, conveys, sells and transfers unto

(Please print or typewrite name and address of Assignee)

(Please insert Social Security or other identifying number of Assignee)

__________ Shares evidenced by this Certificate, subject to the Operating Agreement, as amended and restated, of Ellington Financial LLC, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Ellington Financial LLC.

Date:

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

(Signature)

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY SIGNATURE(S) GUARANTEED

(Signature)

<u>INDEMNITY AGREEMENT</u>

This Indemnification Agreement ("Agreement") is made as of October , 2009, by and between ELLINGTON FINANCIAL LLC, a Delaware limited liability company (the "Company"), and ("Indemnitee").

RECITALS

WHEREAS, the Second Amended and Restated Limited Liability Company Operating Agreement of the Company, dated July, 2009 (as amended from time to time, the "Operating Agreement"), the Delaware General Corporation Law (the "DGCL") and the Delaware Limited Liability Company Act (the "DLLCA") expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers, employees and other persons with respect to indemnification;

WHEREAS, a recent court decision in Delaware has created concerns as to the reliability of indemnification of directors, officers and employees in a company's certificate of incorporation, bylaws or other applicable organizational documents as protection against personal liability;

WHEREAS, it is reasonable and prudent for the Company contractually to confirm that the Company is obligated to indemnify, and to advance expenses on behalf of, certain of such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be protected;

WHEREAS, the Company and Indemnitee entered into that certain Indemnity Agreement dated July 20, 2009, and this Agreement is intended to supersede and replace the July 20, 2009 agreement in its entirety; and

WHEREAS, this Agreement is a supplement to and in furtherance of the Operating Agreement and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. <u>Services to the Company.</u> Indemnitee serves as a director and officer of the Company and serves or may serve at the request of the Company as a director, officer, employee, fiduciary or agent of any other Enterprise. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise) and Indemnitee.

Section 2. Definitions. As used in this Agreement:

(a) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(b) “Person” shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that Person shall exclude (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (iii) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(c) “Beneficial Owner” shall have the meaning given to such term in Rule 13d-3 under the Exchange Act; provided, however, that Beneficial Owner shall exclude any Person otherwise becoming a Beneficial Owner by reason of the shareholders of the Company approving a merger of the Company with another entity.

(d) “Corporate Status” describes the status of a person who is or was a director, officer, employee or agent of the Company or of any other corporation, limited liability company, partnership or joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Company.

(e) “Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(f) “Enterprise” shall mean the Company and any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary.

(g) “Expenses” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee, (ii) any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement any taxes imposed on the payment of such taxes by the Company, (iii) all interest, assessment and other charges paid or payable in connection with or in respect of the Expenses, and (iv) for purposes Sections 7(d) and 11(d) only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee’s rights under this Agreement.

(h) “Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past three years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to indemnify such counsel fully against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(i) The term “Proceeding” shall include any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, in which Indemnitee was, is or will be involved as a party or otherwise by reason of any action taken by him or of any action on his part while acting as director or officer of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, employee, fiduciary or agent of an Enterprise , in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement or advancement of expenses can be provided under this Agreement; except one initiated by a Indemnitee to enforce his rights under this Agreement.

(j) Reference to “other enterprise” shall include employee benefit plans; references to “fines” shall include any excise tax assessed with respect to any employee benefit plan; references to “serving at the request of the Company” shall include any service as a director, officer, employee or agent of the Company or any direct or indirect subsidiary of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed not to have engaged in willful misconduct or a knowing violation of criminal law.

Section 3. Indemnification and Settlement.

(a) The Company shall indemnify, defend and hold harmless Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, including a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that his conduct was unlawful. In the case of a Proceeding by or in the right of the Company for which Indemnity seeks indemnification for Expenses reasonably incurred by him or on his behalf in connection with such Proceeding or any claim, issue or matter related thereto, no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged by a court to be liable to the Company, unless and only to the extent that any court in which the Proceeding was brought or the Delaware Chancery Court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification.

(b) Settlement.

(i) Notwithstanding any other provisions of this Agreement, the Company shall have no obligation to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding Indemnitee effected without the Company's prior written consent, not to be unreasonably withheld.

(ii) The Company shall not, without the prior written consent of Indemnitee (not to be unreasonably withheld), consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (A) includes an admission of fault by Indemnitee, any non-monetary remedy affecting or obligation of Indemnitee, or monetary obligation for which Indemnitee is not indemnified hereunder or (B) with respect to any Proceeding with respect to which Indemnitee is likely to be or is made a party, witness or participant or otherwise entitled to seek indemnification hereunder, does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee.

Section 4. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement (other than Section 6(a) and (c) of this Agreement), to the fullest extent permitted by applicable law and to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall, subject to Section 3(b)(i) and Sections 6(a) and (c) of this Agreement, indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. If Indemnitee is not wholly successful in such Proceeding, the Company also shall, subject to Section 3(a) and 3(b)(i) and Sections 6(a) and (c) of this Agreement, indemnify Indemnitee against all Expenses reasonably incurred in connection with a claim, issue or matter related to any claim, issue, or matter on which Indemnitee was successful. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 5. Indemnification For Expenses of a Witness. Notwithstanding any other provision of this Agreement (other than Section 6(a) and (c) of this Agreement), to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

Section 6. <u>Exclusions</u>. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision; or

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act; or

(c) in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board of Directors of the Company authorized the Proceeding (or any part of any Proceeding) prior to its initiation, (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law, or (iii) subject to the terms and limitations in Sections 7(d) and 11(d), the Proceeding was brought by Indemnitee to enforce this Agreement.

Section 7. <u>Advances of Expenses; Defense of Claim</u>.

(a) In accordance with the requirements of the Operating Agreement and the DGCL, and notwithstanding any provision of this Agreement to the contrary, the Company shall advance, to the extent not prohibited by law, the Expenses reasonably incurred by Indemnitee in connection with any Proceeding, and such advancement shall be made within 30 days after the receipt by the Company of a statement or statements requesting such advances (supported by appropriate statements of Expenses incurred) from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee’s ability to repay the expenses and without regard to Indemnitee’s ultimate entitlement to indemnification under the other provisions of this Agreement. Advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement which shall constitute an undertaking providing that Indemnitee undertakes to repay the advance to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company.

(b) In the event the Company is obligated under this Section 7 hereof to pay, and pays the Expenses of any Proceeding against Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such Proceeding, with counsel approved by Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by

Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Proceeding, provided that (i) Indemnitee shall have the right to employ his counsel in any such Proceeding at Indemnitee's expense; and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense or (C) the Company shall not, in fact, have employed counsel approved by Indemnitee to assume the defense of such Proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

(c) This Section 7 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 6(a) or (c) of this Agreement.

(d) In the event Indemnitee incurs Expenses in connection with any Proceeding by Indemnitee to enforce this Agreement, subject to the terms and limitation in Section 11(d), the Company shall advance, to the extent not prohibited by law, such Expenses reasonably incurred by Indemnitee in connection with any such Proceeding, and such advancement shall be made within 30 days after the receipt by the Company of a statement or statements requesting such advances (supported by appropriate statements of Expenses incurred) from time to time, whether prior to or after final disposition of any such Proceeding. Any advances made under this Section 7(d) shall be unsecured and interest free and shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. Advances under this Section 7(d) shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. Indemnitee shall qualify for advances under this Section 7(d) upon the execution and delivery to the Company of this Agreement which shall constitute an undertaking providing that Indemnitee undertakes to repay the advance to the extent that it is ultimately determined that Indemnitee's initiation of a Proceeding to enforce this Agreement was not made in good faith.

Section 8. Procedure for Notification and Defense of Claim.

(a) Indemnitee agrees to notify promptly the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification, hold harmless or exoneration rights, or advancement of Expenses covered hereunder. The failure of Indemnitee to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnitee under this Agreement, or otherwise.

(b) Indemnitee may deliver to the Company a written application to indemnify, hold harmless or exonerate Indemnitee in accordance with this Agreement. Such application(s) may be delivered from time to time and at such time(s) as Indemnitee deems appropriate in his or her sole discretion. Following such a written application for indemnification by Indemnitee, Indemnitee's entitlement to indemnification shall be determined according to Section 9(a) of this Agreement.

Section 9. Procedure Upon Application for Indemnification.

(a) A determination, if required by applicable law, with respect to Indemnitee's entitlement to indemnification shall be made in the specific case by one of the following methods, which shall be at the election of Indemnitee: (i) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board or (ii) by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee. The Company promptly will advise Indemnitee in writing with respect to any determination that Indemnitee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall reasonably cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 9(a) hereof, the Independent Counsel shall be selected as provided in this Section 9(b). The Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected and certifying that the Independent Counsel so selected meets the requirements of "Independent Counsel" as defined in Section 2 of this Agreement. If the Independent Counsel is selected by the Board, the Company shall give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected and certifying that the Independent Counsel so selected meets the requirements of "Independent Counsel" as defined in Section 2 of this Agreement. In either event, Indemnitee or the Company, as the case may be, may, within ten (10) days after such written notice of selection shall have been received, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court of competent jurisdiction has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnitee of a written request for indemnification pursuant to Section 8(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Delaware Court for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Delaware Court, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 9(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 11(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(c) The Company agrees to pay the reasonable fees and expenses of Independent Counsel and to fully indemnify and hold harmless such Independent Counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

Section 10. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 8 of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) Subject to Section 11(e), if the person, persons or entity empowered or selected under Section 9 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee’s statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 10(b) shall not apply if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 9(a) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that

Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or Proceeding, had reasonable cause to believe his conduct was unlawful.

(d) The knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

(e) For purposes of any determination of good faith, Indemnitee shall, unless the facts and circumstances surrounding the case at hand lead a majority of the disinterested directors of the Company or Independent Counsel to reasonably conclude otherwise, be presumed to have acted in good faith if Indemnitee's action is based on the reliance in good faith on records or books of account of the Company, including financial statements, or on information supplied to Indemnitee by officers of the Company in the course of their duties, or on the advice of legal counsel for the Company or on information or records given or reports made to the Company by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company. The provisions of this Section shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(f) Notwithstanding anything in this Agreement to the contrary, in connection with any determination pursuant to this Agreement regarding whether Indemnitee has met the applicable standard of conduct, reference shall be made to the standard of conduct set forth in Section 6.22 of the Operating Agreement relating to potential conflicts of interest, which was in effect on the date that the act or omission that is the subject of indemnification occurred.

Section 11. Remedies of Indemnitee.

(a) Subject to Section 11(e), in the event that (i) a determination is made pursuant to Section 9 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 7 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 9 of this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 4 or 5 or Section 9 of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) payment of indemnification pursuant to Section 3 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, or (vi) in the event that the Company or any person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or Proceeding designed to deny, or to recover from, Indemnitee the benefits provided or to be provided to Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by a court regarding his entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within one hundred eighty (180) days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 11(a); provided, however, that the foregoing clause shall not apply in respect of a proceeding brought by Indemnitee to enforce his rights under Section 4 of this Agreement. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 9 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 11 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 11 the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made pursuant to Section 9 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 11, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 11 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. The Company shall indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefor and the procedures in set forth in Section 9 shall not apply) advance, to the extent not prohibited by law, such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advance of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

Section 12. Non-exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Operating Agreement, any agreement, a vote of shareholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in DGCL or the DLLCA whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Operating Agreement and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees or agents of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim eligible for indemnification pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) The Company’s obligation to indemnify or advance Expenses hereunder to Indemnitee with respect to service at the request of the Company as a director, officer, employee or agent of any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise with respect to such service.

Section 13. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) 10 years after the date that Indemnitee shall have ceased to serve as a director or officer of the Company or as a director officer, employee, fiduciary or agent of another Enterprise or (b) one year after the final termination of any Proceeding then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 11 of this Agreement relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his heirs, executors and administrators.

Section 14. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 15. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director and officer of the Company and one or more direct or indirect subsidiaries of the Company and/or to confirm to Indemnitee that, after he ceases to be such a director or officer he will continue to be entitled to indemnification and advancement of expenses by the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in agreeing to serve as a director and officer of the Company and of one or more direct or indirect subsidiaries of the Company and has provided other good and valuable consideration in connection with this Agreement, the sufficiency and receipt of which are hereby acknowledged.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of, the Operating Agreement and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

Section 16. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties thereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

Section 17. Notice by Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter that may be subject to indemnification or advancement of Expenses covered hereunder. The failure of Indemnitee to so notify the Company shall not relieve the Company of any obligation that it may have to Indemnitee under this Agreement or otherwise; provided, however, that a delay in giving such notice shall not deprive Indemnitee of any right to be indemnified under this Agreement unless, and then only to the extent that, such delay is materially prejudicial to the defense of such claim.

Section 18. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (c) mailed by reputable overnight courier and receipted for by the party to whom said notice or other communication shall have been directed or (d) sent by facsimile transmission, with receipt of oral confirmation that such transmission has been received:

(i) if to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide to the Company; and

(ii) if to the Company, to General Counsel, Ellington Financial LLC, 53 Forest Avenue, Old Greenwich, CT 06870.

or to any other address as may have been furnished to Indemnitee by the Company or vice versa.

Section 19. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

Section 20. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 11(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally: (a) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States of America or any court in any other country; (b) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement; (c) appoint irrevocably, to the extent such party is not a resident of the State of Delaware, National Corporation Research, Ltd., 615 South DuPont Highway, in the City of Dover, County of Kent, Delaware, as its agent in the State of Delaware as such party's agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware; (d) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court; and (e) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum, or is subject (in whole or in part) to a jury trial.

Section 21. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 22. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

ELLINGTON FINANCIAL LLC	INDEMNITEE
By: ______________________	Name: ______________________
Name:	Printed Name:
Title:	Address: c/o Ellington Management Group, L.L.C.
	53 Forest Avenue
	Old Greenwich, CT 06870

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We hereby consent to the use in this Registration Statement on Form S-11 of our report dated April 7, 2009, except for items (J) and (K) in Note 2 and Note 10 as to which the date is July 6, 2009, relating to the financial statements and financial statement schedule of Ellington Financial LLC, which appears in such Registration Statement. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
New York, NY
November 3, 2009