

Ellington Financial LLC  
Form 10-Q  
August 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

**x    QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2011**

**OR**

**..    TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission file number 001-34569**

**Ellington Financial LLC**

**(Exact Name of Registrant as Specified in Its Charter)**

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**Delaware**  
(State or Other Jurisdiction of

**26-0489289**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**53 Forest Avenue, Old Greenwich, Connecticut 06870**

(Address of Principal Executive Office) (Zip Code)

**(203) 698-1200**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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 definitions of large accelerated filers, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☒

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Shares Representing Limited Liability Company Interests, no par value

Outstanding at August 10, 2011
16,507,381

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**ELLINGTON FINANCIAL LLC**

**FORM 10-Q**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements (unaudited)****ELLINGTON FINANCIAL LLC****CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY****(UNAUDITED)**

	June 30, 2011	December 31, 2010
	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	\$ 45,437,323	\$ 35,790,818
Investments, financial derivatives and repurchase agreements:		
Investments at value (Cost \$1,203,146,096 and \$1,232,484,311)	1,201,857,332	1,246,066,560
Financial derivatives - assets (Cost \$136,936,637 and \$208,958,359)	125,712,267	201,335,372
Repurchase agreements (Cost \$22,437,500 and \$25,683,750)	22,437,500	25,683,750
Total investments, financial derivatives and repurchase agreements	1,350,007,099	1,473,085,682
Deposits with dealers held as collateral	20,397,115	20,394,065
Receivable for securities sold	553,564,172	799,142,581
Interest and principal receivable	7,318,245	5,909,317
Other assets	364,396	
Total Assets	\$ 1,977,088,350	\$ 2,334,322,463
LIABILITIES		
Investments and financial derivatives:		
Investments sold short at value (Proceeds \$542,110,655 and \$775,781,612)	\$ 540,155,406	\$ 775,145,098
Financial derivatives liabilities (Net Proceeds \$4,255,004 and \$17,718,129)	10,987,654	21,030,329
Total investments and financial derivatives	551,143,060	796,175,427
Reverse repurchase agreements	801,901,000	777,760,260
Due to brokers margin accounts	116,505,413	166,409,207
Payable for securities purchased	117,933,004	184,012,894
Accounts payable and accrued expenses	2,426,071	2,485,263
Accrued base management fee	1,448,634	1,524,818
Accrued incentive fees		1,421,500
Interest and dividends payable	877,576	861,382
Total Liabilities	1,592,234,758	1,930,650,751
SHAREHOLDERS EQUITY	384,853,592	403,671,712
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,977,088,350	\$ 2,334,322,463

**ANALYSIS OF SHAREHOLDERS' EQUITY:**

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Common shares, no par value, 100,000,000 shares authorized; (16,507,381 and 16,498,342 shares issued and outstanding)	\$ 376,024,478	\$ 394,918,033
Additional paid-in capital LTIP units	8,829,114	8,753,679

<b>Total Shareholders' Equity</b>	<b>\$ 384,853,592</b>	<b>\$ 403,671,712</b>
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### PER SHARE INFORMATION:

Common shares, no par value	\$ 23.31	\$ 24.47
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See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS****AT JUNE 30, 2011****(UNAUDITED)**

<b>Current Principal/ Notional Amount</b>	<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Value Expressed in U.S. Dollars</b>
<b>Long Investments (312.29%) (a) (b) (n)</b>				
<b>Mortgage-Backed Securities (311.08%)</b>				
<b>Agency Securities (215.24%)</b>				
<b>Fixed Rate Agency Securities (200.72%)</b>				
<b>Principal and Interest - Fixed Rate Agency Securities (188.20%)</b>				
\$ 73,049,127	Government National Mortgage Association Pool	5.00%	4/40	\$ 79,458,047
35,464,407	Federal National Mortgage Association Pool	5.00%	4/41	37,897,044
34,304,838	Federal National Mortgage Association Pool	4.50%	2/41	35,548,389
29,484,563	Federal National Mortgage Association Pool	5.00%	4/41	31,488,592
27,461,188	Federal National Mortgage Association Pool	4.50%	11/40	28,456,656
26,115,071	Federal Home Loan Mortgage Corporation Pool	4.00%	11/40	26,100,790
22,490,913	Government National Mortgage Association Pool	4.50%	3/41	23,759,542
22,793,553	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	22,834,510
21,264,590	Federal National Mortgage Association Pool	5.00%	5/41	22,723,208
19,772,046	Federal National Mortgage Association Pool	5.00%	6/41	21,109,748
19,149,303	Federal Home Loan Mortgage Corporation Pool	4.50%	3/41	19,813,544
18,038,359	Federal National Mortgage Association Pool	5.00%	3/41	19,264,404
16,993,309	Federal Home Loan Mortgage Corporation Pool	5.00%	4/41	18,123,099
16,041,894	Federal National Mortgage Association Pool	5.00%	2/41	17,172,346
15,944,209	Federal National Mortgage Association Pool	4.50%	12/40	16,522,186
14,921,445	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	14,913,285
13,600,930	Federal National Mortgage Association Pool	5.00%	4/41	14,521,118
13,639,982	Federal National Mortgage Association Pool	4.50%	7/41	14,119,513
12,561,032	Government National Mortgage Association Pool	5.50%	8/39	13,872,089
11,453,093	Federal National Mortgage Association Pool	4.50%	1/41	11,879,005
11,304,560	Federal National Mortgage Association Pool	4.00%	11/40	11,310,301

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS****AT JUNE 30, 2011 (CONTINUED)****(UNAUDITED)**

<b>Current Principal/ Notional Amount</b>	<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Value Expressed in U.S. Dollars</b>
<b>Principal and Interest - Fixed Rate Agency Securities (188.20%) (continued)</b>				
\$ 10,701,765	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	\$ 10,707,618
9,988,714	Federal National Mortgage Association Pool	5.00%	11/40	10,673,877
9,814,736	Government National Mortgage Association Pool	5.00%	7/40	10,639,020
9,995,877	Federal National Mortgage Association Pool	4.50%	3/41	10,364,475
10,207,709	Federal Home Loan Mortgage Corporation Pool	4.00%	2/41	10,213,291
8,913,033	Federal National Mortgage Association Pool	5.50%	10/39	9,673,775
9,269,248	Federal Home Loan Mortgage Corporation Pool	4.50%	2/41	9,590,775
9,206,501	Federal National Mortgage Association Pool	4.00%	1/41	9,222,684
8,781,029	Federal Home Loan Mortgage Corporation Pool	4.00%	3/41	8,788,575
7,937,671	Federal National Mortgage Association Pool	5.00%	11/40	8,482,145
7,124,125	Federal National Mortgage Association Pool	5.50%	7/39	7,723,275
6,991,495	Federal National Mortgage Association Pool	5.00%	5/41	7,444,850
6,632,710	Federal Home Loan Mortgage Corporation Pool	6.00%	4/39	7,305,827
6,787,528	Federal National Mortgage Association Pool	5.00%	4/41	7,246,747
6,662,469	Federal National Mortgage Association Pool	5.00%	8/40	7,094,489
6,793,515	Federal National Mortgage Association Pool	4.50%	4/41	7,044,026
5,608,425	Federal National Mortgage Association Pool	5.50%	7/39	6,080,102
5,645,258	Federal National Mortgage Association Pool	5.00%	11/40	6,011,317
5,961,134	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	5,971,846
5,937,062	Federal National Mortgage Association Pool	4.00%	2/41	5,953,064
5,601,850	Federal Home Loan Mortgage Corporation Pool	4.00%	5/41	5,599,662
5,495,280	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	5,505,155
5,095,254	Federal National Mortgage Association Pool	4.50%	4/41	5,282,346
5,003,615	Federal National Mortgage Association Pool	4.50%	5/41	5,189,686

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS****AT JUNE 30, 2011 (CONTINUED)****(UNAUDITED)**

<b>Current Principal/ Notional Amount</b>	<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Value Expressed in U.S. Dollars</b>
<b>Principal and Interest - Fixed Rate Agency Securities (188.20%) (continued)</b>				
\$ 4,837,548	Federal National Mortgage Association Pool	5.00%	6/40	\$ 5,166,350
4,959,482	Federal Home Loan Mortgage Corporation Pool	4.50%	2/41	5,131,514
4,596,562	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	4,594,048
3,803,363	Federal National Mortgage Association Pool	5.00%	3/41	4,049,988
3,425,863	Federal National Mortgage Association Pool	5.00%	4/41	3,657,644
2,745,804	Federal National Mortgage Association Pool	5.00%	6/41	2,929,859
2,241,194	Federal National Mortgage Association Pool	5.00%	11/40	2,391,424
4,640,142	Other Federal National Mortgage Association Pools	6.00%	9/39 - 2/40	5,098,532
1,203,951	Other Federal Home Loan Mortgage Corporation Pool	6.00%	5/40	1,325,380
1,154,368	Other Government National Mortgage Association Pool	5.50%	3/41	1,271,969
				724,312,751
<b>Interest Only - Fixed Rate Agency Securities (1.36%)</b>				
17,771,554	Other Federal National Mortgage Association	5.00% - 5.50%	10/39 - 10/40	2,914,381
7,108,495	Other Federal Home Loan Mortgage Corporation	5.50%	1/39	1,302,298
11,329,698	Other Government National Mortgage Association	5.50%	3/36	1,010,353
				5,227,032
<b>TBA - Fixed Rate Agency Securities (11.16%) (c)</b>				
25,000,000	Federal National Mortgage Association Pool (30 Year)	3.50%	7/11	23,917,969
17,000,000	Federal National Mortgage Association Pool (30 Year)	4.00%	7/11	17,003,320
2,000,000	Other Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50% - 5.00%	7/11	2,016,093
				42,937,382
<b>Total Fixed Rate Agency Securities (Cost \$766,423,393)</b>				<b>772,477,165</b>

See Notes to Consolidated Financial Statements



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**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**

**AT JUNE 30, 2011 (CONTINUED)**

**(UNAUDITED)**

Current Principal/ Notional Amount	Description	Rate	Maturity	Value <i>Expressed in U.S. Dollars</i>
<b>Floating Rate Agency Securities (14.52%)</b>				
<b>Principal and Interest - Floating Rate Agency Securities (14.52%)</b>				
\$ 10,699,967	Federal National Mortgage Association Pool	5.11%	5/38	\$ 11,284,491
10,271,133	Federal National Mortgage Association Pool	5.71%	1/38	10,897,649
8,267,587	Federal National Mortgage Association Pool	5.24%	12/35	8,709,915
8,194,173	Federal National Mortgage Association Pool	5.24%	2/38	8,653,286
4,375,839	Federal National Mortgage Association Pool	5.54%	7/37	4,687,380
3,506,820	Federal National Mortgage Association Pool	5.68%	4/36	3,726,899
3,417,121	Federal Home Loan Mortgage Corporation Pool	2.82%	7/34	3,585,672
2,413,869	Federal National Mortgage Association Pool	5.47%	9/37	2,555,899
1,689,299	Other Federal National Mortgage Association Pool	4.97%	10/33	1,792,423
<b>Total Floating Rate Agency Securities (Cost \$55,553,517)</b>				55,893,614
<b>Total Agency Securities (Cost \$821,976,910)</b>				828,370,779
<b>Private Label Securities (95.84%)</b>				
<b>Principal and Interest - Private Label Securities (95.58%)</b>				
537,488,752	Various	0.25% - 9.35%	5/19 - 1/47	367,857,921
<b>Total Principal and Interest - Private Label Securities (Cost \$375,177,074)</b>				367,857,921
<b>Interest Only - Private Label Securities (0.26%)</b>				
76,057,033	Various	0.50% - 0.65%	9/47	978,632
<b>Total Interest Only - Private Label Securities (Cost \$669,676)</b>				978,632
<b>Residual Certificates - Private Label Securities (0.00%)</b>				
216,439,901	Various		6/37	
<b>Total Residual Certificates - Private Label Securities (Cost \$586,455)</b>				
<b>Total Private Label Securities (Cost \$376,433,205)</b>				368,836,553
<b>Total Mortgage-Backed Securities (Cost \$1,198,410,115)</b>				1,197,207,332

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## **Commercial Mortgage Loans (1.21%) (a)**

5,000,000	Various	5.75%	11/12	4,650,000
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## **Total Commercial Mortgage Loans (Cost \$4,735,981)**

4,650,000

## **Total Long Investments (Cost \$1,203,146,096)**

\$ 1,201,857,332

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS****AT JUNE 30, 2011 (CONTINUED)****(UNAUDITED)**

<b>Current Principal/ Notional Amount</b>	<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Value Expressed in U.S. Dollars</b>
<b>Repurchase Agreements (5.83%) (d)</b>				
\$ 15,168,750	Bank of America Securities Collateralized by Par Value \$15,000,000 U.S. Treasury Note, Coupon 1.75%, Maturity Date 5/16	(0.15)%	7/11	\$ 15,168,750
5,143,750	Bank of America Securities Collateralized by Par Value \$5,000,000 U.S. Treasury Note, Coupon 2.00%, Maturity Date 4/16	(0.12)%	7/11	5,143,750
2,125,000	Nomura Securities International Inc. Collateralized by Par Value \$2,000,000 U.S. Treasury Note, Coupon 3.63%, Maturity Date 2/21	0.00%	7/11	2,125,000
<b>Total Repurchase Agreements (Cost \$22,437,500)</b>				<b>\$ 22,437,500</b>
<b>Investments Sold Short (-140.35%)</b>				
<b>TBA - Fixed Rate Agency Securities Sold Short (-134.59%) (c) (e)</b>				
\$ (138,700,000)	Federal National Mortgage Association Pool (30 Year)	5.00%	7/11	\$ (147,347,078)
(117,900,000)	Federal National Mortgage Association Pool (30 Year)	4.50%	7/11	(121,989,656)
(106,000,000)	Government National Mortgage Association Pool (30 Year)	5.00%	7/11	(114,836,094)
(35,700,000)	Federal Home Loan Mortgage Corporation Pool (30 Year)	4.50%	7/11	(36,882,563)
(25,500,000)	Federal National Mortgage Association Pool (30 Year)	5.50%	7/11	(27,580,840)
(26,900,000)	Federal Home Loan Mortgage Corporation Pool (30 Year)	4.00%	7/11	(26,881,086)
(22,500,000)	Government National Mortgage Association Pool (30 Year)	4.50%	7/11	(23,748,047)
(13,500,000)	Government National Mortgage Association Pool (30 Year)	5.50%	7/11	(14,858,438)
(2,500,000)	Federal National Mortgage Association Pool (30 Year)	6.00%	7/11	(2,746,289)
(1,000,000)	Other Federal Home Loan Mortgage Corporation Pool (30 Year)	6.00%	7/11	(1,098,359)
<b>Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$519,948,719)</b>				<b>(517,968,450)</b>
<b>U.S. Treasury Securities Sold Short (-5.76%)</b>				
(15,000,000)	U.S. Treasury Note	1.75%	5/16	(15,025,625)
(5,000,000)	U.S. Treasury Note	2.00%	4/16	(5,075,771)
(2,000,000)	U.S. Treasury Note	3.63%	2/21	(2,085,560)
<b>Total U.S. Treasury Securities Sold Short (Proceeds -\$22,161,936)</b>				<b>(22,186,956)</b>
<b>Total Investments Sold Short (Proceeds -\$542,110,655)</b>				<b>\$ (540,155,406)</b>

See Notes to Consolidated Financial Statements



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**ELLINGTON FINANCIAL LLC**  
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**  
**AT JUNE 30, 2011 (CONTINUED)**  
**(UNAUDITED)**

	<b>Primary Risk Exposure</b>	<b>Notional or Number of Contracts</b>	<b>Range of Expiration Dates</b>	<b>Value Expressed in U.S. Dollars</b>
<b>Financial Derivatives - Assets (32.66%)</b>				
<b>Swaps (32.66%) (f)</b>				
<b>Long Swaps:</b>				
Credit Default Swaps on Asset Backed Indices (Cost \$274,320) (g)	Credit	\$ 11,550,316	6/36	\$ 467,684
Interest Rate Swaps (h)	Interest Rates	5,000,000	7/21	4,916
<b>Short Swaps:</b>				
Credit Default Swaps on Asset Backed Securities (i)	Credit	(88,747,270)	6/34 - 12/36	69,828,936
Credit Default Swaps on Asset Backed Indices: (j)	Credit			
ABX.HE AAA 2006-2 Index		(69,197,340)	5/46	34,355,640
Other		(42,262,489)	8/37 - 10/52	20,100,074
Interest Rate Swaps (k)	Interest Rates	(87,960,000)	6/16 - 6/21	955,017
<b>Total Swaps (Cost \$136,936,637)</b>				125,712,267
<b>Total Financial Derivatives - Assets (Cost \$136,936,637)</b>				\$ 125,712,267
<b>Financial Derivatives - Liabilities (-2.86%)</b>				
<b>Swaps (-2.76%)</b>				
<b>Long Swaps:</b>				
Credit Default Swaps on Asset Backed Indices (Proceeds - \$4,427,996) (g)	Credit	\$ 13,314,333	8/37 - 7/45	\$ (5,031,909)
<b>Short Swaps:</b>				
Interest Rate Swaps (k)	Interest Rates	(203,500,000)	4/14 - 4/21	(5,366,758)
Credit Default Swaps on Corporate Bond Indices (l)	Credit	(19,700,000)	6/15	(220,124)
<b>Total Swaps (Net Proceeds -\$4,255,004)</b>				\$ (10,618,791)
<b>Futures (-0.10%) (m)</b>				
<b>Short Futures:</b>				
Eurodollar contracts	Interest Rates	(245)	9/11 - 9/12	(368,863)
<b>Total Futures</b>				(368,863)
<b>Total Financial Derivatives - Liabilities (Net Proceeds -\$4,255,004)</b>				\$ (10,987,654)

See Notes to Consolidated Financial Statements

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**ELLINGTON FINANCIAL LLC**  
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**  
**AT JUNE 30, 2011 (CONCLUDED)**  
**(UNAUDITED)**

- (a) See Note 2 and Note 9 in Notes to Consolidated Financial Statements.
- (b) At June 30, 2011, the Company's long investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association represented 133.80%, 47.66%, and 33.78% of shareholders equity, respectively.
- (c) To Be Announced ( TBA ) securities settle on a forward basis. At settlement the purchaser generally receives agency pass-through mortgage certificates with original maturity dates typically between 15 and 30 years.
- (d) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.
- (e) At June 30, 2011, the Company's short investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association represented 77.87%, 16.85%, and 39.87% of shareholders equity, respectively.
- (f) The following table shows the Company's swap assets by dealer as a percentage of shareholders' equity:

Dealer/Parent Company	Percent of Shareholders Equity
Affiliates of Morgan Stanley	15.76%
Affiliates of Credit Suisse	5.25%

- (g) For long credit default swaps on asset backed indices, the Company sold protection.
- (h) For long interest rate swap contracts, a floating rate is being paid and a fixed rate is being received.
- (i) For short credit default swaps on asset backed securities, the Company purchased protection.
- (j) For short credit default swaps on asset backed indices, the Company purchased protection.
- (k) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
- (l) For short credit default swaps on corporate bond indices, the Company purchased protection.
- (m) Each contract represents a notional amount of \$1,000,000.
- (n) The table below shows the Company's long investment ratings from Moody's, Standard and Poor's, or Fitch, as well as the Company's long investments that were unrated but affiliated with Fannie Mae, Freddie Mac, or Ginnie Mae. Ratings tend to be a lagging credit indicator; as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below. In situations where an investment has a split rating, the lowest provided rating is used. The ratings descriptions include ratings qualified with a +, -, 1, 2, or 3.

Rating Description	Percentage of Shareholders Equity
Unrated but Agency-Guaranteed	215.24%
Aaa/AAA/AAA	1.94%
Aa/AA/AA	3.96%
A/A/A	8.29%
Baa/BBB/BBB	6.09%
Ba/BB/BB or below	75.56%

Unrated

1.21%

- (o) Maturity date may be extended through November 4, 2015.

See Notes to Consolidated Financial Statements

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**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**

**AT DECEMBER 31, 2010**

**(UNAUDITED)**

Current Principal/ Notional Amount	Description	Rate	Maturity	Value <i>Expressed in U.S. Dollars</i>
<b>Long Investments (308.68%) (a) (b) (n)</b>				
<b>Mortgage-Backed Securities (308.68%)</b>				
<b>Agency Securities (224.28%)</b>				
<b>Fixed Rate Agency Securities (204.19%)</b>				
<b>Principal and Interest - Fixed Rate Agency Securities (190.72%)</b>				
\$ 93,295,863	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	\$ 92,661,743
75,287,233	Government National Mortgage Association Pool	5.00%	4/40	80,769,084
41,442,106	Federal National Mortgage Association Pool	5.00%	8/40	43,659,906
31,028,699	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	30,805,680
29,866,978	Federal Home Loan Mortgage Corporation Pool	4.50%	9/40	30,664,986
27,828,661	Federal National Mortgage Association Pool	4.50%	11/40	28,596,123
25,015,628	Government National Mortgage Association Pool	4.50%	5/40	26,108,107
24,330,982	Federal Home Loan Mortgage Corporation Pool	5.00%	8/40	25,551,333
20,673,398	Federal National Mortgage Association Pool	5.00%	11/40	21,782,978
20,370,123	Federal National Mortgage Association Pool	3.50%	11/40	19,453,468
17,517,469	Federal Home Loan Mortgage Corporation Pool	5.00%	9/40	18,396,079
17,826,955	Federal Home Loan Mortgage Corporation Pool	4.50%	11/40	18,297,698
16,317,610	Federal National Mortgage Association Pool	5.00%	10/40	17,234,201
16,073,130	Federal National Mortgage Association Pool	4.50%	12/40	16,526,442
15,061,281	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	14,957,734

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**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**

**AT DECEMBER 31, 2010 (CONTINUED)**

**(UNAUDITED)**

Current Principal/ Notional Amount	Description	Rate	Maturity	Value <i>Expressed in U.S. Dollars</i>
<b>Principal and Interest - Fixed Rate Agency Securities (190.72%) (continued)</b>				
\$ 14,673,788	Federal National Mortgage Association Pool	4.00%	11/40	\$ 14,601,566
14,052,718	Federal National Mortgage Association Pool	4.00%	12/40	14,007,706
14,085,775	Federal National Mortgage Association Pool	3.50%	1/41	13,451,365
11,888,330	Federal National Mortgage Association Pool	4.50%	9/40	12,208,758
11,073,845	Government National Mortgage Association Pool	5.00%	6/40	11,859,396
11,018,284	Federal National Mortgage Association Pool	4.50%	7/25	11,573,502
9,886,839	Government National Mortgage Association Pool	5.00%	7/40	10,523,305
9,534,263	Federal National Mortgage Association Pool	5.50%	10/39	10,238,159
9,622,371	Federal National Mortgage Association Pool	4.50%	8/25	10,110,256
9,696,958	Federal Home Loan Mortgage Corporation Pool	4.50%	11/40	9,953,019
9,185,172	Government National Mortgage Association Pool	5.00%	4/40	9,836,745
8,436,119	Federal Home Loan Mortgage Corporation Pool	4.50%	10/40	8,648,340
7,945,384	Federal Home Loan Mortgage Corporation Pool	6.00%	4/39	8,632,535
8,224,296	Federal Home Loan Mortgage Corporation Pool	5.00%	8/40	8,636,796
7,307,028	Federal National Mortgage Association Pool	5.00%	7/40	7,690,077
7,188,742	Government National Mortgage Association Pool	5.00%	8/40	7,698,694
7,203,182	Federal Home Loan Mortgage Corporation Pool	4.00%	11/40	7,166,041
6,726,472	Federal National Mortgage Association Pool	5.00%	8/40	7,087,494
6,193,991	Government National Mortgage Association Pool	5.00%	7/40	6,592,729

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**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**

**AT DECEMBER 31, 2010 (CONTINUED)**

**(UNAUDITED)**

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
<b>Principal and Interest - Fixed Rate Agency Securities (190.72%) (continued)</b>				
\$ 5,820,187	Federal National Mortgage Association Pool	6.00%	12/38	\$ 6,326,725
6,262,042	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	6,218,991
6,095,615	Federal National Mortgage Association Pool	4.00%	11/40	6,063,708
6,097,159	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	6,065,721
5,703,267	Federal National Mortgage Association Pool	4.50%	8/25	5,988,876
5,433,049	Federal National Mortgage Association Pool	5.00%	11/40	5,722,953
5,093,029	Federal National Mortgage Association Pool	4.50%	8/25	5,348,078
5,082,202	Federal National Mortgage Association Pool	4.50%	12/40	5,222,360
4,812,155	Federal National Mortgage Association Pool	4.50%	11/40	4,944,865
4,377,082	Federal National Mortgage Association Pool	5.50%	11/39	4,689,291
4,636,881	Federal Home Loan Mortgage Corporation Pool	4.00%	1/41	4,605,002
4,394,322	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	4,371,664
4,003,459	Government National Mortgage Association Pool	5.00%	7/40	4,261,182
3,611,892	Federal National Mortgage Association Pool	4.50%	12/40	3,711,501
3,217,875	Federal Home Loan Mortgage Corporation Pool	5.00%	9/40	3,383,294
3,355,673	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	3,338,370
2,931,882	Federal National Mortgage Association Pool	4.50%	9/25	3,074,124
2,779,368	Federal Home Loan Mortgage Corporation Pool	4.00%	8/40	2,765,037
2,157,241	Federal Home Loan Mortgage Corporation Pool	4.00%	12/40	2,146,118
5,210,008	Other Federal National Mortgage Association Pools	6.00%	9/39 - 2/40	5,664,713
				769,894,618

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS****AT DECEMBER 31, 2010 (CONTINUED)****(UNAUDITED)**

<b>Current Principal/ Notional Amount</b>	<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Value Expressed in U.S. Dollars</b>
<b>TBA - Fixed Rate Agency Securities (13.47%) (c)</b>				
\$ 25,000,000	Government National Mortgage Association (30 Year)	4.00%	1/11	\$ 25,152,344
25,000,000	Federal National Mortgage Association (30 Year)	4.00%	2/11	24,796,875
4,650,000	Federal National Mortgage Association (30 Year)	3.50%	1/11	4,440,387
				54,389,606
<b>Total Fixed Rate Agency Securities (Cost \$828,147,519)</b>				824,284,224
<b>Floating Rate Agency Securities (20.09%)</b>				
<b>Principal and Interest - Floating Rate Agency Securities (20.09%)</b>				
15,366,349	Federal National Mortgage Association Pool	5.84%	12/36	16,265,797
12,274,343	Federal National Mortgage Association Pool	5.68%	1/38	13,025,532
11,853,952	Federal National Mortgage Association Pool	5.10%	5/38	12,475,639
10,983,637	Federal National Mortgage Association Pool	5.22%	12/35	11,567,895
8,928,303	Federal National Mortgage Association Pool	5.76%	10/36	9,392,064
8,641,078	Federal National Mortgage Association Pool	5.22%	2/38	9,127,052
4,123,128	Federal National Mortgage Association Pool	5.69%	4/36	4,379,549
3,012,020	Federal National Mortgage Association Pool	5.50%	9/37	3,172,898
1,608,406	Federal National Mortgage Association Pool	6.06%	1/38	1,686,469
<b>Total Floating Rate Agency Securities (Cost \$80,166,989)</b>				81,092,895
<b>Total Agency Securities (Cost \$908,314,508)</b>				905,377,119

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**ELLINGTON FINANCIAL LLC**

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**

**AT DECEMBER 31, 2010 (CONTINUED)**

**(UNAUDITED)**

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
<b>Private Label Securities (84.40%)</b>				
<b>Principal and Interest - Private Label Securities (82.97%)</b>				
\$ 482,838,475	Various	0.32% - 53.41%	6/18 - 2/51	\$ 334,908,926
<b>Total Principal and Interest - Private Label Securities (Cost \$321,067,655)</b>				334,908,926
<b>Interest Only - Private Label Securities (1.43%)</b>				
127,239,018	Various	0.50% - 5.24%	4/35 - 9/47	5,780,515
<b>Total Interest Only - Private Label Securities (Cost \$2,490,766)</b>				5,780,515
<b>Residual Certificates - Private Label Securities (0.00%)</b>				
225,639,768	Various		6/37	
<b>Total Residual Certificates - Private Label Securities (Cost \$611,382)</b>				
<b>Total Private Label Securities (Cost \$324,169,803)</b>				340,689,441
<b>Total Mortgage-Backed Securities (Cost \$1,232,484,311)</b>				1,246,066,560
<b>Total Long Investments (Cost \$1,232,484,311)</b>				\$ 1,246,066,560
<b>Repurchase Agreements (6.36%) (d)</b>				
\$ 25,683,750	Credit Suisse First Boston	0.00%	1/11	\$ 25,683,750
Collateralized by Par Value \$27,000,000 U.S. Treasury Note, Coupon 2.63%, Maturity Date 11/20				
<b>Total Repurchase Agreements (Cost \$25,683,750)</b>				\$ 25,683,750

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS****AT DECEMBER 31, 2010 (CONTINUED)****(UNAUDITED)**

<b>Current Principal/ Notional Amount</b>	<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Value Expressed in U.S. Dollars</b>
<b>Investments Sold Short (-192.02%)</b>				
<b>TBA - Fixed Rate Agency Securities Sold Short (-185.71%) (c) (e)</b>				
\$ (136,500,000)	Federal National Mortgage Association (30 Year)	4.50%	1/11	\$ (140,093,789)
(113,000,000)	Government National Mortgage Association (30 Year)	5.00%	1/11	(120,168,438)
(114,500,000)	Federal National Mortgage Association (30 Year)	4.00%	1/11	(113,900,664)
(62,000,000)	Federal National Mortgage Association (30 Year)	5.00%	1/11	(65,172,656)
(63,000,000)	Federal Home Loan Mortgage Corporation (30 Year)	4.00%	1/11	(62,547,188)
(40,000,000)	Federal Home Loan Mortgage Corporation (30 Year)	4.00%	2/11	(39,593,750)
(35,000,000)	Federal National Mortgage Association (15 Year)	4.50%	1/11	(36,698,047)
(33,000,000)	Federal Home Loan Mortgage Corporation (30 Year)	5.00%	1/11	(34,613,906)
(30,000,000)	Government National Mortgage Association (30 Year)	5.00%	2/11	(31,842,188)
(27,500,000)	Federal Home Loan Mortgage Corporation (30 Year)	4.50%	1/11	(28,174,609)
(24,500,000)	Government National Mortgage Association (30 Year)	4.50%	1/11	(25,432,148)
(25,000,000)	Government National Mortgage Association (30 Year)	4.00%	1/11	(25,171,875)
(16,000,000)	Federal Home Loan Mortgage Corporation (30 Year)	5.50%	1/11	(17,052,500)
(7,500,000)	Federal National Mortgage Association (30 Year)	6.00%	1/11	(8,152,734)
(1,000,000)	Federal National Mortgage Association (30 Year)	5.50%	2/11	(1,068,203)
<b>Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$750,520,119)</b>				<b>(749,682,695)</b>
<b>U.S. Treasury Securities Sold Short (-6.31%)</b>				
(27,000,000)	U.S. Treasury Note	2.63%	11/20	(25,462,403)
<b>Total U.S. Treasury Securities Sold Short (Proceeds -\$25,261,493)</b>				<b>(25,462,403)</b>
<b>Total Investments Sold Short (Proceeds -\$775,781,612)</b>				<b>\$ (775,145,098)</b>

See Notes to Consolidated Financial Statements

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## ELLINGTON FINANCIAL LLC

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

AT DECEMBER 31, 2010 (CONTINUED)

(UNAUDITED)

	Primary Risk Exposure	Notional or Number of Contracts	Range of Expiration Dates	Value Expressed in U.S.  Dollars
<b>Financial Derivatives - Assets (49.88%)</b>				
<b>Swaps (49.88%) (f)</b>				
<b>Long Swaps:</b>				
Credit Default Swaps on Asset Backed Indices (Cost \$4,032,984) (g)	Credit	\$ 74,128,336	6/36 - 7/36	\$ 3,566,639
Interest Rate Swaps (h)	Interest Rates	\$ 5,000,000	12/20	46,757
<b>Short Swaps:</b>				
Credit Default Swaps on Asset Backed Securities (i)	Credit	\$ (127,088,962)	6/34 - 12/36	102,851,109
Credit Default Swaps on Asset Backed Indices: (j)	Credit			
ABX.HE AAA 2007-1 Index		\$ (108,594,843)	8/37	60,648,862
Other		\$ (92,449,044)	8/37 - 2/51	32,473,731
Interest Rate Swaps (k)	Interest Rates	\$ (60,000,000)	12/15 - 12/20	1,748,274
<b>Total Swaps (Cost \$208,958,359)</b>				201,335,372
<b>Total Financial Derivatives - Assets (Cost \$208,958,359)</b>				\$ 201,335,372
<b>Financial Derivatives - Liabilities (-5.21%)</b>				
<b>Swaps (-4.99%)</b>				
<b>Long Swaps:</b>				
Credit Default Swaps on Asset Backed Indices (Proceeds -\$17,559,397) (g)	Credit	\$ 37,588,800	8/37 - 12/49	\$ (17,941,713)
Interest Rate Swaps (h)	Interest Rates	\$ 10,000,000	11/15 - 11/20	(215,277)
<b>Short Swaps:</b>				
Interest Rate Swaps (k)	Interest Rates	\$ (83,750,000)	10/14 - 12/15	(1,461,228)
Credit Default Swaps on Asset Backed Indices (j)	Credit	\$ (4,434,787)	7/36	(336,263)
Credit Default Swaps on Corporate Bond Indices (l)	Credit	\$ (19,700,000)	6/15	(185,847)
<b>Total Swaps (Net Proceeds -\$17,718,129)</b>				(20,140,328)
<b>Futures (-0.22%) (m)</b>				
<b>Short Futures:</b>				
Eurodollar contracts	Interest Rates	(400)	3/11 - 9/12	(890,001)
<b>Total Futures</b>				(890,001)
<b>Total Financial Derivatives - Liabilities (Net Proceeds -\$17,718,129)</b>				\$ (21,030,329)

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**ELLINGTON FINANCIAL LLC**  
**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS**  
**AT DECEMBER 31, 2010 (CONCLUDED)**  
**(UNAUDITED)**

- (a) See Note 2 and Note 9 in Notes to Consolidated Financial Statements.
- (b) At December 31, 2010, the Company's long investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association represented 102.88%, 76.12%, and 45.28% of shareholders' equity, respectively.
- (c) To Be Announced (TBA) securities settle on a forward basis. At settlement the purchaser generally receives agency pass-through mortgage certificates with original maturity dates typically between 15 and 30 years.
- (d) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.
- (e) At December 31, 2010, the Company's short investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association represented 90.44%, 45.08%, and 50.19% of shareholders' equity, respectively.
- (f) The following table shows the Company's swap assets by dealer as a percentage of shareholders' equity:

Dealer/Parent Company	Percent of Shareholders Equity
Affiliates of Morgan Stanley	19.22%
Affiliates of Credit Suisse	9.07%

- (g) For long credit default swaps on asset backed indices, the Company sold protection.
- (h) For long interest rate swap contracts, a floating rate is being paid and a fixed rate is being received.
- (i) For short credit default swaps on asset backed securities, the Company purchased protection.
- (j) For short credit default swaps on asset backed indices, the Company purchased protection.
- (k) For short interest rate swap contracts, a fixed rate is being paid and a floating rate is being received.
- (l) For short credit default swaps on corporate bond indices, the Company purchased protection.
- (m) Each contract represents a notional amount of \$1,000,000.
- (n) The table below shows the Company's long investment ratings from Moody's, Standard and Poor's, or Fitch, as well as the Company's long investments that were unrated but affiliated with Fannie Mae, Freddie Mac, or Ginnie Mae. Ratings tend to be a lagging credit indicator; as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below. In situations where an investment has a split rating, the lowest provided rating is used. The ratings descriptions include ratings qualified with a +, -, 1, 2, or 3.

Rating Description	Percentage of Shareholders Equity
Unrated but Agency-Guaranteed	224.28%
Aaa/AAA/AAA	6.81%
Aa/AA/AA	13.91%
A/A/A	4.46%
Baa/BBB/BBB	6.00%



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Ba/BB/BB or below	53.22%
Unrated	0.00%

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED STATEMENT OF OPERATIONS****(UNAUDITED)**

	<b>Three Month Period Ended June 30, 2011</b>	<b>Three Month Period Ended June 30, 2010</b>	<b>Six Month Period Ended June 30, 2011</b>	<b>Six Month Period Ended June 30, 2010</b>
<i>Expressed in U.S. Dollars</i>				
<b>INVESTMENT INCOME</b>				
Interest income	\$ 16,651,827	\$ 10,798,629	\$ 32,500,608	\$ 22,715,250
<b>EXPENSES</b>				
Base management fee	1,448,633	1,107,969	2,929,606	2,212,252
Incentive fee			612,192	482,715
Share-based LTIP expense	37,926	774,037	75,435	1,500,200
Interest expense	1,602,593	872,609	3,145,865	1,679,404
Professional fees	358,126	491,267	911,576	902,136
Compensation expense	403,817	210,000	651,367	500,000
Insurance expense	190,564	285,000	357,127	560,000
Agency and administration fees	249,377	175,024	489,006	346,195
Custody and other fees	220,363	153,132	515,764	258,923
Directors' fees and expenses	66,747	52,581	140,735	133,386
Total expenses	4,578,146	4,121,619	9,828,673	8,575,211
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>12,073,681</b>	<b>6,677,010</b>	<b>22,671,935</b>	<b>14,140,039</b>
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES</b>				
<b>Net realized gain (loss) on:</b>				
Investments	(11,021,007)	8,525,150	(2,785,296)	12,315,083
Swaps	7,452,698	(788,380)	11,191,970	7,219,852
Futures	(347,432)	(288,200)	(718,908)	(1,025,880)
Purchased options				(580,860)
	(3,915,741)	7,448,570	7,687,766	17,928,195
<b>Change in net unrealized gain (loss) on:</b>				
Investments	(4,301,806)	(7,269,056)	(13,552,278)	(7,053,478)
Swaps	(5,380,002)	(2,655,407)	(7,542,971)	(12,881,161)
Futures	202,288	(469,987)	521,138	(1,348,675)
Purchased options				541,668
	(9,479,520)	(10,394,450)	(20,574,111)	(20,741,646)
<b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES</b>	<b>(13,395,261)</b>	<b>(2,945,880)</b>	<b>(12,886,345)</b>	<b>(2,813,451)</b>
<b>NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>	<b>\$ (1,321,580)</b>	<b>\$ 3,731,130</b>	<b>\$ 9,785,590</b>	<b>\$ 11,326,588</b>

**NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY  
RESULTING FROM OPERATIONS PER SHARE:**

Basic and Diluted	\$	(0.08)	\$	0.30	\$	0.58	\$	0.92
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## ELLINGTON FINANCIAL LLC

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

	Three Month Period Ended June 30, 2011	Three Month Period Ended June 30, 2010	Six Month Period Ended June 30, 2011	Six Month Period Ended June 30, 2010
<i>Expressed in U.S. Dollars</i>				
<b>CHANGE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS</b>				
Net investment income (loss)	\$ 12,073,681	\$ 6,677,010	\$ 22,671,935	\$ 14,140,039
Net realized gain (loss) on investments and financial derivatives	(3,915,741)	7,448,570	7,687,766	17,928,195
Change in net unrealized gain (loss) on investments and financial derivatives	(9,479,520)	(10,394,450)	(20,574,111)	(20,741,646)
Net increase (decrease) in shareholders' equity resulting from operations	(1,321,580)	3,731,130	9,785,590	11,326,588
<b>CHANGE IN SHAREHOLDERS' EQUITY RESULTING FROM SHAREHOLDER TRANSACTIONS</b>				
Shares issued in connection with incentive fee payment	61,219	48,272	203,369	275,689
Dividends paid	(6,756,952)	(3,091,417)	(28,882,514)	(18,546,036)
Share-based LTIP awards	37,926	774,037	75,435	1,500,200
Net increase (decrease) in shareholders' equity from shareholder transactions	(6,657,807)	(2,269,108)	(28,603,710)	(16,770,147)
Net increase (decrease) in shareholders' equity	(7,979,387)	1,462,022	(18,818,120)	(5,443,559)
<b>SHAREHOLDERS' EQUITY, BEGINNING OF PERIOD</b>	392,832,979	292,888,432	403,671,712	299,794,013
<b>SHAREHOLDERS' EQUITY, END OF PERIOD</b>	\$ 384,853,592	\$ 294,350,454	\$ 384,853,592	\$ 294,350,454

See Notes to Consolidated Financial Statements

**Table of Contents****ELLINGTON FINANCIAL LLC****CONSOLIDATED STATEMENT OF CASH FLOWS****(UNAUDITED)**

	<b>Six Month Period Ended June 30, 2011</b>	<b>Six Month Period Ended June 30, 2010</b>
	<i>Expressed in U.S. Dollars</i>	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>		
<b>NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY</b>		
<b>RESULTING FROM OPERATIONS</b>	<b>\$ 9,785,590</b>	<b>\$ 11,326,588</b>
<b>Cash flows provided by (used in) operating activities:</b>		
Reconciliation of the net increase (decrease) in shareholders' equity resulting from operations to net cash provided by (used in) operating activities:		
Change in net unrealized (gain) loss on investments and financial derivatives	20,574,111	20,741,646
Net realized (gain) loss on investments and financial derivatives	(7,687,766)	(17,928,195)
Amortization of premiums and accretion of discounts (net)	(5,249,519)	(3,197,557)
Purchase of investments	(1,611,306,332)	(1,197,262,915)
Proceeds from disposition of investments	1,611,907,045	1,032,332,961
Proceeds from principal payments of investments	51,972,572	66,373,369
Proceeds from investments sold short	939,340,941	721,847,421
Repurchase of investments sold short	(1,193,782,745)	(519,186,218)
Payments made to open financial derivatives	(94,317,675)	(167,814,104)
Proceeds received to close financial derivatives	170,997,519	130,603,829
Proceeds received to open financial derivatives	13,087,106	39,865,010
Payments made to close financial derivatives	(20,735,291)	(29,218,557)
Shares issued in connection with incentive fee payment	203,369	275,689
Share-based LTIP expense	75,435	1,500,200
(Increase) decrease in assets:		
(Increase) decrease in repurchase agreements	3,246,250	
(Increase) decrease in receivable for securities sold	245,578,409	(271,452,941)
(Increase) decrease in deposits with dealers held as collateral	(3,050)	(7,172,282)
(Increase) decrease in interest and principal receivable	(1,408,928)	4,927,232
(Increase) decrease in other assets	(333,255)	(534,005)
Increase (decrease) in liabilities:		
Increase (decrease) in due to brokers - margin accounts	(49,903,794)	13,257,911
Increase (decrease) in payable for securities purchased	(66,079,890)	329,572,335
Increase (decrease) in accounts payable and accrued expenses	348,429	963,979
Increase (decrease) in incentive fee payable	(1,421,500)	(2,274,530)
Increase (decrease) in interest and dividends payable	16,194	(100,676)
Increase (decrease) in base management fee payable	(76,184)	(29,053)
Net cash provided by (used in) operating activities	14,827,041	157,417,137
<b>Cash flows provided by (used in) financing activities:</b>		
Offering costs paid	(438,762)	(594,362)
Dividends paid	(28,882,514)	(18,546,036)
Reverse repurchase agreements, net of repayments	24,140,740	(131,808,301)
Net cash provided by (used in) financing activities	(5,180,536)	(150,948,699)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,646,505</b>	<b>6,468,438</b>

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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	35,790,818	102,863,164
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 45,437,323	\$ 109,331,602
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 3,129,671	\$ 1,698,889
Shares issued in connection with incentive fee payment (non-cash)	\$ 203,369	\$ 275,689
Share-based LTIP awards (non-cash)	\$ 75,435	\$ 1,500,200
Aggregate TBA trade activity (buys + sells) (non-cash)	\$ 11,055,413,893	\$ 6,089,897,901

See Notes to Consolidated Financial Statements

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**ELLINGTON FINANCIAL LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2011**

**(UNAUDITED)**

**1. Organization and Investment Objective**

Ellington Financial LLC was formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007 upon the completion of its initial private capitalization. EF Securities LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC, was formed as a Delaware limited liability company on October 12, 2007 and commenced operations on November 30, 2007. EF Mortgage LLC, a wholly owned consolidated subsidiary of Ellington Financial LLC, was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. EF CMO LLC, a wholly owned consolidated subsidiary of EF Mortgage LLC, was formed as a Delaware limited liability company on June 3, 2008 and commenced operations on July 8, 2008. Ellington Financial LLC, EF Securities LLC, EF Mortgage LLC and EF CMO LLC are hereafter collectively referred to as the Company. All inter-company accounts are eliminated in consolidation.

On October 14, 2010, the Company closed its initial public offering of its common shares representing limited liability company interests, or common shares, pursuant to which it sold 4,500,000 common shares to the public at a public offering price of \$22.50. The Company raised approximately \$101.3 million in gross proceeds, resulting in net proceeds of approximately \$94.7 million after deducting underwriting discounts and other offering costs. The Company's common shares trade on the New York Stock Exchange under the symbol EFC.

The Company is a specialty finance company that acquires and manages mortgage-related assets, including residential mortgage-backed securities, or RMBS, backed by prime jumbo, Alt-A and subprime residential mortgage loans, RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, mortgage-related derivatives, commercial mortgage-backed securities, or CMBS, commercial mortgage loans and other commercial real estate debt, as well as corporate debt and equity securities and derivatives. The Company may also opportunistically acquire and manage other types of mortgage-related and financial asset classes, such as residential whole mortgage loans, asset-backed securities, or ABS, backed by consumer and commercial assets and non-mortgage-related derivatives.

Ellington Financial Management, LLC (EFM or the Manager) is a registered investment advisor that serves as the Manager to the Company pursuant to the terms of the Third Amended and Restated Management Agreement effective August 2, 2011 (the Management Agreement). EFM is an affiliate of Ellington Management Group, L.L.C., an investment management firm and also a registered investment advisor. In accordance with the terms of the Management Agreement, the Manager implements the investment strategy and manages the business and operations on a day-to-day basis for the Company and performs certain services for the Company, subject to oversight by the Board of Directors.

**2. Significant Accounting Policies**

(A) *Basis of Presentation:* The Company's unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America for investment companies, ASC 946, *Financial Services Investment Companies* (ASC 946), for interim financial information. ASC 946 requires, among other things, that investments be reported at fair value in the financial statements. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year.

(B) *Valuation:* The Company applies ASC 820-10, *Fair Value Measurement and Disclosures* (ASC 820-10), to its holdings of financial instruments. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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Level 1 inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets,

Level 2 inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly, and

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in these securities.

*(C) Securities Transactions and Investment Income:* Securities transactions are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost. Interest income, which includes accretion of discounts and amortization of premiums on mortgage-backed securities, including investments in mortgage loans, or MBS, and U.S. Treasury holdings, is recognized over the life of the investment using the effective interest method. For purposes of determining the effective interest rate, management estimates the future expected cash flows of its investment holdings based on assumptions including, but not limited to, prepayment and default rate assumptions. These assumptions are reevaluated not less than quarterly and require the use of a significant amount of judgment. Principal write-offs are generally treated as realized losses.

*(D) Cash and Cash Equivalents:* On the Consolidated Statement of Cash Flows the Company has revised prior period classifications to conform to current period presentation. Cash and cash equivalents include amounts held in an interest bearing overnight account and money market funds. As of June 30, 2011, all cash was held in an interest bearing account at the Bank of New York Mellon Corporation. As of December 31, 2010, 70% and 30% of cash and cash equivalents were held in the JP Morgan Prime Money Market Premier Fund and an interest bearing account at the Bank of New York Mellon Corporation, respectively.

*(E) Financial Derivatives:* The Company enters into various types of financial derivatives. The two major types utilized are swaps and futures.

*Swaps:* The Company may enter into various types of swaps, including interest rate swaps, credit default swaps, and total return swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's total return swap activity has been equity market risk. The Company did not have any total return swaps outstanding as of June 30, 2011. The primary risk associated with the Company's credit default swaps is credit risk.

The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. To help mitigate interest rate risk, the Company enters into interest rate swaps. Interest rate swaps are contractual agreements whereby one party pays a floating rate of interest on a notional principal amount and receives a fixed rate on the same notional principal, or vice versa, for a fixed period of time. Interest rate swaps change in value with movements in interest rates.

The Company enters into credit default swaps. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss associated with the occurrence of a credit event in relation to a reference amount or notional amount of a credit obligation (usually a bond or loan). The definition of a credit event often varies from contract to contract. A credit event may occur (i) when the underlying reference asset(s) fails to make scheduled principal or interest payments to its holders, (ii) with respect to credit default swaps referencing mortgage/asset backed securities and indices, when the underlying reference obligation is downgraded below a certain rating level or (iii) with respect to credit default swaps referencing corporate entities and indices, upon the bankruptcy of the underlying reference obligor. The Company typically writes (sells) protection to take a long position or purchases (buys) protection to take a short position with respect to underlying reference assets or to hedge exposure to other investment holdings.

The Company enters into total return swaps in order to take a long or short position with respect to an underlying referenced asset. The Company is subject to market price volatility of the underlying referenced asset. A total return swap involves commitments to pay interest in exchange for a market-linked return based on a notional amount. To the extent that the total return of the security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment from or make a payment to the counterparty.





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Swaps change in value with movements in interest rates or total return of the referenced securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses. When the contracts are terminated, the Company will realize a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid/received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity and are recorded as a realized gain or loss on the termination date. The Company may be required to deliver or receive cash or securities as collateral upon entering into swap transactions.

The Company's swap contracts are generally governed by ISDA trading agreements, which are separately negotiated agreements with dealer counterparties. Changes in the relative value of the swap transactions may require the Company or the counterparty to post or receive additional collateral. Typically, a collateral payment or receipt is triggered based on the net change in the value of all contracts governed by a particular ISDA trading agreement. Collateral received from counterparties is included in Due to brokers' margin accounts on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Collateral paid to counterparties is included in Deposits with dealers held as collateral on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Entering into swap contracts involves market risk in excess of amounts recorded on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity.

*Futures Contracts:* A futures contract is an agreement between two parties to buy and sell a financial instrument for a set price on a future date. The Company enters into Eurodollar futures contracts to hedge its interest rate risk. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are made or received periodically, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Derivative instruments disclosed on the Consolidated Condensed Schedule of Investments include: credit default swaps on asset backed securities, credit default swaps on asset backed indices, credit default swaps on corporate bond indices, interest rate swaps, and Eurodollar futures contracts.

Swap assets are included in Financial Derivatives' Assets on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Swap liabilities are included in Financial Derivatives' Liabilities on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. In addition, swap contracts are summarized by type on the Consolidated Condensed Schedule of Investments. Unrealized depreciation on futures contracts is included in Financial Derivatives' Liabilities on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. For interest rate swaps, credit default swaps and futures, notional amounts reflected on the Consolidated Condensed Schedule of Investments represent approximately 114%, 69%, and 80%, respectively, of average monthly notional amounts of each such category outstanding during the six month period ended June 30, 2011. For interest rate swaps, credit default swaps, and futures, notional amounts reflected on the Consolidated Condensed Schedule of Investments represent approximately 318%, 133%, and 38%, respectively, of average monthly notional amounts of each such category outstanding during the year ended December 31, 2010. The Company uses average monthly notional amounts outstanding to indicate the volume of activity with respect to these instruments.

*(F) Short Sales:* When the Company sells securities short, it typically satisfies its security delivery settlement obligation by obtaining the security sold from the same or a different counterparty via repurchase agreement. The Company generally is required to deliver cash or securities as collateral to the repurchase agreement counterparty. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is less than or greater than the proceeds originally received.

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*(G) Reverse Repurchase Agreements and Repurchase Agreements:* The Company enters into reverse repurchase agreements with third-party broker-dealers whereby it sells securities under agreements to be repurchased at an agreed-upon price and date. Interest on the value of repurchase and reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. The Company accounts for reverse repurchase agreements as collateralized borrowings. When the Company enters into a reverse repurchase agreement, the lender establishes and maintains an account containing cash and securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement. The Company enters into repurchase agreement transactions with third-party broker-dealers whereby it purchases securities under agreements to resell at an agreed-upon price and date. In general, securities received pursuant to repurchase agreements are delivered to counterparties of short sale transactions. Assets held pursuant to repurchase agreements are reflected as assets on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity. Repurchase and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, *Balance Sheet Offsetting*. There are no repurchase and reverse repurchase agreements netted in the consolidated financial statements.

Reverse repurchase agreements are carried at their contractual amounts, which the Company believes is the best estimate of fair value. At June 30, 2011, the Company's open reverse repurchase agreements had remaining terms that ranged from 7 to 237 days and had interest rates ranging from 0.19% to 2.50%. At June 30, 2011, approximately 79% of open reverse repurchase agreements were with four counterparties. At December 31, 2010, the Company's open reverse repurchase agreements had remaining terms that ranged from 13 to 178 days and had interest rates ranging from 0.27% to 2.60%. At December 31, 2010, approximately 77% of open reverse repurchase agreements were with four counterparties.

The Company follows the provisions of ASC 860-20, *Sales of Financial Assets*, which requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. As of June 30, 2011 and December 31, 2010, the Company did not have any material seller financing. No transactions are accounted for as linked transactions at June 30, 2011 and December 31, 2010.

*(H) Purchased Options:* The Company has entered into options primarily to help mitigate overall market risk. When the Company purchases an option, an amount equal to the premium paid is recorded as an asset and is subsequently marked-to-market. Premiums paid for purchasing options that expire unexercised are recognized on the expiration date as realized losses. If an option is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid. The Company had no purchased options outstanding as of June 30, 2011 and December 31, 2010.

*(I) When-Issued/Delayed Delivery Securities:* The Company may purchase or sell securities on a when-issued or delayed delivery basis. Securities purchased or sold on a when-issued basis are traded for delivery beyond the normal settlement date at a stated price or yield, and no income accrues to the purchaser prior to settlement. Purchasing or selling securities on a when-issued or delayed delivery basis involves the risk that the market price or yield at the time of settlement may be lower or higher than the agreed-upon price or yield, in which case a realized loss may be incurred.

The Company transacts in the forward settling To Be Announced MBS (TBA) market. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. The market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. As part of its TBA activities, the Company may roll its TBA positions, whereby the Company may sell (buy) securities for delivery (receipt) in an earlier month and simultaneously contract to repurchase (sell) similar, but not identical, securities at an agreed-upon price on a fixed date in a later month (with the later-month price typically lower than the earlier-month price). The Company accounts for its TBA transactions (including those related to TBA rolls) as purchases and sales. As of June 30, 2011, total assets included \$42.9 million of TBAs as well as \$520.0 million of receivable for securities sold relating to unsettled TBA sales. As of December 31, 2010, total assets included \$54.4 million of TBAs as well as \$753.0 million of receivable for securities sold relating to unsettled TBA sales.

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As of June 30, 2011, total liabilities included \$518.0 million of TBAs sold short as well as \$43.4 million of payable for securities purchased relating to unsettled TBA purchases. As of December 31, 2010, total liabilities included \$749.7 million of TBAs sold short as well as \$54.7 million of payable for securities purchased relating to unsettled TBA purchases. On a net basis, as of June 30, 2011, the Company held a net short position in TBAs of \$475.1 million while at December 31, 2010, the Company held a net short position in TBAs of \$695.3 million.

*(J) Offering Costs/Placement Fees:* Offering costs and placement fees are charged against shareholders' equity. Costs associated with the Company's public offering of common shares, which closed on October 14, 2010, were offset against the proceeds of the offering and charged against shareholders' equity as of December 31, 2010.

*(K) LTIP Units:* Long term incentive plan units ( LTIP units ) have been issued to the Company's dedicated officers, independent directors as well as the Manager. Costs associated with LTIP units issued to dedicated officers and independent directors are amortized over the vesting period in accordance with ASC 718-10, *Compensation - Stock Compensation*. Costs associated with LTIP units issued to the Manager are amortized over the vesting period in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees*. The vesting period for units issued to officers and independent directors under the Ellington Incentive Plan for Individuals (the Individual LTIP ) is typically one year. The vesting period for units issued to the Manager under the Ellington Incentive Plan for Entities (the Manager LTIP ) occurred over a three year period that ended in August 2010. The cost of the Manager LTIP units fluctuated with the price per share until the vesting date, whereas the cost of the Individual LTIP units is based on the price per share at the initial grant date.

*(L) Dividends:* Dividends payable are recorded in the consolidated financial statements on the ex-dividend date.

*(M) Shares Repurchased:* Common shares that are repurchased by the Company subsequent to issuance decrease total number of shares outstanding and issued.

*(N) Earnings Per Share ( EPS ):* Basic EPS is computed using the two class method by dividing net increase (decrease) in shareholders' equity resulting from operations after adjusting for the impact of long term incentive plan units deemed to be participating securities, by the weighted average number of common shares outstanding calculated excluding long term incentive units. Because the Company's long term incentive plan units are deemed to be participating securities and the Company has no other equity securities outstanding, basic and diluted EPS are the same. See Note 8 for EPS computations.

*(O) Income Taxes:* The Company intends to be treated as a partnership for U.S. federal income tax purposes. In general, partnerships are not subject to entity-level tax on their income, but the income of a partnership is taxable to its owners on a flow-through basis.

The Company follows the provisions of ASC 740-10, *Income Taxes* ( ASC 740-10 ), which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement which could result in the Company recording a tax liability that would reduce shareholders' equity. The Company did not have any additions to its unrecognized tax benefits resulting from tax positions related either to the current period or to 2010, 2009, 2008 or 2007 (its open tax years), and no reductions resulting from tax positions of prior years or due to settlements, and thus had no unrecognized tax benefits since inception. The Company does not expect any change in unrecognized tax benefits within the next fiscal year.

The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding ASC 740-10 may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance from the Financial Accounting Standards Board ( FASB ), and ongoing analyses of tax laws, regulations and interpretations thereof.

*(P) Subsequent Events:* The Company applies the provisions of ASC 855-10, *Subsequent Events*, in the preparation of its consolidated financial statements. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued.

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*(Q) Recent Accounting Pronouncements:* On May 12, 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. generally accepted accounting principles ( U.S. GAAP ) and International Financial Reporting Standards ( IFRS )* ( ASU 2011-04 ). This ASU represents the completion of the joint project on fair value of the FASB and International Accounting Standards Board ( IASB ). The objective of the project was to bring together as closely as possible the fair value measurement and disclosure guidance issued by the two boards. Many of the changes in the U.S. final standard represent clarifications to existing guidance. The standard also includes new required quantitative disclosures about unobservable inputs for all Level 3 fair value measurements, as well as qualitative disclosures about the sensitivity inherent in recurring Level 3 fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company is evaluating the impact of the adoption of ASU 2011-04.

On April 29, 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing* (Topic 860), *Reconsideration of Effective Control for Repurchase Agreements* ( ASU 2011-03 ). This modifies the criteria for determining when repurchase agreements and other similar transactions would be accounted for as financings (secured borrowings/ lending agreements) as opposed to sales (purchases) with commitments to repurchase (resell). ASU 2011-03 is effective prospectively for new transfers and existing transactions that are modified in the first interim or annual period beginning on or after December 15, 2011. The Company does not expect the adoption of ASU 2011-03 to have a material impact on its consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-6 *Fair Value Measurements and Disclosures* (Topic 820), *Improving Disclosures about Fair Value Measurements* ( ASU 2010-6 ). This amends Subtopic 820-10 to require new disclosures for transfers in and out of Levels 1 and 2 and reporting gross activity in Level 3 fair value measurements, and clarifies the level of detail of existing disclosures. The new disclosures and clarifications are effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of reporting certain gross activity in Level 3 fair value measurements which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of ASU 2010-6 did not have a material impact on the Company's consolidated financial statements.

### **3. Valuation**

The following is a description of the valuation methodologies used for the Company's financial instruments.

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

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

Level 3 valuation methodologies include (i) the use of proprietary models that require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment and default rate assumptions, and (ii) the solicitation of valuations from third parties (typically, broker-dealers). Third-party valuation providers often utilize proprietary models that are highly subjective and also require the use of a significant amount of judgment and the application of various assumptions including, but not limited to, prepayment and default rate assumptions. The Manager utilizes such information to assign a good faith valuation (the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the valuation date) to such financial instruments. The Manager has been able to obtain third-party valuations on the vast majority of the Company's financial instruments and expects to continue to solicit third-party valuations on substantially all of the Company's financial instruments in the future to the extent practical.

The Manager uses its judgment based on its own models, the assessments of its portfolio managers, and third-party valuations it obtains, to determine and assign fair values to the Company's Level 3 financial instruments. Because of the inherent uncertainty of valuation, estimated values may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the consolidated financial statements.

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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at June 30, 2011:

Description	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Investments at value-</b>				
U.S. Treasury and Agency residential mortgage-backed securities	\$	\$ 823,143,747	\$ 5,227,032	\$ 828,370,779
Private label residential mortgage-backed securities			357,894,063	357,894,063
Private label commercial mortgage-backed securities			10,942,490	10,942,490
Commercial Mortgage Loans			4,650,000	4,650,000
<b>Total investments at value</b>		823,143,747	378,713,585	1,201,857,332
<b>Financial derivatives-assets-</b>				
Credit default swaps on asset backed securities			69,828,936	69,828,936
Credit default swaps on asset backed indices		54,923,398		54,923,398
Interest rate swaps		959,933		959,933
<b>Total financial derivatives-assets</b>		55,883,331	69,828,936	125,712,267
<b>Repurchase agreements</b>		22,437,500		22,437,500
<b>Total investments, financial derivatives-assets and repurchase agreements</b>	\$	\$ 901,464,578	\$ 448,542,521	\$ 1,350,007,099
<b>Liabilities:</b>				
<b>Investments sold short-</b>				
U.S. Treasury and Agency residential mortgage-backed securities	\$	\$ (540,155,406)	\$	\$ (540,155,406)
<b>Financial derivatives-liabilities-</b>				
Credit default swaps on corporate indices		(220,124)		(220,124)
Credit default swaps on asset backed indices		(5,031,909)		(5,031,909)
Interest rate swaps		(5,366,758)		(5,366,758)
Unrealized depreciation on futures contracts	(368,863)			(368,863)
<b>Total financial derivatives-liabilities</b>	(368,863)	(10,618,791)		(10,987,654)
<b>Total investments sold short and financial derivatives-liabilities</b>	\$ (368,863)	\$ (550,774,197)	\$	\$ (551,143,060)

Investments under the U.S. Treasury and Agency residential mortgage-backed securities Level 3 category are investments in Agency interest only RMBS securities. There were no transfers of financial instruments between Level 1, Level 2, or Level 3 during the six month period ended June 30, 2011.

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The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at December 31, 2010:

Description	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Investments at value-</b>				
U.S. Treasury and Agency residential mortgage-backed securities	\$	\$ 905,377,119	\$	\$ 905,377,119
Private label residential mortgage-backed securities			338,839,441	338,839,441
Private label commercial mortgage-backed securities			1,850,000	1,850,000
<b>Total investments at value</b>		905,377,119	340,689,441	1,246,066,560
<b>Financial derivatives-assets-</b>				
Credit default swaps on asset backed securities			102,851,109	102,851,109
Credit default swaps on asset backed indices		96,689,232		96,689,232
Interest rate swaps		1,795,031		1,795,031
<b>Total financial derivatives-assets</b>		98,484,263	102,851,109	201,335,372
<b>Repurchase agreements</b>		25,683,750		25,683,750
<b>Total investments, financial derivatives-assets and repurchase agreements</b>	\$	\$ 1,029,545,132	\$ 443,540,550	\$ 1,473,085,682
<b>Liabilities:</b>				
<b>Investments sold short-</b>				
U.S. Treasury and Agency residential mortgage-backed securities	\$	\$ (775,145,098)	\$	\$ (775,145,098)
<b>Financial derivatives-liabilities-</b>				
Credit default swaps on corporate indices		(185,847)		(185,847)
Credit default swaps on asset backed indices		(18,277,976)		(18,277,976)
Interest rate swaps		(1,676,505)		(1,676,505)
Unrealized depreciation on futures contracts	(890,001)			(890,001)
<b>Total financial derivatives-liabilities</b>	(890,001)	(20,140,328)		(21,030,329)
<b>Total investments sold short and financial derivatives-liabilities</b>	\$ (890,001)	\$ (795,285,426)	\$	\$ (796,175,427)

There were no transfers of financial instruments between Level 1, Level 2, or Level 3 during the year ended December 31, 2010.

At December 31, 2010, the Company held money market investments that are included in cash and cash equivalents on the Consolidated Statement of Assets, Liabilities and Shareholders' Equity and are considered Level 1 financial instruments.

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The tables below include a roll-forward of the Company's financial instruments for the three month periods ended June 30, 2011 and 2010, respectively (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

### Level 3 Fair Value Measurement Using Significant Unobservable Inputs:

#### Three Month Period Ended June 30, 2011

	Beginning Balance as of March 31, 2011	Accreted Discounts / Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss)	Purchases	Sales	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2011
<b>Assets:</b>								
<b>Investments at value-</b>								
U.S. Treasury and Agency residential mortgage-backed securities	\$ 4,298,160	\$ (326,936)	\$ 97,393	\$ (158,414)	\$ 2,471,946	\$ (1,155,117)	\$	\$ 5,227,032
Private label residential mortgage-backed securities	354,681,940	3,671,436	3,380,108	(15,999,987)	89,832,304	(77,671,738)		357,894,063
Private label commercial mortgage-backed securities	13,083,485	148,163	125,553	(1,230,947)	1,405,580	(2,589,344)		10,942,490
Commercial Mortgage Loans	4,675,000	46,142		(71,142)				4,650,000
<b>Total investments at value</b>	<b>376,738,585</b>	<b>3,538,805</b>	<b>3,603,054</b>	<b>(17,460,490)</b>	<b>93,709,830</b>	<b>(81,416,199)</b>		<b>378,713,585</b>
<b>Financial derivatives- assets</b>								
Credit default swaps on asset backed securities	90,382,805		2,627,724	(1,489,650)	27,971	(21,719,914)		69,828,936
<b>Total financial derivatives- assets</b>	<b>90,382,805</b>		<b>2,627,724</b>	<b>(1,489,650)</b>	<b>27,971</b>	<b>(21,719,914)</b>		<b>69,828,936</b>
<b>Total investments and financial derivatives-assets</b>	<b>\$ 467,121,390</b>	<b>\$ 3,538,805</b>	<b>\$ 6,230,778</b>	<b>\$ (18,950,140)</b>	<b>\$ 93,737,801</b>	<b>\$ (103,136,113)</b>	<b>\$</b>	<b>\$ 448,542,521</b>

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2011, as well as Level 3 financial instruments disposed of by the Company during the three month period ended June 30, 2011. For Level 3 financial instruments held by the Company at June 30, 2011, change in net unrealized gain (loss) of \$(16.6) million and \$(1.5) million, for the three month period ended June 30, 2011 relate to investments and financial derivative-assets, respectively.



**Table of Contents****Level 3 Fair Value Measurement Using Significant Unobservable Inputs:****Three Month Period Ended June 30, 2010**

	Beginning Balance as of March 31, 2010	Accreted Discounts / Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss)	Purchases	Sales	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2010
<b>Assets:</b>								
<b>Investments at value-</b>								
Private label residential mortgage-backed securities	\$ 234,944,268	\$ 3,155,804	\$ 9,654,774	\$ (2,744,250)	\$ 94,980,740	\$ (94,472,719)	\$	\$ 245,518,617
<b>Total investments at value</b>	234,944,268	3,155,804	9,654,774	(2,744,250)	94,980,740	(94,472,719)		245,518,617
<b>Financial derivatives-assets</b>								
Credit default swaps on corporate bonds	4,547,488		(4,560,582)	803,011	393,489	(1,183,406)		
Credit default swaps on asset backed securities	119,540,520		3,365,728	(6,216,478)	3,817,848	(7,082,327)		113,425,291
Other swaps	323,021		335,312	(323,021)		(335,312)		
<b>Total financial derivatives- assets</b>	124,411,029		(859,542)	(5,736,488)	4,211,337	(8,601,045)		113,425,291
<b>Total investments and financial derivatives-assets</b>	\$ 359,355,297	\$ 3,155,804	\$ 8,795,232	\$ (8,480,738)	\$ 99,192,077	\$ (103,073,764)	\$	\$ 358,943,908
<b>Liabilities:</b>								
<b>Financial derivatives-liabilities</b>								
Credit default swaps on asset backed securities	\$ (6,944,815)	\$	\$ (1,086,884)	\$ 2,689,816	\$ 5,341,883	\$	\$	\$
<b>Total financial derivatives- liabilities</b>	\$ (6,944,815)	\$	\$ (1,086,884)	\$ 2,689,816	\$ 5,341,883	\$	\$	\$

In January 2010, the FASB issued ASU No. 2010-6 *Fair Value Measurements and Disclosures* (Topic 820), *Improving Disclosures about Fair Value Measurements*, which became effective for fiscal years beginning after December 15, 2010. As a result certain classifications in the above table have been conformed to the current period presentation.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2010, as well as Level 3 financial instruments disposed of by the Company during the three month-period ended June 30, 2010. For Level 3 financial instruments held by the Company at June 30, 2010, change in net unrealized gain (loss) of \$(0.2) million, \$(5.7) million and \$2.7 million for the three month period ended June 30, 2010 relate to investments, financial derivative-assets and financial derivative-liabilities, respectively.



**Table of Contents****Level 3 Fair Value Measurement Using Significant Unobservable Inputs:****Six Month Period Ended June 30, 2011**

	Beginning Balance as of December 31, 2010	Accreted Discounts / Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss)	Purchases	Sales	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2011
<b>Assets:</b>								
<b>Investments at value-</b>								
U.S. Treasury and Agency residential mortgage-backed securities	\$	\$ (419,807)	\$ 97,393	\$ (150,203)	\$ 6,854,766	\$ (1,155,117)	\$	\$ 5,227,032
Private label residential mortgage-backed securities	338,839,441	7,320,793	14,556,334	(22,637,757)	186,259,638	(166,444,386)		357,894,063
Private label commercial mortgage-backed securities	1,850,000	230,972	897,963	(1,478,534)	16,750,783	(7,308,694)		10,942,490
Commercial Mortgage Loans		60,981		(85,981)	4,675,000			4,650,000
<b>Total investments at value</b>	<b>340,689,441</b>	<b>7,192,939</b>	<b>15,551,690</b>	<b>(24,352,475)</b>	<b>214,540,187</b>	<b>(174,908,197)</b>		<b>378,713,585</b>
<b>Financial derivatives- assets</b>								
Credit default swaps on asset backed securities	102,851,109		5,308,298	(4,740,333)	403,551	(33,993,689)		69,828,936
<b>Total financial derivatives- assets</b>	<b>102,851,109</b>		<b>5,308,298</b>	<b>(4,740,333)</b>	<b>403,551</b>	<b>(33,993,689)</b>		<b>69,828,936</b>
<b>Total investments and financial derivatives-assets</b>	<b>\$ 443,540,550</b>	<b>\$ 7,192,939</b>	<b>\$ 20,859,988</b>	<b>\$ (29,092,808)</b>	<b>\$ 214,943,738</b>	<b>\$ (208,901,886)</b>	<b>\$</b>	<b>\$ 448,542,521</b>

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2011, as well as Level 3 financial instruments disposed of by the Company during the six month period ended June 30, 2011. For Level 3 financial instruments held by the Company at June 30, 2011, change in net unrealized gain (loss) of \$(17.5) million and \$(9.9) million for the six month period ended June 30, 2011 relate to investments and financial derivative-assets, respectively.

**Table of Contents****Level 3 Fair Value Measurement Using Significant Unobservable Inputs:****Six Month Period Ended June 30, 2010**

	Beginning Balance as of December 31, 2009	Accreted Discounts / Amortized Premiums	Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss)	Purchases	Sales	Transfers In and/or Out of Level 3	Ending Balance as of June 30, 2010
<b>Assets:</b>								
<b>Investments at value-</b>								
Private label residential mortgage-backed securities	\$ 210,363,731	\$ 5,938,803	\$ 11,899,982	\$ 4,344,547	\$ 158,225,948	\$ (145,254,394)	\$	\$ 245,518,617
<b>Total investments at value</b>	210,363,731	5,938,803	11,899,982	4,344,547	158,225,948	(145,254,394)		245,518,617
<b>Financial derivatives- assets</b>								
Credit default swaps on corporate bonds	8,475,895		(2,281,392)	(2,650,145)	1,713,374	(5,257,732)		
Credit default swaps on asset backed securities	95,199,131		11,470,519	(15,155,697)	38,112,949	(16,201,611)		113,425,291
Other swaps	257,212		335,312	(257,212)		(335,312)		
<b>Total financial derivatives- assets</b>	103,932,238		9,524,439	(18,063,054)	39,826,323	(21,794,655)		113,425,291
<b>Total investments and financial derivatives-assets</b>	\$ 314,295,969	\$ 5,938,803	\$ 21,424,421	\$ (13,718,507)	\$ 198,052,271	\$ (167,049,049)	\$	\$ 358,943,908
<b>Liabilities:</b>								
<b>Financial derivatives- liabilities</b>								
Credit default swaps on asset backed securities	\$ (10,547,540)	\$	\$ (1,657,578)	\$ 3,881,292	\$ 8,339,356	\$ (15,530)	\$	\$
<b>Total financial derivatives- liabilities</b>	\$ (10,547,540)	\$	\$ (1,657,578)	\$ 3,881,292	\$ 8,339,356	\$ (15,530)	\$	\$

In January 2010, the FASB issued ASU No. 2010-6 *Fair Value Measurements and Disclosures* (Topic 820), *Improving Disclosures about Fair Value Measurements*, which became effective for fiscal years beginning after December 15, 2010. As a result certain classifications in the above table have been conformed to the current period presentation.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at

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June 30, 2010, as well as Level 3 financial instruments disposed of by the Company during the six month-period ended June 30, 2010. For Level 3 financial instruments held by the Company at June 30, 2010, change in net unrealized gain (loss) of \$3.4 million and \$(16.0) million for the six month period ended June 30, 2010 relate to investments and financial derivative-assets, respectively.

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### 4. Financial Derivatives

Gains and losses on the Company's derivative contracts for the three and six month periods ended June 30, 2011 are summarized in the tables below:

*June 30, 2011:*

Derivative Type	Primary Risk Exposure	Net Realized Gain/(Loss) for the Three Month Period Ended June 30, 2011	Change in Net Unrealized Gain/(Loss) for the Three Month Period Ended June 30, 2011	Net Realized Gain/(Loss) for the Six Month Period Ended June 30, 2011	Change in Net Unrealized Gain/(Loss) for the Six Month Period Ended June 30, 2011
<b>Financial derivatives - assets</b>					
Credit Default Swaps on Asset Backed Securities	Credit	\$ 2,627,724	\$ (1,489,653)	\$ 5,308,298	\$ (4,740,333)
Credit Default Swaps on Asset Backed Indices	Credit	3,819,732	1,095,929	(1,225,909)	1,974,050
Interest Rate Swaps	Interest Rates	(384,944)	(1,637,426)	(652,031)	(835,100)
		6,062,512	(2,031,150)	3,430,358	(3,601,383)
<b>Financial derivatives - liabilities</b>					
Credit Default Swaps on Asset Backed Indices	Credit	2,441,507	(207,888)	8,862,730	(217,059)
Credit Default Swaps on Corporate Bond Indices	Credit	(49,797)	339	(99,594)	(34,277)
Interest Rate Swaps	Interest Rates	(1,001,524)	(3,141,303)	(1,001,524)	(3,690,252)
		1,390,186	(3,348,852)	7,761,612	(3,941,588)
<b>Futures contracts</b>					
Short Eurodollar contracts	Interest Rates	(347,432)	202,288	(718,908)	521,138
Total		\$ 7,105,266	\$ (5,177,714)	\$ 10,473,062	\$ (7,021,833)

Gains and losses on the Company's derivative contracts for the three and six month periods ended June 30, 2010 are summarized in the tables below:

*June 30, 2010:*

Derivative Type	Primary Risk Exposure	Net Realized Gain/(Loss) for the Three Month Period Ended June 30, 2010	Change in Net Unrealized Gain/(Loss) for the Three Month Period Ended June 30, 2010	Net Realized Gain/(Loss) for the Six Month Period Ended June 30, 2010	Change in Net Unrealized Gain/(Loss) for the Six Month Period Ended June 30, 2010
<b>Financial derivatives - assets</b>					
Credit Default Swaps on Asset Backed Securities	Credit	\$ 3,365,728	\$ (6,216,478)	\$ 11,470,519	\$ (15,155,697)
Credit Default Swaps on Asset Backed Indices	Credit	(2,827,979)	634,325	(4,292,659)	1,657,183
	Credit	2,189	(1,395)	2,189	(1,395)

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### Credit Default Swaps on Corporate Bond Indices

Credit Default Swaps on Corporate Bonds	Credit	(4,560,582)	803,011	(2,281,392)	(2,650,145)
Other Swaps	Credit	335,312	(323,021)	335,312	(257,212)
Interest Rate Swaps	Interest Rates	(125,261)		(125,261)	(109,332)
		(3,810,593)	(5,103,558)	5,108,708	(16,516,598)

### Financial derivatives - liabilities

Credit Default Swaps on Asset Backed Securities	Credit	(1,086,884)	2,689,816	(1,657,578)	3,881,292
Credit Default Swaps on Asset Backed Indices	Credit	6,216,783	(539,333)	6,523,782	(265,095)
Credit Default Swaps on Corporate Bond Indices	Credit	(929,642)	1,283,806	(1,003,740)	1,145,978
Total Return Swaps	Equity Market	(280,600)	98,728	(853,876)	87,798
Interest Rate Swaps	Interest Rates	(897,444)	(1,084,866)	(897,444)	(1,214,536)
		3,022,213	2,448,151	2,111,144	3,635,437

### Futures contracts

Short Eurodollar contracts	Interest Rates	(288,200)	(469,987)	(1,025,880)	(1,348,675)
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Total		\$ (1,076,580)	\$ (3,125,394)	\$ 6,193,972	\$ (14,229,836)
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As of June 30, 2011, the Company is party to credit derivatives contracts in the form of credit default swaps on mortgage/asset backed securities and indices, or ABSCDS. As a seller of credit protection via ABSCDS, the Company receives periodic payments from protection buyers, and is obligated to make payments to the protection buyer upon the occurrence of a credit event with respect to underlying reference assets. Written credit derivatives held by the Company at June 30, 2011 and December 31, 2010, respectively, are summarized below:

Single Name and Index Credit Default Swaps	Amount at June 30, 2011	Amount at December 31, 2010
<b>(Asset Backed Securities)</b>		
Fair Value of Written Credit Derivatives, Net	\$ (4,564,225)	\$ (14,375,074)
Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties <sup>(1)</sup>	\$ 5,031,909	\$ 18,286,216
Notional Amount of Written Credit Derivatives <sup>(2)</sup>	\$ (24,864,649)	\$ (111,717,136)
Notional Amount of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties <sup>(1)</sup>	\$ 13,314,333	\$ 43,721,319

<sup>(1)</sup> Offsetting transactions with third parties include purchased credit derivatives which have the same reference obligation.

<sup>(2)</sup> The notional amount is the maximum amount that a seller of ABSCDS would be obligated to pay, and a buyer of credit protection would receive upon occurrence of a credit event. Movements in the value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under an ABSCDS contract may be offset against amounts due or owed on other ABSCDS contracts with the same ISDA counterparty.

Unless terminated by mutual agreement by both the buyer and seller, ABSCDS contracts typically terminate at the earlier of the (i) date the buyer of protection delivers the reference asset to the seller in exchange for payment of the notional balance following the occurrence of a credit event or (ii) date the reference asset is paid off in full, retired, or otherwise ceases to exist. Implied credit spreads may be used to determine the market value of swap contracts and are reflective of the cost of buying/selling protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make payment) under the swap contract. In situations where the credit quality of an underlying reference asset has deteriorated, credit spreads combined with a percentage of notional amounts paid up front (points up front) are frequently used as an indication of ABSCDS risk. ABSCDS credit protection sellers entering the market would expect to be paid a percentage of the current notional balance up front (points up front) approximately equal to the fair value of the contract in order to write protection on the reference assets underlying the Company's ABSCDS contracts. Stated spreads at June 30, 2011 on ABSCDS contracts where the Company wrote protection range between 9 and 442 basis points on contracts that were outstanding at this date and were unchanged from December 31, 2010. However, participants entering the market at June 30, 2011 and December 31, 2010 would likely transact on similar contracts with material points upfront given these spreads. Total net up-front payments received relating to ABSCDS contracts outstanding at June 30, 2011 and December 31, 2010 were \$4.2 million and \$13.5 million, respectively.

**5. Base Management Fee and Incentive Fee**

The Company has engaged the Manager to manage the assets, operations and affairs of the Company and pays various management fees associated with that arrangement. Effective August 2, 2011, the Board of Directors approved a Third Amended and Restated Management Agreement between the Company and the Manager. The Base Management Fees and Incentive Fees payable under the agreement are detailed below.

**Base Management Fees**

The Manager receives an annual base management fee in an amount equal to 1.50% per annum of the Company's shareholders' equity as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter). The base management fee is payable quarterly in arrears.

*Summary information* For the three month periods ended June 30, 2011 and 2010, the total base management fees incurred by the Company were \$1.4 million and \$1.1 million, respectively. For the six month periods ended June 30, 2011 and 2010, the total base management fees incurred by the Company were \$2.9 million and \$2.2 million, respectively.





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***Incentive Fees***

The Manager is entitled to receive a quarterly incentive fee equal to the positive excess of (i) the product of (A) 25% and (B) the excess o