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

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**Schedule 13D/A**

**Under the Securities Exchange Act of 1934  
(Amendment No. 1)\***

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**Ellington Financial LLC**

(Name of Issuer)

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**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)

**December 31, 2011**  
(Date of Event Which Requires Filing of this Statement)

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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.

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(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  14,294 Common Shares
	(8)	SHARED VOTING POWER  2,747,210 Common Shares
	(9)	SOLE DISPOSITIVE POWER  14,294 Common Shares
	(10)	SHARED DISPOSITIVE POWER  2,747,210 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  2,761,504 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)  16.4%	
(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  2,747,210 Common Shares
	(9)	SOLE DISPOSITIVE POWER  0 Common Shares
	(10)	SHARED DISPOSITIVE POWER  2,747,210 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  2,747,210 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)  16.3%	
(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  2,726,749 Common Shares
	(9)	SOLE DISPOSITIVE POWER  0 Common Shares
	(10)	SHARED DISPOSITIVE POWER  2,726,749 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  2,726,749 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)  16.2%	
(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  20,461 Common Shares
	(9)	SOLE DISPOSITIVE POWER  0 Common Shares
	(10)	SHARED DISPOSITIVE POWER  20,461 Common Shares
(11)	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  20,461 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)  0.1%	
(14)	TYPE OF REPORTING PERSON  OO	

**Amendment No. 1 to Schedule 13D**

This Amendment to Schedule 13D is being filed to remove Ellington Capital Management LLC (“ECM”), Ellington Mortgage Partners, L.P. (“EMP”), New Ellington Credit Partners, L.P. (“NECP”) and New Ellington Partners, L.P. (“NEP”) as reporting persons and to update the beneficial ownership of the other reporting persons based on an internal restructuring described below that occurred on December 31, 2011.

**Item 2. Identity and Background.**

Item 2(a) is hereby amended by removing ECM, EMP, NECP and NEP as reporting persons.

**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 February 17, 2011, pursuant to the Management Agreement, the Issuer issued 6,400 Common Shares to EFM as payment for 10% of the incentive fee earned by EFM during the fourth quarter of 2010, resulting in EFM beneficially owning an aggregate of 28,879 Common Shares as of February 17, 2011.

On March 4, 2011, EFM distributed 8,991 Common Shares to EMGH and 91 Common Shares to VC. On the same date, VC subsequently contributed 91 Common Shares to EMGH pursuant to a Contribution and Assignment Agreement in exchange for a corresponding increase in VC’s capital account with EMGH.

On May 3, 2011, pursuant to the Management Agreement, the Issuer issued 2,639 Common Shares to EFM as payment for 10% of the incentive fee earned by EFM during the first quarter of 2011, resulting in EFM beneficially owning an aggregate of 22,436 Common Shares as of May 3, 2011.

On May 20, 2011, EFM distributed 1,955 Common Shares to EMGH and 20 Common Shares to VC. On the same date, VC subsequently contributed 20 Common Shares to EMGH pursuant to a Contribution and Assignment Agreement in exchange for a corresponding increase in VC’s capital account with EMGH.

On August 11, 2011, EMGH distributed 109,000 Common Shares to Mr. Vranos. On the same date, Mr. Vranos contributed 109,000 Common Shares to a family trust established by Mr. Vranos as a gift.

From October 12, 2011 to December 30, 2011, Mr. Vranos has acquired 14,294 Common Shares in the open market pursuant to a 10b5-1 trading plan adopted by Mr. Vranos. Mr. Vranos funded these purchases through the use of his personal funds. The shares were purchased at the following weighted average purchase prices:

Date of Transaction	Number of Shares	Price <sup>(1)</sup>	Price Ranges
October 12, 2011	510	\$17.74	\$17.64 - \$17.78
October 13, 2011	600	\$17.38	\$17.32 - \$17.40
October 14, 2011	390	\$17.50	\$17.45 - \$17.51
October 17, 2011	570	\$17.47	\$17.39 - \$17.48
October 18, 2011	750	\$17.79	\$17.38 - \$17.83
October 20, 2011	330	\$17.68	\$17.67 - \$17.70
October 25, 2011	360	\$17.71	\$17.67 - \$17.78
November 23, 2011	450	\$17.07	\$16.99 - \$17.12
November 28, 2011	330	\$17.15	\$17.10 - \$17.23
November 29, 2011	600	\$16.84	\$16.71 - \$16.95
November 30, 2011	300	\$17.14	\$17.02 - \$17.20
December 1, 2011	300	\$17.14	\$17.07 - \$17.24
December 5, 2011	774	\$16.96	\$16.93 - \$17.00
December 6, 2011	390	\$17.08	\$16.98 - \$17.14
December 8, 2011	480	\$17.04	\$16.96 - \$17.08
December 19, 2011	1,200	\$17.09	\$17.07 - \$17.11
December 20, 2011	1,050	\$17.23	\$17.08 - \$17.30
December 21, 2011	1,500	\$17.17	\$17.11 - \$17.31
December 22, 2011	1,290	\$17.10	\$17.05 - \$17.20
December 27, 2011	463	\$17.17	\$17.15 - \$17.17
December 28, 2011	570	\$17.20	\$17.15 - \$17.27
December 29, 2011	543	\$17.16	\$17.14 - \$17.17
December 30, 2011	544	\$17.16	\$17.10 - \$17.18

- (1) These transactions were executed in multiple trades at prices within a one dollar price range. The reporting person hereby undertakes to provide upon request to the SEC staff, full information regarding the number of shares and prices at which the transactions were effected.
- (2) Transactions executed in multiple trades at prices within the ranges above.

On December 31, 2011, EMGH acquired beneficial and record ownership over 1,122,829 shares previously held by Ellington Mortgage Partners, LLC ("EMP"), New Ellington Partners, L.P. ("NEP") and New Ellington Credit Partners, L.P. ("NECP") as a result of an internal restructuring (the "Restructuring"). In connection with the Restructuring, common shares previously held by EMP, NEP and NECP were transferred to EMGH and other entities and persons via a series of pro rata distributions and contributions. No one received or paid any consideration for any common shares transferred in connection with the Restructuring. None of the pecuniary interests, to the extent any such interests exist, of the ultimate beneficial owners of common shares increased or decreased as a result of the Restructuring.

**Item 4. Purpose of Transaction.**

Item 4 is hereby amended to add that Mr. Vranos may acquire additional securities of the issuer pursuant to his 10b5-1 trading plan.

**Item 5. Interest in Securities of the Issuer.**

Item 5 is hereby amended as follows:

(a), (b) The aggregate number and percentage of Common Shares to which this Schedule 13D relates is 2,761,504 shares, which represents beneficial ownership of 16.4% of the total number of Common Shares outstanding as of December 31, 2011. 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<sup>(1)</sup></u>	<u>Managing Member or General Partner</u>
Mr. Vranos <sup>(2)</sup>	14,294	2,747,210	14,294	2,747,210	2,761,504	16.4%	N/A
VC <sup>(3)</sup>	0	2,747,210	0	2,747,210	2,747,210	16.3%	Mr. Vranos
EMGH <sup>(4)</sup>	0	2,726,749	0	2,726,749	2,726,749	16.2%	VC
EFM	0	20,461	0	20,461	20,461	0.1%	VC

(1) Beneficial ownership is calculated based on 16,447,651 Common Shares outstanding as of December 31, 2011.

(2) Beneficial ownership includes 2,726,749 Common Shares beneficially owned by EMGH (including 375,000 LTIP Units — see footnote 4 below), 20,461 Common Shares held directly by EFM and 14,294 Common Shares held directly by Mr. Vranos.

(3) Beneficial ownership includes 2,726,749 Common Shares beneficially owned by EMGH (including 375,000 LTIP Units — see footnote 2 below) and 20,461 Common Shares held directly by EFM.

(4) Beneficial ownership includes 2,351,749 Common Shares and 375,000 LTIP 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.

(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 transactions dated May 3, 2011, May 20, 2011 and August 11, 2011, October 12 through December 30, 2011 and December 31, 2011 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.**

An updated description of the Management Agreement included in the annual report on Form 10-K for the fiscal year ended December 31, 2010 under the heading "Business—Management Agreement" has been excerpted and attached as Exhibit 99.2. Item 6 is hereby amended by deleting the prior description of the Management Agreement and incorporating the excerpt attached as Exhibit 99.2 by reference.

**Item 7. Material to be Filed as Exhibits.**

- Exhibit 7.1: Third Amended and Restated Management Agreement, by and between Ellington Financial LLC and Ellington Financial Management LLC, effective as of August 2, 2011 (incorporated by reference to Exhibit 10.1 of the Issuer's quarterly report on Form 10-Q for the period ended June 30, 2011)
- 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 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, 2010 describing the Management Agreement.

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 4th day of January, 2012.

MICHAEL W. VRANOS

/s/ Michael W. Vranos

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VC INVESTMENTS L.L.C.

By: /s/ Michael W. Vranos

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Name: Michael W. Vranos

Title: Managing Member

EMG HOLDINGS, L.P.

By: /s/ Laurence E. Penn

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Name: Laurence E. Penn

Title: Designated Person

By: /s/ Laurence E. Penn

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Name: Laurence E. Penn

Title: Vice Chairman

ELLINGTON FINANCIAL MANAGEMENT LLC

By: /s/ Laurence E. Penn

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Name: Laurence E. Penn

Title: Executive Vice President

Except where the context suggests otherwise, “EFC,” “we,” “us” and “our” refer to Ellington Financial LLC and its subsidiaries, our “Manager” refers to Ellington Financial Management LLC, our external manager, and “Ellington” refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager, and “Manager Group” refers collectively to Ellington and its principals (including family trusts established by the foregoing) and entities in which 100% of the interests are beneficially owned by the foregoing. In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.

\* \* \*

### **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 amended and restated effective July 1, 2009 and again effective October 1, 2010, 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.

### ***Base Management Fees, Incentive Fees and Reimbursement of Expenses***

#### ***Base Management Fees***

Under the management agreement, we pay 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 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 will be adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

In the event that our Manager, Ellington or any of their affiliates receives any management fees, origination fees or structuring fees from any CDO, investment fund, issuer of debt or other investment in which our company has invested or participated, then the quarterly base management fees and any 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 portion of such fees payable to our Manager, Ellington or their affiliates that is allocable to our investment or participating interest in such CDO, investment fund, other investment or debt securities during the same period.

## *Incentive Fees*

In addition to the base management fee, with respect to each fiscal quarter we pay 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 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 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 is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) our net increase in shareholders’ equity from operations (expressed as a positive number) or net decrease in shareholders’ equity from operations (expressed as a negative number) for such fiscal quarter (or such equivalent GAAP measures as may be appropriate depending on the basis of presentation of our consolidated financial statements), as the case may be, calculated in accordance with GAAP, adjusted to exclude one-time events pursuant to changes in GAAP, as well as non-cash charges after discussion between our Manager and our independent directors and approval by a majority of our independent directors in the case of non-cash charges.

For purposes of calculating the incentive fee, the “Hurdle Amount” means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the ten-year Treasury rate for such fiscal quarter, (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 LTIP units outstanding for each day during such fiscal quarter.

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 value 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 the common shares prior to one year after the date they are issued to our Manager, however, the transfer restriction will lapse if the management agreement is terminated.

### *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 and dedicated controller and, if provided by our Manager, an in-house legal counsel (provided that the costs for any time spent by such in-house legal counsel 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, 2011, 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.