

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 filer, 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	Outstanding at August 10, 2011
Common Shares Representing Limited Liability Company Interests, no par value	16,507,381

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ELLINGTON FINANCIAL LLC

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	June 30, 2011	December 31, 2010
	<i>Expressed in U.S. Dollars</i>	
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
Total Shareholders Equity	\$ 384,853,592	\$ 403,671,712
PER SHARE INFORMATION:		
Common shares, no par value	\$ 23.31	\$ 24.47

See Notes to Consolidated Financial Statements

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

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
Long Investments (312.29%) (a) (b) (n)				
Mortgage-Backed Securities (311.08%)				
Agency Securities (215.24%)				
Fixed Rate Agency Securities (200.72%)				
Principal and Interest - Fixed Rate Agency Securities (188.20%)				
\$ 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)

Current Principal/ Notional Amount	Description	Rate	Maturity	Value <i>Expressed in U.S. Dollars</i>
Principal and Interest - Fixed Rate Agency Securities (188.20%) (continued)				
\$ 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

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AT JUNE 30, 2011 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
Principal and Interest - Fixed Rate Agency Securities (188.20%) (continued)				
\$ 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
Interest Only - Fixed Rate Agency Securities (1.36%)				
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
TBA - Fixed Rate Agency Securities (11.16%) (c)				
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
Total Fixed Rate Agency Securities (Cost \$766,423,393)				772,477,165

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 Expressed in U.S. Dollars
Floating Rate Agency Securities (14.52%)				
Principal and Interest - Floating Rate Agency Securities (14.52%)				
\$ 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
Total Floating Rate Agency Securities (Cost \$55,553,517)				55,893,614
Total Agency Securities (Cost \$821,976,910)				828,370,779
Private Label Securities (95.84%)				
Principal and Interest - Private Label Securities (95.58%)				
537,488,752	Various	0.25% - 9.35%	5/19 - 1/47	367,857,921
Total Principal and Interest - Private Label Securities (Cost \$375,177,074)				367,857,921
Interest Only - Private Label Securities (0.26%)				
76,057,033	Various	0.50% - 0.65%	9/47	978,632
Total Interest Only - Private Label Securities (Cost \$669,676)				978,632
Residual Certificates - Private Label Securities (0.00%)				
216,439,901	Various		6/37	
Total Residual Certificates - Private Label Securities (Cost \$586,455)				
Total Private Label Securities (Cost \$376,433,205)				368,836,553
Total Mortgage-Backed Securities (Cost \$1,198,410,115)				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

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AT JUNE 30, 2011 (CONTINUED)

(UNAUDITED)

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
Repurchase Agreements (5.83%) (d)				
\$ 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
Total Repurchase Agreements (Cost \$22,437,500)				\$ 22,437,500
Investments Sold Short (-140.35%)				
TBA - Fixed Rate Agency Securities Sold Short (-134.59%) (c) (e)				
\$ (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)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$519,948,719)				(517,968,450)
U.S. Treasury Securities Sold Short (-5.76%)				
(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)
Total U.S. Treasury Securities Sold Short (Proceeds -\$22,161,936)				(22,186,956)
Total Investments Sold Short (Proceeds -\$542,110,655)				\$ (540,155,406)

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

	Primary Risk Exposure	Notional or Number of Contracts	Range of Expiration Dates	Value <i>Expressed in U.S. Dollars</i>
Financial Derivatives - Assets (32.66%)				
Swaps (32.66%) (f)				
Long Swaps:				
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
Short Swaps:				
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
Total Swaps (Cost \$136,936,637)				125,712,267
Total Financial Derivatives - Assets (Cost \$136,936,637)				\$ 125,712,267
Financial Derivatives - Liabilities (-2.86%)				
Swaps (-2.76%)				
Long Swaps:				
Credit Default Swaps on Asset Backed Indices (Proceeds - \$4,427,996) (g)	Credit	\$ 13,314,333	8/37 - 7/45	\$ (5,031,909)
Short Swaps:				
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)
Total Swaps (Net Proceeds -\$4,255,004)				\$ (10,618,791)
Futures (-0.10%) (m)				
Short Futures:				
Eurodollar contracts	Interest Rates	(245)	9/11 - 9/12	(368,863)
Total Futures				(368,863)
Total Financial Derivatives - Liabilities (Net Proceeds -\$4,255,004)				\$ (10,987,654)

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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.

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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>
Long Investments (308.68%) (a) (b) (n)				
Mortgage-Backed Securities (308.68%)				
Agency Securities (224.28%)				
Fixed Rate Agency Securities (204.19%)				
Principal and Interest - Fixed Rate Agency Securities (190.72%)				
\$ 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

See Notes to Consolidated Financial Statements

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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
Principal and Interest - Fixed Rate Agency Securities (190.72%) (continued)				
\$ 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

See Notes to Consolidated Financial Statements

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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
Principal and Interest - Fixed Rate Agency Securities (190.72%) (continued)				
\$ 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)**

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
TBA - Fixed Rate Agency Securities (13.47%) (c)				
\$ 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
Total Fixed Rate Agency Securities (Cost \$828,147,519)				824,284,224
Floating Rate Agency Securities (20.09%)				
Principal and Interest - Floating Rate Agency Securities (20.09%)				
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
Total Floating Rate Agency Securities (Cost \$80,166,989)				81,092,895
Total Agency Securities (Cost \$908,314,508)				905,377,119

See Notes to Consolidated Financial Statements

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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
Private Label Securities (84.40%)				
Principal and Interest - Private Label Securities (82.97%)				
\$ 482,838,475	Various	0.32% - 53.41%	6/18 - 2/51	\$ 334,908,926
Total Principal and Interest - Private Label Securities (Cost \$321,067,655)				334,908,926
Interest Only - Private Label Securities (1.43%)				
127,239,018	Various	0.50% - 5.24%	4/35 - 9/47	5,780,515
Total Interest Only - Private Label Securities (Cost \$2,490,766)				5,780,515
Residual Certificates - Private Label Securities (0.00%)				
225,639,768	Various		6/37	
Total Residual Certificates - Private Label Securities (Cost \$611,382)				
Total Private Label Securities (Cost \$324,169,803)				340,689,441
Total Mortgage-Backed Securities (Cost \$1,232,484,311)				1,246,066,560
Total Long Investments (Cost \$1,232,484,311)				\$ 1,246,066,560
Repurchase Agreements (6.36%) (d)				
\$ 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				
Total Repurchase Agreements (Cost \$25,683,750)				\$ 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)

Current Principal/ Notional Amount	Description	Rate	Maturity	Value Expressed in U.S. Dollars
Investments Sold Short (-192.02%)				
TBA - Fixed Rate Agency Securities Sold Short (-185.71%) (c) (e)				
\$ (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)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$750,520,119)				(749,682,695)
U.S. Treasury Securities Sold Short (-6.31%)				
(27,000,000)	U.S. Treasury Note	2.63%	11/20	(25,462,403)
Total U.S. Treasury Securities Sold Short (Proceeds -\$25,261,493)				(25,462,403)
Total Investments Sold Short (Proceeds -\$775,781,612)				\$ (775,145,098)

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
Financial Derivatives - Assets (49.88%)				
Swaps (49.88%) (f)				
Long Swaps:				
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
Short Swaps:				
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
Total Swaps (Cost \$208,958,359)				201,335,372
Total Financial Derivatives - Assets (Cost \$208,958,359)				\$ 201,335,372
Financial Derivatives - Liabilities (-5.21%)				
Swaps (-4.99%)				
Long Swaps:				
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)
Short Swaps:				
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)
Total Swaps (Net Proceeds -\$17,718,129)				(20,140,328)
Futures (-0.22%) (m)				
Short Futures:				
Eurodollar contracts	Interest Rates	(400)	3/11 - 9/12	(890,001)
Total Futures				(890,001)
Total Financial Derivatives - Liabilities (Net Proceeds -\$17,718,129)				\$ (21,030,329)

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See Notes to Consolidated Financial Statements

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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

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS
(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>			
INVESTMENT INCOME				
Interest income	\$ 16,651,827	\$ 10,798,629	\$ 32,500,608	\$ 22,715,250
EXPENSES				
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
NET INVESTMENT INCOME (LOSS)	12,073,681	6,677,010	22,671,935	14,140,039
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES				
Net realized gain (loss) on:				
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
Change in net unrealized gain (loss) on:				
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)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FINANCIAL DERIVATIVES	(13,395,261)	(2,945,880)	(12,886,345)	(2,813,451)
NET INCREASE (DECREASE) IN SHAREHOLDERS EQUITY RESULTING FROM OPERATIONS	\$ (1,321,580)	\$ 3,731,130	\$ 9,785,590	\$ 11,326,588

**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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See Notes to Consolidated Financial Statements

Table of Contents**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>			
CHANGE IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS				
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
CHANGE IN SHAREHOLDERS' EQUITY RESULTING FROM SHAREHOLDER TRANSACTIONS				
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)
SHAREHOLDERS' EQUITY, BEGINNING OF PERIOD	392,832,979	292,888,432	403,671,712	299,794,013
SHAREHOLDERS' EQUITY, END OF PERIOD	\$ 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)**

	Six Month Period Ended June 30, 2011	Six Month Period Ended June 30, 2010
	<i>Expressed in U.S. Dollars</i>	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY		
RESULTING FROM OPERATIONS	\$ 9,785,590	\$ 11,326,588
Cash flows provided by (used in) operating activities:		
Reconciliation of the net increase (decrease) in shareholders' equity resulting from operations to net cash provided by (used in) operating activities:		
Change in net unrealized (gain) loss on investments and financial derivatives	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
Cash flows provided by (used in) financing activities:		
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)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,646,505	6,468,438

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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
Supplemental disclosure of cash flow information:		
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

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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 c