Ellington Financial LLC
Form S-11/A
November 20, 2009
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As filed with the Securities and Exchange Commission on November 20, 2009

Registration No. 333-160562

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective Amendment No. 4

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)

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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	x (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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The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholders named in this prospectus may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling shareholders are soliciting an offer to buy these securities in any state where an offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 20, 2009

Shares

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) 120,000 common shares and (ii) the lesser of 400,000 common shares and the number of shares sufficient for our Manager and certain of its affiliates to own, in aggregate, 10% 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.

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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 September 30, 2009, we had an aggregate portfolio of RMBS with a net value of approximately $347.2 million, derivatives contracts with a net value of approximately $116.1 million and total shareholders equity of approximately $297.6 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.

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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 September 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 $2.5 billion, in addition to $456.3 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 mortgage pass-through certificates, or TBAs
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.

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(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 September 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	$ 210,582,760	$ 207,349,910	69.67%
Agency RMBS	135,851,290	139,848,475	46.99%
Total	$ 346,434,050	$ 347,198,385	116.66%

As of September 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)	$ 15,567,237	$ (11,091,905)	(3.73)%
Short positions using credit default swaps on RMBS and on RMBS and CMBS indices(2)	(182,298,271)	125,320,047	42.10%
Short positions using credit default swaps on corporate bonds and corporate bond indices(2)	(53,625,000)	6,918,413	2.32%
Short positions in interest rate swaps(3)	(100,000,000)	(4,048,184)	(1.36)%
Total		$ 117,098,371	39.33%

(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 September 30, 2009, a small portion of our portfolio consisted of depreciated futures, short positions in total return swaps and other swaps with a fair value of approximately $(1.0) million.

As of September 30, 2009, in addition to our RMBS portfolio and our derivatives portfolio, a small portion of our investment portfolio consisted of put options purchased with a fair value of approximately $0.6 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 September 30, 2009, our book value per common share was $24.93. 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 since inception and for the nine month period ended

September 30, 2009, was 37.87% and 37.16%, respectively. Total returns on our common shares are calculated based on changes in book value per share, assume reinvestment of dividends, and exclude 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.

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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 dividends per share we paid each quarter, the quarterly total return for each such quarter and the cumulative total return as of the end of each such quarter:

	Ending Book Value(1)	Dividends Paid	Quarterly Total Return(1)(2)	Cumulative Total Return(1)(2)
Inception (August 17, 2007)	$ 19.17			
Three month period ending September 30, 2007	$ 19.10		(0.37)%	(0.37)%
Three month period ending December 31, 2007	$ 19.35		1.31%	0.94%
Three month period ending March 31, 2008	$ 18.96		(2.02)%	(1.10)%
Three month period ending June 30, 2008	$ 20.28		6.96%	5.79%
Three month period ending September 30, 2008	$ 20.47		0.94%	6.78%
Three month period ending December 31, 2008	$ 19.27		(5.86)%	0.52%
Three month period ending March 31, 2009(3)	$ 20.83		8.10%	8.66%
Three month period ending June 30, 2009(4)	$ 23.87		14.59%	24.52%
Three month period ending September 30, 2009(5)	$ 24.93	$ 1.50	10.72%	37.87%

(1) Amounts exclude common shares issuable upon conversion of outstanding LTIP units. As of September 30, 2009, we had 11,938,004 common shares outstanding and 380,000 LTIP units outstanding (which are convertible into common shares on a one-to-one basis).
(2) Returns are calculated based on changes in book value per share and assume reinvestment of dividends. On September 15, 2009 we made a distribution of $1.50 per share to holders of record as of September 1, 2009.
(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%.
(5) Cumulative total return includes the effect of share repurchases during the first and second quarters of 2009. Had the repurchases not occurred during those quarters, cumulative total return through the third quarter of 2009 would have been 35.05%.

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 41.81 as of September 30, 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.

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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 often used to purchase 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 September 30, 2009, we had approximately $584.6 million outstanding on reverse repos with six counterparties. These borrowings were the only debt financings we had outstanding as of September 30, 2009, and, given that we had approximately $297.6 million of shareholders equity as of September 30, 2009, our debt-to-equity ratio was 1.96 to 1. Our debt-to-equity ratio does not account for liabilities other than debt financings. As of September 30, 2009, the remaining terms on our reverse repos ranged between 7 and 328 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.

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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 September 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 September 30, 2009, Ellington, including our company, various hedge funds, and various private accounts, had net assets under management of approximately $2.5 billion, in addition to $456.3 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.

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Alignment of Interests between Our Manager, the Manager Group and Our Investors. As of November 19, 2009, the Manager Group owned 1,826,863 of our common shares, excluding LTIP units, representing approximately 15.3% 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) 120,000 common shares and (ii) the lesser of 400,000 common shares and the number of common shares sufficient for the Manager Group to own, in aggregate, 10.0% 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.

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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.

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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.

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(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 68,080 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 September 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 $2.2 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.

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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 generally accepted accounting principles, or 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

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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. On November 9, 2009, our board of directors authorized a distribution to our shareholders of $1.00 per share for the quarter ended September 30, 2009. The distribution will be paid on December 15, 2009 to our shareholders of record as of December 1, 2009. The September 15, 2009 distribution and the December 15, 2009 distribution represent approximately 36.7% and 41.0% of our net income for the six month period ended June 30, 2009 and the three month period ended September 30, 2009, respectively. 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.

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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) 76,813 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 September 30, 2009, as of December 31, 2008 and 2007, for the nine month periods ended September 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 September 30, 2009 and for the nine month periods ended September 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.

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Year Ended December 31, 2008	Period from August 17, 2007 (commencement of operations) to December 31, 2007
Net Investment Income:				
Interest Income	$ 37,209,523	$ 22,005,751	$ 29,914,585	$ 5,898,720
Expenses:				
Base management fee	3,109,724	2,793,139	3,721,121	1,355,912
Incentive fee	16,599,124	1,771,026	1,771,026	
Share-based LTIP expense	2,835,656	1,965,471	2,389,436	906,973
Interest expense	1,609,205	4,018,615	6,189,887	
Professional fees	1,663,235	847,595	1,524,060	658,185
Other expenses	1,314,351	1,016,800	1,494,115	625,117
Total expenses	27,131,295	12,412,646	17,089,645	3,546,187
Net Investment Income	10,078,228	9,593,105	12,824,940	2,352,533
Net Realized and Unrealized Gain (Loss) on Investments and Financial Derivatives:				
Net realized gain (loss) on:				
Investments	(14,522,595)	640,846	(5,075,879)	1,753,849
Financial derivatives	13,767,517	30,172,196	63,598,153	
Net realized gain (loss)	(755,078)	30,813,042	58,522,274	1,753,849

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	Nine Months Ended September 30, 2009	Nine Months Ended September 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	$ 79,462,504	$ (46,143,250)	$ (79,180,278)	$ (651,290)
Financial derivatives	(8,306,612)	18,645,796	5,410,419	(130,122)
Change in net unrealized gain (loss)	71,155,892	(27,497,454)	(73,769,859)	(781,412)
Net Realized and Unrealized Gain (Loss) on Investments and Financial Derivatives	70,400,814	3,315,588	(15,247,585)	972,437
Net Increase (Decrease) in Shareholders Equity Resulting from Operations	$ 80,479,042	$ 12,908,693	$ (2,422,645)	$ 3,324,970

	As of September 30, 2009	As of December 31, 2008	As of December 31, 2007
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 85,348,667	$ 61,400,254	$ 61,705,104
Investments at fair value	940,144,754	429,884,006	180,657,979
Financial derivatives at fair value (appreciated)	132,905,703	141,690,748	
Total assets	1,905,742,883	699,976,080	243,494,998
Investments sold short at fair value	592,347,969	38,421,032	
Reverse repos	584,571,856	260,534,000	
Financial derivatives at fair value (depreciated)	16,798,954	17,304,903	130,122
Total liabilities	1,608,104,834	458,898,436	1,668,105
Shareholders equity	297,638,049	241,077,644	241,826,893
Shareholders equity per common share	$ 24.93	$ 19.27	$ 19.35

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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 te 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;