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

Schedule 13D/A

**Under the Securities Exchange Act of 1934
(Amendment No. 4)***

Ellington Financial LLC

(Name of Issuer)

Common Shares
(Title of Class of Securities)

288522303
(CUSIP Number)

Daniel Margolis, Esq.
Ellington Financial LLC
53 Forest Avenue
Old Greenwich, Connecticut 06870
+1 203 698 1200

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

May 14, 2013
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box.

(1)	NAME OF REPORTING PERSONS I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY) Michael W. Vranos	
(2)	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
(3)	SEC USE ONLY	
(4)	SOURCE OF FUNDS OO	
(5)	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) <input type="checkbox"/>	
(6)	CITIZENSHIP OR PLACE OF ORGANIZATION United States	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	(7)	SOLE VOTING POWER 106,116 Common Shares
	(8)	SHARED VOTING POWER 2,670,006 Common Shares
	(9)	SOLE DISPOSITIVE POWER 106,116 Common Shares
	(10)	SHARED DISPOSITIVE POWER 2,670,006 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,776,122 Common Shares	
(12)	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
(13)	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 10.7%	
(14)	TYPE OF REPORTING PERSON IN	

(1)	NAME OF REPORTING PERSONS I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY) VC Investments LLC (13-3813408)	
(2)	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
(3)	SEC USE ONLY	
(4)	SOURCE OF FUNDS OO	
(5)	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) <input type="checkbox"/>	
(6)	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	(7)	SOLE VOTING POWER 0 Common Shares
	(8)	SHARED VOTING POWER 2,584,354 Common Shares
	(9)	SOLE DISPOSITIVE POWER 0 Common Shares
	(10)	SHARED DISPOSITIVE POWER 2,584,354 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,584,354 Common Shares	
(12)	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
(13)	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 9.9%	
(14)	TYPE OF REPORTING PERSON OO	

(1)	NAME OF REPORTING PERSONS I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY) EMG Holdings, L.P. (03-0612415)	
(2)	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
(3)	SEC USE ONLY	
(4)	SOURCE OF FUNDS OO	
(5)	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) <input type="checkbox"/>	
(6)	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	(7)	SOLE VOTING POWER 0 Common Shares
	(8)	SHARED VOTING POWER 2,489,605 Common Shares
	(9)	SOLE DISPOSITIVE POWER 0 Common Shares
	(10)	SHARED DISPOSITIVE POWER 2,489,605 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 2,489,605 Common Shares	
(12)	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
(13)	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 9.6%	
(14)	TYPE OF REPORTING PERSON PN	

(1)	NAME OF REPORTING PERSONS I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY) Ellington Financial Management LLC (26-0715075)	
(2)	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
(3)	SEC USE ONLY	
(4)	SOURCE OF FUNDS OO	
(5)	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) <input type="checkbox"/>	
(6)	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	(7)	SOLE VOTING POWER 0 Common Shares
	(8)	SHARED VOTING POWER 94,749 Common Shares
	(9)	SOLE DISPOSITIVE POWER 0 Common Shares
	(10)	SHARED DISPOSITIVE POWER 94,749 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 94,749 Common Shares	
(12)	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
(13)	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 0.4%	
(14)	TYPE OF REPORTING PERSON OO	

Amendment No. 3 to Schedule 13D

This Amendment No. 3 to Schedule 13D amends and supplements the statement on Schedule 13D filed with the Securities and Exchange Commission on February 14, 2011 (as amended on each of January 4, 2012 and August 22, 2012, the "Schedule 13D") with respect to the common shares representing limited liability company interests, no par value (the "Common Shares"), of Ellington Financial LLC (the "Issuer"). This Amendment No. 3 is being filed to update the number of Common Shares of the Issuer, and the percent of class, beneficially owned by the Reporting Persons to give effect to an increase in the number of outstanding Common Shares of the Issuer resulting from the issuance and sale of 5,000,000 Common Shares by the Issuer in an underwritten public offering that closed on May 14, 2013, as well as certain transactions described below. The information set forth below in Items 3 and 6, respectively, supplement the information disclosed under the corresponding item of the Schedule 13D, while the information set forth below in Items 5 and 7 amends in its entirety the information disclosed in the corresponding item of the Schedule 13D. Unless otherwise indicated, terms used but not defined in the Amendment No. 3 shall have the same meanings herein as ascribed to such terms in the Schedule 13D.

Item 3. Source and Amount of Funds or Other Consideration.

Item 3 is hereby amended to add the following to the end of this section:

On November 2, 2012, pursuant to the Management Agreement, the Issuer issued 42,162 Common Shares to EFM as payment for 10% of the incentive fee earned by EFM during the third quarter of 2012.

On December 18, 2012, EMGH sold 212,000 Common Shares in a block transaction described in further detail under Item 7.01 of a Form 8-K filed by the Issuer with the Securities and Exchange Commission on December 18, 2012. In connection with the December 18, 2012 transaction, on January 1, 2013, EMGH purchased 212,000 common units of limited liability company interest ("Common Units") in Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a subsidiary operating partnership of the Issuer, at the same price at which the block sale of Common Shares was consummated. The Common Units may be converted into Common Shares on a one-for-one basis after a two-year holding period and other applicable conditions have been satisfied. The two-year holding period may be waived upon the occurrence of certain events. The block sale and Common Unit transaction described in this paragraph changed only the form of beneficial ownership by Michael W. Vranos, VC and EMGH.

On December 27, 2012, 257,472 Common Shares beneficially owned by each of Mr. Vranos, VC, and EMGH were distributed to certain partners of EMGH and contributed by such partners to family trusts. 177,474 of these Common Shares are held by family trusts for which Michael W. Vranos acts as a trustee. No one received or paid any consideration for the distributed Common Shares and LTIP Units.

On February 12, 2013, pursuant to the Management Agreement, the Issuer issued 33,254 Common Shares to EFM as payment for 10% of the incentive fee earned by EFM during the fourth quarter of 2012..

On May 2, 2013, pursuant to the Management Agreement, the Issuer issued 8,288 Common Shares to EFM as payment for 10% of the incentive fee earned by EFM during the first quarter of 2013, resulting in EFM beneficially owning an aggregate of 94,749 Common Shares as of the date hereof.

Item 5. Interest in Securities of the Issuer.

Item 5 is hereby amended in its entirety as follows:

(a), (b) The aggregate number and percentage of Common Shares to which this Schedule 13D relates is 2,761,828 shares, which represents beneficial ownership of 10.7% of the total number of Common Shares outstanding as of May 14, 2012. The beneficial ownership set forth in the immediately preceding sentence is held as follows:

<u>Beneficial Owner</u>	<u>Sole Voting Power</u>	<u>Shared Voting Power</u>	<u>Sole Dispositive Power</u>	<u>Shared Dispositive Power</u>	<u>Total</u>	<u>Percent of Outstanding Common Shares ⁽¹⁾</u>	<u>Managing Member or General Partner</u>
Mr. Vranos ⁽²⁾	106,116	2,670,006	106,116	2,670,006	2,776,122	10.7%	N/A
VC ⁽³⁾	0	2,584,354	0	2,584,354	2,584,354	9.9%	Mr. Vranos
EMGH ⁽⁴⁾	0	2,489,605	0	2,489,605	2,489,605	9.6%	VC
EFM	0	94,749	0	94,749	94,749	0.4%	VC

- (1) Beneficial ownership is calculated based on 25,412,011 Common Shares outstanding as of May 14, 2013, which includes 5,000,000 Common Shares issued by the Issuer in an underwritten public offering that closed on May 14, 2013. For purposes of this table, a reporting person is deemed to be the beneficial owner of Common Shares if that reporting person has the right to acquire such Common Shares within 60 days of May 14, 2013 by the conversion of any LTIP Units or Common Units. LTIP Units and Common Units held by a reporting person are each deemed to have been converted into Common Shares for the purpose of computing the percentage of outstanding Common Shares beneficially owned by such reporting person, but shall not be deemed to have been converted for the purpose of computing the percentage of outstanding Common Shares beneficially owned by any other reporting person.
- (2) Beneficial ownership includes 106,116 Common Shares over which Mr. Vranos has sole voting and dispositive power (including 14,294 Common Shares held directly by Mr. Vranos and 91,822 Common Shares held in a family trust for the benefit of another partner of EMGH for whom Mr. Vranos acts as trustee), 2,489,605 Common Shares beneficially owned by EMGH (including 372,162 LTIP Units and 212,000 Common Units – see footnote 4 below), 94,749 Common Shares held directly by EFM and 85,652 Common Shares held in a family trust for the benefit of another partner of EMGH for whom Mr. Vranos acts as trustee.
- (3) Beneficial ownership includes 2,489,605 Common Shares beneficially owned by EMGH (including 372,162 LTIP Units and 212,000 Common Units – see footnote 4 below) and 94,749 Common Shares held directly by EFM.
- (4) Beneficial ownership includes 1,905,443 Common Shares, 372,162 LTIP Units and 212,000 Common Units held directly by EMGH. The LTIP Units are fully vested and are convertible into Common Shares on a one-for-one basis, subject to certain conditions. The Common Units may be converted into Common Shares on a one-for-one basis after a two-year holding period and other applicable conditions have been satisfied. The two-year holding period may be waived upon the occurrence of certain events.
- (c) Except for the transactions described in Item 3 above, there have been no transactions effected during the past 60 days by the Reporting Persons with respect to the Common Shares. The information related to the transaction dated May 2, 2013 contained in Item 3 above is incorporated herein by reference.
- (d) Not applicable.
- (e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

A description of the Fourth Amended and Restated Management Agreement included in the Issuer's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 under the heading "Business-Management Agreement" has been excerpted and attached as Exhibit 99.2. A description of the Limited Liability Company Operating Agreement of the Operating Partnership Agreement included in Item 1.01 of the Issuer's Current Report on Form 8-K filed on January 7, 2013 under the heading "Operating Agreement" has been excerpted and attached as Exhibit 99.3. Item 6 is hereby amended by deleting the prior description of the Third Amended and Restated Management Agreement and incorporating the descriptions set forth in Exhibits 99.2 and 99.3 by reference.

Item 7. Material to be Filed as Exhibits.

- Exhibit 7.1: Fourth Amended and Restated Management Agreement, by and between Ellington Financial LLC, Ellington Financial Operating Partnership LLC and Ellington Financial Management LLC, effective as of January 1, 2013 (incorporated by reference to Exhibit 10.1 of the Issuer's Annual Report on Form 10-K for the year ended December 31, 2012).
- Exhibit 7.2: Form of Registration Rights Agreement, by and between Ellington Financial LLC, Ellington Financial Management LLC and Friedman, Billing, Ramsey & Co., Inc., dated as of August 17, 2007 (incorporated by reference to Exhibit 7.2 of the Schedule 13D of the Reporting Persons filed on February 14, 2011).
- Exhibit 7.3: Limited Liability Company Operating Agreement of Ellington Financial Operating Partnership LLC, by and between the Company, Ellington Financial Operating Partnership LLC and EMG Holdings, L.P., dated as of January 1, 2013 (incorporated by reference to Exhibit 10.2 of the Issuer's Annual Report on Form 10-K for the year ended December 31, 2012).
- Exhibit 24.1: Power of Attorney (incorporated by reference to Exhibit 24.1 of the Schedule 13D filed on February 14, 2011).
- Exhibit 99.1: Joint Filing Agreement (incorporated by reference to Exhibit 99.1 of the Schedule 13D filed on February 14, 2011).
- Exhibit 99.2: Excerpt from the Ellington Financial LLC Annual Report on Form 10-K for the fiscal year ended December 31, 2012 describing the Fourth Amended and Restated Management Agreement.
- Exhibit 99.3: Excerpt from the Ellington Financial LLC Current Report on Form 8-K filed on January 7, 2013 describing the Limited Liability Company Operating Agreement of the Operating Partnership.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated this 22nd day of May, 2013.

MICHAEL W. VRANOS

/s/ Michael W. Vranos

VC INVESTMENTS L.L.C.

By: /s/ Michael W. Vranos

Name: Michael W. Vranos

Title: Managing Member

EMG HOLDINGS, L.P.

By: /s/ Laurence E. Penn

Name: Laurence E. Penn

Title: Designated Person

By: /s/ Laurence E. Penn

Name: Laurence E. Penn

Title: Vice Chairman

ELLINGTON FINANCIAL MANAGEMENT LLC

By: /s/ Laurence E. Penn

Name: Laurence E. Penn

Title: Executive Vice President

Excerpt of Description of Fourth Amended and Restated Management Agreement

Management Agreement

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

The management agreement, which was most recently amended and restated effective January 1, 2013, requires our Manager to manage our assets, operations, and affairs in conformity with the policies and the investment guidelines that are approved and monitored by our Board of Directors. Our Manager is under the supervision and direction of our Board of Directors. Our Manager is responsible for:

- the selection, purchase and sale of assets in our portfolio;
- our financing activities;
- providing us with advisory services; and
- providing us with a management team, inclusive of a dedicated Chief Financial Officer and appropriate support personnel as necessary.

Our Manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to the management, operation, and administration of our assets and liabilities, and business as may be appropriate.

Under the management agreement, we pay our Manager a management fee quarterly in arrears, which includes a “base” component and an “incentive” component, and we reimburse certain expenses of our Manager. Effective January 1, 2013, we entered into a Fourth Amended and Restated Management Agreement with our Manager, which replaces and supersedes the Third Amended and Restated Management Agreement dated August 2, 2011. The Fourth Amended and Restated Management Agreement was adopted and executed for the primary purpose of making our operating partnership subsidiary a party to the management agreement and to cause, effective for all fiscal quarters beginning on or after January 1, 2013, base management fees and incentive fees to be calculated at the Operating Partnership level (as opposed to at the Company level).

Although we have not done so to date, if we invest at issuance in the equity of any CDO that is managed, structured, or originated by Ellington or one of its affiliates, or if we invest in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination or structuring fees, the base management and incentive fees payable by us to our Manager will be reduced by (or our Manager will otherwise rebate to us) an amount equal to the applicable portion of any such related management, origination, or structuring fees.

The management agreement provides that 10% of each incentive fee payable to our Manager is to be paid in common shares, with the balance paid in cash; provided, however, that our Manager may, in its sole discretion, elect to receive a greater percentage of any incentive fee in the form of common shares by providing our Board of Directors with written notice of its election to receive a greater percentage of its incentive fee in common shares before the first day of the last calendar month in the quarter to which such incentive fee relates. Our management agreement further provides that our Manager may not elect to receive common shares as payment of its incentive fee, other than in accordance with all applicable securities exchange rules and securities laws (including prohibitions on insider trading). The number of our common shares to be received by our Manager is based on the fair market price of those common shares, which is determined based on the average of the closing prices of our common shares on the NYSE during the last calendar month of the quarter to which such incentive fee relates. Common shares delivered as payment of the incentive fee are immediately vested, provided that our Manager has agreed not to sell such common shares prior to one year after the date they are issued to our Manager, provided further, however, that this transfer restriction will lapse if the management agreement is terminated.

Base Management Fees, Incentive Fees and Reimbursement of Expenses

Base Management Fees

Periods prior to January 1, 2013—Under the previous management agreement, we paid our Manager a base management fee quarterly in arrears in an amount equal to 1.50% per annum of our shareholders’ equity (calculated in accordance with U.S. Generally Accepted Accounting Principles, or “U.S. GAAP,” as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that shareholders’ equity is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between our Manager and our independent directors, and approval by a majority of our independent directors in the case of non-cash charges.

Periods after January 1, 2013—Under the current management agreement, the Operating Partnership pays our Manager the same base management fee described above for the periods prior to January 1, 2013, except that shareholder’s equity is defined as the members’ equity of the Operating Partnership.

Incentive Fees

Periods prior to January 1, 2013—In addition to the base management fee, with respect to each fiscal quarter we paid our Manager an incentive fee equal to the excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) our Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

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

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

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

Periods after January 1, 2013—Under the current management agreement, our Operating Partnership pays our Manager the same incentive fee described immediately above, except that:

- Adjusted Net Income and Loss Carryforward are determined by reference to the net increase in members’ equity resulting from operations of the Operating Partnership, as opposed to by reference to the net increase in our shareholders’ equity;
- Hurdle Amount is determined by reference to the sum of the average number of our common shares and LTIP Units outstanding and the average number of partnership units in our Operating Partnership (“Operating Partnership Units”) and LTIP Units in our Operating Partnership (“Operating Partnership LTIP Units”) (other than Operating Partnership Units and Operating Partnership LTIP Units held by us) outstanding, as opposed to by reference only to the average number of our common shares and LTIP Units outstanding; and
- Hurdle Price Per Share is determined: (i) by reference to both our common share issuances and Operating Partnership Unit issuances (other than Operating Partnership Units issued to us), as opposed to by reference only to our common share issuances, and (ii) by reference to the ratio of retained earnings attributable to both our common shares and Operating Partnership Units (other than Operating Partnership Units held by us) to the average number of our common shares and Operating Partnership Units (other than Operating Partnership Units held by us) outstanding, as opposed to by reference to the ratio of retained earnings attributable only to our common shares to the average number of our common shares outstanding.

Reimbursement of Expenses

We do not maintain an office or employ personnel. We rely on the facilities and resources of our Manager to conduct our operations. We pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the management agreement. Our Manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of our Manager's employees and other related expenses, other than the costs incurred by our Manager for a dedicated Chief Financial Officer, dedicated controller, an in-house legal counsel, and certain internal audit staff in connection with Sarbanes-Oxley compliance initiatives as approved by the Board of Directors (provided that the costs for any time spent by such in-house legal counsel or internal audit staff on matters unrelated to the Company will not be borne by the Company). In addition, other than as expressly described in the management agreement, we are not required to pay any portion of rent, telephone, utilities, office furniture, equipment, machinery, and other office, internal and overhead expenses of our Manager and its affiliates. Expense reimbursements to our Manager are made within 60 days following delivery of the expense statement by our Manager.

Term and Termination

The management agreement has a current term that expires on December 31, 2013, and will automatically renew for a one year term each anniversary date thereafter unless notice of non-renewal is delivered by either party to the other party at least 180 days prior to the expiration of the then current term. Our independent directors will review our Manager's performance annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by the affirmative vote of the holders of at least a majority of the outstanding common shares, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the base management and incentive fees payable to our Manager are not fair, subject to our Manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of management fees. In the event we terminate the management agreement without cause or elect not to renew the management agreement, we will be required to pay our Manager a termination fee equal to the amount of three times the sum of (i) the average annual base management fee earned by our Manager during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination and (ii) the average annual incentive fee earned by our Manager during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination.

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

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

Our Manager may terminate the management agreement effective upon 60 days prior written notice of termination to us in the event that we default in the performance or observance of any material term, condition or covenant in the management agreement and the default continues for a period of 30 days after written notice to us specifying the default and requesting that the default be remedied in such 30-day period. In the event our Manager terminates the management agreement due to our default in the performance or observance of any material term, condition or covenant in the management agreement, we will be required to pay our Manager the termination fee. Our Manager may also terminate the management agreement in the event we become regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event; provided, however, that in the case of such termination, if our Manager was not at fault for our becoming regulated as an investment company under the Investment Company Act, we will be required to pay a termination fee.

Excerpt of Description of Limited Liability Company Operating Agreement of Operating Partnership

Operating Agreement

Pursuant to the Operating Agreement, the Company contributed all of its assets (including its existing subsidiaries) and existing liabilities to the Operating Partnership in exchange for Common Units and LTIP Units (each as defined below under “Units”) together representing an approximately 99% interest in the Operating Partnership. In addition, EMGH contributed approximately \$4.66 million in cash to the Operating Partnership in exchange for 212,000 Common Units representing an approximately 1% interest in the Operating Partnership. Pursuant to the redemption right described below, the Common Units issued to EMGH may be exchanged on a one-for-one basis (subject to adjustment as described further below) for Company common shares. We refer to the foregoing transactions as the “Operating Partnership formation transactions.”

Management

The Operating Partnership is organized as a Delaware limited liability company. The Company is the Managing Member of the Operating Partnership. The Company intends henceforth to conduct all of its operations and business activities through the Operating Partnership (including the Operating Partnership’s subsidiaries). Pursuant to the Operating Agreement and subject to the requirements described below, the Company has full power, right and authority to manage and direct the business and affairs of the Operating Partnership and to make all decisions and take all actions on its behalf, including the ability to cause the Operating Partnership to enter into certain major transactions including investments, acquisitions, dispositions and financings (including the sale of membership interests to third parties), to make distributions to Members, and to cause changes in the Operating Partnership’s business and investment activities.

Units

As of the effective date of the Operating Agreement, the Operating Partnership has two classes of limited liability company interests (“Membership Interests”) outstanding, common units (“Common Units”), and long-term incentive plan units (“LTIP Units,” and collectively with the Common Units, the “Units”). The Company is authorized to cause the Operating Partnership to issue additional Membership Interests in the Operating Partnership at any time or from time to time in one or more classes or series, with such designations, preferences and rights and for such consideration and on such terms and conditions as the Company shall determine.

Restrictions on Transferability of Units Held By Company

The Company may not voluntarily withdraw from the Operating Partnership or transfer or assign its interest in the Operating Partnership (other than to an affiliate of the Company) or engage in any merger, consolidation or other combination, or sale of all or substantially all of the Company’s assets, which in each case results in a change of control of the Company (a “Transaction”) unless at least one of the following conditions is met:

- the consent of a majority in interest of the Members (other than the Company or EMGH or its affiliates) is obtained and the surviving entity in such Transaction expressly agrees to assume all obligations of the Company under the Operating Agreement;
- as a result of such Transaction, all Members (other than the Company and any subsidiary of the Company) will receive for each Unit an amount of cash, securities or other property equal or substantially equivalent in value to the product of the Conversion Factor (as defined below under “Redemption Rights”) and the greatest amount of cash, securities or other property paid in the Transaction to a holder of one Company common share; provided that, if in connection with such Transaction, a purchase tender or exchange offer shall have been made to and accepted by the holders of more than 50% of the outstanding Company common shares, each holder of Units (other than the Company and any subsidiary of the Company) shall be given the option to exchange its Units for the greatest amount of cash, securities or other property that such Member would have received had it (A) exercised its redemption right (as described below) and (B) sold, tendered or exchanged pursuant to such offer the Company common shares received upon exercise of such redemption right immediately prior to the expiration of the offer; or
- the Company is the surviving entity in the Transaction and either (A) the holders of Company common shares do not receive cash, securities or other property in the Transaction or (B) all Members (other than the Company and any subsidiary of the Company) receive for each Unit an amount of cash, securities or other property equal or substantially equivalent in value to the product of the Conversion Factor and the greatest amount of cash, securities or other property (expressed as an amount per Company common share) received in the Transaction by any holder of Company common shares.

The Company also may merge with or into or consolidate with another entity if immediately after such merger or consolidation (i) substantially all of the assets of the successor or surviving entity, other than Units held by the Company, are contributed, directly or indirectly, to the Operating Partnership as a capital contribution in exchange for Units with a fair market value equal to the value of the assets so contributed as determined by the survivor in good faith and (ii) the survivor expressly agrees to assume all of the Company's obligations under the Operating Agreement. The Operating Agreement shall be amended after any such merger or consolidation so as to arrive at a new method of calculating the amounts payable upon exercise of the redemption right that approximates the existing method for such calculation.

Restrictions on Transferability of Units Held by Other Members

No Member (other than the Company) may transfer its Units in the Operating Partnership (other than pursuant to the redemption right described below) without the consent of the Company. Furthermore, no Member (other than the Company) may transfer its Units in the Operating Partnership if, among other things, such transfer would cause the Members, other than the Company, collectively to either (i) own less than 0.2% of the outstanding Common Units and LTIP Units or (ii) have a capital account balance with respect to their Common Units and LTIP Units of less than \$500,000 (collectively, the "Minimum Ownership Condition").

The Company may waive the Minimum Ownership Condition in its sole discretion, and must waive this restriction if a written opinion of counsel is obtained concluding that waiving such restriction should not materially adversely change the federal income tax consequences of ownership of the Units for the other current and future Members of the Operating Partnership or the ownership of Company common shares for the current and future holders of Company common shares. Notwithstanding the restrictions described above, EMGH may transfer its Common Units to an affiliate of EMGH provided that such affiliate expressly agrees to assume all obligations and rights of EMGH under the Operating Agreement.

Capital Contributions

The Operating Agreement provides that if the Company determines it is in the best interest of the Operating Partnership to obtain additional funds, the Company may cause the Operating Partnership to issue additional Units or to borrow additional funds. Under the Operating Agreement, the Company is obligated to contribute the proceeds of any future offering of equity securities of the Company as additional capital to the Operating Partnership, whereupon the Company will receive additional Units based on the Conversion Factor in effect at the time of such contribution. Likewise, if the Company repurchases shares of its outstanding stock, the Operating Partnership will redeem an equivalent number of Units held by the Company. Unless an EMGH Redemption Right Event (as defined below under "Redemption Rights") has occurred, if EMGH has transferred (other than to an affiliate) any of its Common Units and the Members other than the Company collectively own less than 0.2% of the outstanding Common Units and LTIP Units, then the Company may require EMGH or its designee to make additional contributions to the Operating Partnership in exchange for additional Common Units in an amount sufficient to cause the Members (other than the Company) to own collectively at least 0.2% of the outstanding Common Units and LTIP Units.

Redemption Rights

Pursuant to the Operating Agreement, beginning one year after the issuance of any Common Units, Members (other than the Company) have redemption rights which enable them to cause the Operating Partnership to redeem their Common Units in exchange for cash or, at the Company's option, the Company's common shares on a one-for-one basis (the "Conversion Factor"); provided, however, that, subject to the other provisions and conditions described herein, EMGH will not be able to redeem prior to January 1, 2015 any of the Common Units acquired by it in the Operating Partnership formation transactions. The cash redemption amount per unit is based on the average market price of the Company's common shares over the ten trading days immediately preceding the redemption date. The Conversion Factor (and therefore, the number of Company common shares issuable upon redemption of Common Units held by Members) will be adjusted upon the occurrence of certain events such as share dividends, share subdivisions or combinations. Notwithstanding the foregoing, a Member will not be entitled to exercise its redemption rights in certain circumstances, including if such redemption would violate the Minimum Ownership Condition.

Notwithstanding anything to the contrary in the Operating Agreement, EMGH and its affiliates may redeem any Units held by them upon the announcement of a Transaction (as defined above under "Restrictions on Transferability of Units Held By Company") or the effectiveness of termination or non-renewal of the Management Agreement (such rights are referred to as an EMGH Redemption Right Event in the Operating Agreement).

Distribution

The Operating Agreement provides that the Operating Partnership will distribute cash, at such times and in such amounts as determined by the Company in its sole discretion, to the Members (including the Company) in accordance with their respective percentage interests in the Operating Partnership as of the record date for such distribution. Pursuant to the Operating Agreement, the percentage interest of a Member in the Operating Partnership is determined by dividing the number of Common Units and LTIP Units held by such Member by the total Common Units and LTIP Units then outstanding.

Upon liquidation of the Operating Partnership, after payment of, or adequate provision for, debts and obligations of the Operating Partnership, including any Member loans, any remaining assets of the Operating Partnership will be distributed to the Members (including the Company) with positive capital accounts in accordance with their respective positive capital account balances.

LTIP Units

In general, LTIP Units are a class of Membership Interests in the Operating Partnership and will receive the same per unit distributions as do the outstanding Common Units in the Operating Partnership. Initially, each LTIP Unit will have a capital account balance of zero and, therefore, will not initially have full parity with Common Units with respect to liquidating distributions. A holder of an LTIP Unit has a right to convert the LTIP Unit into one Common Unit. A holder's conversion right may be subject to a vesting requirement. Prior to the effectiveness of the conversion, and upon the occurrence of certain other specified events, the Operating Partnership's income will be specially allocated to the holder of a LTIP Unit in an amount necessary to equalize the capital account associated with the LTIP Unit with that of a Common Unit held by the Company, with the result that, following such special allocation of income, the LTIP Unit will be economically identical to, and fungible with, a Common Unit.

Allocations

Except as provided above under "LTIP Units," profits and losses of the Operating Partnership generally will be allocated to the Members (including the Company) in accordance with their respective percentage interests in the Operating Partnership. The allocations of profits and losses in the Operating Agreement are subject to compliance with the provisions of Sections 704(b) and 704(c) of the Internal Revenue Code and Treasury regulations promulgated thereunder.

Expenses

In addition to bearing its own administrative and operating costs and expenses, the Operating Partnership generally will also pay all of the Company's administrative costs and expenses, including without limitation:

- all expenses relating to continuity of existence and the operations of subsidiaries;
- all expenses relating to offerings and registration of securities;
- all expenses associated with the preparation and filing of periodic or other reports and communications under federal, state or local laws or regulations;
- all expenses associated with compliance with laws, rules and regulations promulgated by any regulatory body; and
- all other operating or administrative costs incurred in the ordinary course of business on behalf of the Operating Partnership.

Term

The Operating Partnership will continue indefinitely, or until sooner dissolved upon:

- the determination by the Company to dissolve the Operating Partnership following the sale, transfer or other disposition of all or substantially all of the assets of the Operating Partnership;
- the unanimous vote of the Members to dissolve, wind up, and liquidate the Operating Partnership; or
- a judicial dissolution of the Operating Partnership under Section 18-802 of the Delaware Limited Liability Company Act.

Tax Matters

The Operating Agreement provides that the Company is the tax matters member of the Operating Partnership and, as such, has authority to handle tax audits and to make tax elections under the Code, on behalf of the Operating Partnership.