

Ellington Financial LLC  
Form S-11/A  
September 03, 2009  
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As filed with the Securities and Exchange Commission on September 3, 2009

Registration No. 333-160562

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

**Pre-Effective Amendment No. 1**

**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

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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. "

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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 | <input type="checkbox"/>  | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input checked="" type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

**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. We may not 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 it is not soliciting an offer to buy these securities in any state where an offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 3, 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.

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, 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. We intend to apply to list our common shares on the New York Stock Exchange under the symbol EFC.

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 22.

|           | Price to<br>Public | Underwriting<br>Discounts and<br>Commissions | Proceeds to<br>Issuer |
|-----------|--------------------|--|-----------------------|
| 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**

The date of this prospectus is

**Deutsche Bank Securities**

, 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, 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.*

#### **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 Chairman and 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, Paul Asaro, a Managing Director and Chief Financial Officer of Ellington who serves as our interim Chief Financial Officer, Paul Saltzman, General Counsel of Ellington, who serves as our General Counsel and 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.





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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 are 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;

opportunisticly entering into and managing a portfolio of mortgage-related derivatives;

opportunisticly 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

opportunisticly mitigating our credit and interest rate risk by using a variety of hedging instruments.

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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:

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

(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.



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- (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<br>Cost<br>Basis | Estimated Fair<br>Value | Estimated Fair<br>Value as a<br>Percentage of<br>Total<br>Shareholders<br>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<br>Amount | Estimated Fair<br>Value | Estimated Fair<br>Value as a<br>Percentage of<br>Total<br>Shareholders<br>Equity |
|--|--------------------|-------------------------|--|
| Long positions using credit default swaps on RMBS <sup>(1)</sup>                               | \$ 15,977,810      | \$ (10,911,356)         | (4)%   |
| Short positions using credit default swaps on RMBS and on RMBS and CMBS indices <sup>(2)</sup> | (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 <sup>(3)</sup>  | (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**

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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 three month period ended June 30, 2009, was 24.52% and 14.59%, 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.

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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 quarterly total return for each such quarter and the cumulative total return as of the end of each such quarter:

|                               | <b>Book Value<sup>(1)</sup></b> | <b>Quarterly Total<br/>Return<sup>(1)(2)</sup></b> | <b>Cumulative Total<br/>Return<sup>(1)(2)</sup></b> |
|-------------------------------|---------------------------------|--|---|
| 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 <sup>(3)</sup> | \$ 20.83                        | 8.10%  | 8.66%   |
| June 30, 2009 <sup>(4)</sup>  | \$ 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. Had this 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. Had this 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 July 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 results for the month of July 2009 are indicative of what our results are likely to be for the three month period ending September 30, 2009, and we cannot assure you that our results for the full three month period or in future periods will be consistent with our results for the month of July 2009 or consistent with our results in recent periods. The estimated book value per common share as of July 31, 2009 that is referenced above does not reflect the impact on our book value of the \$1.50 dividend that we have announced that is payable 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, an index that tracks the performance of RMBS, from approximately 91.75 as of August 17, 2007 to approximately 33.00 as of June 30, 2009, we believe that we have performed well relative to the broader mortgage market.

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

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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. Currently, the great majority of our borrowings consist of reverse repurchases agreements, or reverse repos, 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 and our ratio of amounts outstanding under reverse repos to shareholders' equity, or our debt-to-equity ratio, was 1.24 to 1. 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 15 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.



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***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 target 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 and Our Investors.*** As of August 21, 2009, our Manager owned 1,794,004 of our common shares, excluding LTIP units, representing approximately 15.0% of our common shares outstanding as of that date. In addition, our Manager receives at least 10% 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, our Manager has not sold any of our common shares.

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### **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

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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.

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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.