Ellington Financial LLC
Form 424B5
September 02, 2014
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated September 2, 2014

PROSPECTUS SUPPLEMENT

(To prospectus dated May 2, 2014)

8,000,000 Shares

Ellington Financial LLC

Common Shares Representing Limited Liability Company Interests

We are offering 8,000,000 common shares representing limited liability company interests of Ellington Financial LLC, which we refer to as common shares.

Our common shares are listed on the New York Stock Exchange, or NYSE, under the symbol EFC. The last reported sale price of our common shares on the NYSE on August 29, 2014 was $24.90 per share.

Our operating agreement generally prohibits any holder of our common shares from directly or indirectly owning more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares. See Certain Provisions of Delaware Law and our Operating Agreement Restrictions on Ownership and Transfer in the accompanying prospectus.

	Per Share	Total

Public offering price	$	$
Underwriting discounts	$	$
Proceeds, before expenses, to Ellington Financial LLC	$	$

We have granted the underwriters the option to purchase up to an additional 1,200,000 common shares from us, at the public offering price per share, less the underwriting discount, within 30 days of the date of this prospectus supplement.

Investing in our common shares involves a high degree of risk. See Risk Factors beginning on page S-5 of this prospectus supplement and page 20 of the accompanying prospectus and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common shares on or about September , 2014.

BofA Merrill Lynch **Deutsche Bank Securities** **Morgan Stanley** **UBS Investment Bank**

Credit Suisse **Barclays** **Keefe, Bruyette & Woods**

A Stifel Company

The date of this prospectus supplement is , 2014.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus, any free writing prospectus prepared by us or information to which we have referred you. We have not, and the underwriters have not, authorized any other person to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference herein and therein is accurate only as of their respective dates.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. This prospectus supplement contains specific information about us and the terms on which we are offering and selling our common shares. To the extent that any statement made in this prospectus supplement is inconsistent with statements made in the accompanying prospectus, the statements made in the accompanying prospectus will be deemed modified or superseded by those made in this prospectus supplement. Before you invest in our common shares, you should carefully read this prospectus supplement, the accompanying prospectus and the registration statement, together with the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Except where the context suggests otherwise, EFC, we, us and our refer to Ellington Financial LLC and its subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our Operating Partnership. We conduct all of our operations and business activities through our Operating Partnership. Our Manager refers to Ellington Financial Management LLC, our external manager, Ellington refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager. In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, cash flow and plans and objectives. When we use the words believe, expect, anticipate, estimate, project, plan, continue, intend, should, woul objective, will, may, seek, or similar expressions or their negative forms, or refer to strategies, plans, or intentions, intend to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, and these forward-looking statements may involve known and unknown risks, uncertainties, and assumptions.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks before you invest in our securities. The following factors are examples of those that could cause actual results to vary from our forward-looking statements:

- difficult conditions in the mortgage and residential real estate markets;
- the effect of the Federal Reserve s and the Treasury s actions and programs on the liquidity of the capital markets and the impact and timing of any further programs or regulations implemented by the U.S. government or its agencies;

the federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. government;

the impact of the downgrade of the long-term credit ratings of the United States, Fannie Mae, Freddie Mac and Ginnie Mae;

changes in the prepayment rates on the mortgages underlying our Agency RMBS;

the volatility of our target markets and of the market value of our common shares;

increased rates of default and/or decreased recovery rates on our assets;

mortgage loan modification programs and future legislative action related thereto;

the degree to which our hedging strategies may or may not protect us from, or expose us to, credit or interest rate risk;

changes in our business and strategy;

availability, terms and deployment of capital;

our projected financial and operating results;

changes in interest rates and the market value of our securities;

our ability to maintain existing financing agreements, obtain future financing arrangements and the terms of such arrangements;

changes in economic conditions generally and the real estate and debt securities markets specifically;

legislative or regulatory changes (including tax law changes and changes to laws governing the regulation of investment companies);

availability of qualified personnel;

changes in our industry;

availability of investment opportunities;

- our estimated book value per common share;
- the degree and nature of our competition;
- changes to generally accepted accounting principles in the United States, or GAAP;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and
- risks associated with investing in real estate assets, including changes in business conditions and the general economy.

These and other risks, uncertainties and other important factors identified, or incorporated by reference in this prospectus supplement or the accompanying prospectus, including, but not limited to, those described under the caption Risk Factors in this prospectus supplement and the accompanying prospectus, as well as those described under the captions Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2013 and in the other documents incorporated by reference in this prospectus supplement, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Where You Can Find More Information in the accompanying prospectus.

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INFORMATION INCORPORATED BY REFERENCE

This prospectus supplement and the accompanying prospectus are part of a registration statement that we have filed with the SEC. The SEC allows us to incorporate by reference the information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus supplement and before the date that the offering of common shares by means of this prospectus supplement and accompanying prospectus is terminated will automatically update and, where applicable, supersede any information contained or incorporated by reference in this prospectus supplement and accompanying prospectus. We incorporate by reference into this prospectus supplement and the accompanying prospectus the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

- our Annual Report on Form 10-K for the year ended December 31, 2013;

- our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014;

- our Current Reports on Form 8-K filed on February 12, 2014, May 6, 2014, May 21, 2014 (Item 5.07) and August 6, 2014;

- the information specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2013 from our Definitive Proxy Statement on Schedule 14A filed on April 7, 2014;

- the description of our common shares incorporated by reference in our registration statement on Form 8-A/A filed on October 5, 2010 under the Exchange Act, including any amendment or report filed for the purpose of updating such description; and

- all documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this prospectus supplement and before the termination of this offering.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus supplement and the accompanying prospectus are delivered, upon his or her written or oral request, a copy of any or all documents referred to above that have been or may be incorporated by reference into this prospectus supplement and the accompanying prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may request those documents from us by contacting our corporate secretary at the following address: Ellington Financial LLC, 53 Forest Avenue, Old Greenwich, CT 06870, (203) 409-3575.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information about us. It is not complete and may not contain all of the information that you should consider before making an investment in our common shares. You should read carefully the more detailed information set forth under Risk Factors in this prospectus supplement and the accompanying prospectus and the other information included in this prospectus supplement and the accompanying prospectus, together with the information incorporated by reference in this prospectus supplement, including the risk factors and financial statements and related notes, before making an investment decision. Unless indicated otherwise, the information in this prospectus supplement assumes no exercise by the underwriters of their option to purchase up to 1,200,000 additional common shares.

Our Company

Ellington Financial LLC is a specialty finance company formed in August 2007 that specializes in acquiring and managing mortgage-related and other financial assets. Our primary objective is to generate attractive, risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by utilizing an opportunistic strategy. Our targeted assets currently include:

- residential mortgage-backed securities, or RMBS, backed by prime jumbo, Alternative A-paper, or Alt-A, manufactured housing and subprime residential mortgage loans, or non-Agency RMBS ;
- RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored enterprise, or Agency RMBS ;
- residential mortgage loans;
- mortgage servicing rights, or MSRs;
- mortgage-related derivatives;
- commercial mortgage-backed securities, or CMBS, commercial mortgage loans and other commercial real estate debt;
- asset-backed securities, or ABS, backed by consumer and commercial assets; and
- corporate debt and equity securities and derivatives.

In addition, we may opportunistically acquire and manage other types of mortgage-related assets and financial assets, such as non-mortgage-related derivatives, and real property. We may also invest in or acquire other institutions engaged in mortgage-related businesses, such as mortgage originators.

We believe that we have been organized and have operated so that we have qualified, and will continue to qualify, to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation.

Our Manager and Ellington

We are externally managed and advised by our Manager, an affiliate of Ellington, pursuant to a management agreement. Our Manager was formed solely to serve as our manager and does not have any other clients. In addition, our Manager currently does not have any employees and instead relies on the employees of Ellington to perform its obligations to us. Ellington is an investment management firm and registered investment advisor with a 19-year history of investing in a broad spectrum of mortgage-backed securities, or MBS, and related derivatives.

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The members of our management team include Michael Vranos, founder and Chief Executive Officer of Ellington, who serves as our Co-Chief Investment Officer and a member of our Board of Directors; Laurence Penn, Vice Chairman and Chief Operating Officer of Ellington, who serves as our Chief Executive Officer and President and a member of our Board of Directors; Mark Tecotzky, a Managing Director of Ellington, who serves as our Co-Chief Investment Officer; Lisa Mumford, who serves as our Chief Financial Officer; Daniel Margolis, General Counsel of Ellington, who serves as our General Counsel; and Jason Frank, Associate General Counsel of Ellington, who serves as our Secretary. Each of these individuals is an officer of our Manager. We currently do not have any employees.

Our Manager is responsible for administering our business activities and day-to-day operations and, pursuant to a services agreement between our Manager and Ellington, relies on the resources of Ellington to support our operations. Ellington has well-established portfolio management resources for each of our targeted asset classes and an established infrastructure supporting those resources. Through our relationship with our Manager, we benefit from Ellington s highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community, financial and capital structuring skills, investment surveillance database, and operational expertise. Ellington s analytic approach to the investment process involves collection of substantial amounts of data regarding historical performance of MBS and their underlying collateral, as well as MBS market transactions. Ellington analyzes this data to identify possible relationships and trends, and develops financial models used to support the investment and risk management process. In addition, throughout Ellington s 19-year history of investing in MBS and related derivatives, it has developed strong relationships with a wide range of dealers and other market participants that provide Ellington access to a broad range of trading opportunities and market information. As a result, our Manager is able to provide us with access to a wide variety of asset acquisition and disposition opportunities and information that assist us in making asset management decisions across our targeted asset classes, which we believe provides us with a significant competitive advantage. We also benefit from Ellington s finance, accounting, operational, legal, compliance, and administrative functions.

As of June 30, 2014, Ellington employed over 140 employees and had assets under management of approximately $5.6 billion, of which (i) approximately $4.4 billion was comprised of our company, Ellington Residential Mortgage REIT, a real estate investment trust (REIT) listed on the NYSE under the ticker EARN, various hedge funds and other alternative investment vehicles that employ financial leverage, and (ii) approximately $1.2 billion was comprised of accounts that do not employ financial leverage.

Recent Developments

Diluted Book Value Per Share

On August 26, 2014, in accordance with Regulation 4.12 of the U.S. Commodity Futures Trading Commission, we disclosed that our book value per common share as of July 31, 2014, was $24.78. On a diluted basis our book value per common share as of July 31, 2014 was $24.39. The book value per common share as of July 31, 2014 included in this prospectus supplement has been prepared by, and is the responsibility of, Ellington Financial LLC s management. PricewaterhouseCoopers LLP, our independent registered public accountants, has not audited, reviewed, compiled or performed any procedures with respect to this financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. Furthermore, our independent registered public accountants have not performed the types of reviews or audits of our book value per common share as of July 31, 2014 that they would perform for our quarterly or annual financial statements. It is possible that, if we were to obtain a review or audit from our accountants for our month-end report, we could determine that our book value per common share as of July 31, 2014 differs materially from the amounts set forth above. Further, our results can fluctuate from month to month depending on a variety of factors, some of which are beyond our control and/or difficult to predict, including, without

limitation, changes in interest rates, changes in default rates and prepayment speeds, and other changes in market and economic conditions. There can be no assurance that our book value per common share as of July 31, 2014 is indicative of what our results are likely to be for the three- or nine-month periods ending September 30, 2014, and we undertake no obligation to update or revise our book value per common share prior to our issuance of financial statements for such three- and nine-month periods.

The book value per common share as of July 31, 2014 that is referenced above does not reflect the expected reduction resulting from the $0.77 dividend per share declared by our Board of Directors on August 5, 2014 that is payable on September 15, 2014 to shareholders of record as of August 29, 2014 (the Second Quarter 2014 Dividend). Holders of common shares purchased in this offering will not receive the Second Quarter 2014 Dividend.

Investment in Reverse Mortgage Originator

In accordance with our previously stated intention to invest in a mortgage originator, on September 2, 2014, we closed a minority investment in Longbridge Financial, LLC, a reverse mortgage originator.

Our Corporate Information

Our principal executive offices are located at 53 Forest Avenue, Old Greenwich, CT 06870. Our telephone number is (203) 409-3575. Our internet address is www.ellingtonfinancial.com. Our internet web site, and the information contained therein or connected thereto, does not constitute part of this prospectus supplement.

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THE OFFERING

Common shares offered by us	8,000,000 common shares (plus up to an additional 1,200,000 common shares that we may issue and sell upon the exercise of the underwriters option to purchase additional common shares in full).
Shares outstanding after this offering(1)	33,441,750 common shares (or up to 34,641,750 common shares if the underwriters exercise their option to purchase additional common shares in full).
Use of proceeds	We expect to use the net proceeds of this offering to acquire targeted assets. We may also use the net proceeds for working capital and general corporate purposes. Pending such uses, we may invest the net proceeds from this offering in interest-bearing, short-term investments, including money market accounts. See Use of Proceeds.
Ownership and transfer restrictions	We may own interests in real estate investment trusts, or REITs. Due to limitations on the concentration of ownership of REITs that are imposed by the Internal Revenue Code of 1986, as amended, or the Code, our operating agreement generally prohibits any holder of our common shares from directly or indirectly owning more than 9.8% of the aggregate value or number (whichever is more restrictive) of our outstanding shares. Our Board of Directors has granted an exemption from this limitation to Ellington, certain affiliated entities of Ellington and certain non-affiliated entities, subject to certain terms and conditions. In addition, our operating agreement contains various other restrictions on the ownership and transfer of our common shares. See Certain Provisions of Delaware Law and our Operating Agreement Restrictions on Ownership and Transfer in the accompanying prospectus.
NYSE listing symbol	EFC
Risk factors	Investing in our common shares involves significant risks. See Risk Factors beginning on page S-5 of this prospectus supplement and page 20 of the accompanying prospectus for a discussion of some of the risks relating to an investment in our common shares. You should also carefully read and consider the information set forth under the headings Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013 and all other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in the common shares.

(1) Based on 25,441,750 common shares outstanding at August 29, 2014. Excludes 372,162 common shares which are issuable upon conversion of 372,162 LTIP units that were issued to our Manager, 38,890 common shares which are issuable upon conversion of 38,890 LTIP units that were issued to our independent directors and certain officers and/or employees of our Manager, and 212,000 common shares which are issuable upon redemption of common units of limited liability company interest in our Operating Partnership (Common Units) that are held by affiliates of Ellington.

RISK FACTORS

Investment in our common shares involves significant risks. Before making an investment decision, you should carefully read and consider the information set forth below and under the heading Risk Factors beginning on page 20 of the accompanying prospectus and also those risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2013, together with all other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. If any of these risks occurs, our business, financial condition or results of operations could be materially and adversely affected. If this were to happen, we may be unable to make distributions to our shareholders, the market value of our common shares could decline significantly, and you may lose some or all of your investment. Some statements in this prospectus supplement and the accompanying prospectus, including statements contained in the following risk factors, constitute forward-looking statements. You should carefully review the cautionary statements referred to under Special Note Regarding Forward-Looking Statements.

Risks Related to this Offering

Future sales of our common shares could have an adverse effect on our share price. You should not rely on lock-up agreements in connection with this offering to limit the amount of common shares sold in the market.

We cannot predict the effect, if any, of future sales of our common shares, or the availability of our common shares for future sales, on the market value of our common shares. Sales of substantial amounts of our common shares, or the perception that such sales could occur, may adversely affect prevailing market values for our common shares.

In connection with this offering, our directors and executive officers and certain of Ellington s affiliates will enter into lock-up agreements covering 3,374,422 of our common shares and securities convertible into common shares outstanding which will prohibit sales of these securities for a period of 45 days after the date of this prospectus supplement. When these lock-up agreements expire, these common shares will become available for sale into the market, which could reduce the market value for our common shares. Furthermore, Merrill, Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Morgan Stanley & Co. LLC and UBS Securities LLC, as representatives of the underwriters of this offering, may, at any time and without notice, release all or any portion of the securities subject to the foregoing lock-up agreements.

Our Manager and certain of our affiliates have registration rights which enable them, subject to certain conditions, to cause us to register shares held by them for sale into the public markets.

Our Manager and certain of our and our Manager s executive officers, directors, partners, members and other affiliates and any of their permitted transferees and including (i) any executive officer, director, trustee, or general partner of such affiliate and (ii) any legal entity for which such affiliate acts as an executive officer, director, trustee or general partner, or the Covered Persons, are entitled to the benefits of a registration rights agreement with respect to certain common shares, including common shares issued to our Manager as part of its incentive fee. The registration rights agreement provides, subject to certain conditions, the Covered Persons with (i) customary piggy-back registration rights with respect to any registration statement we file with the SEC (subject to underwriter cut-back rights with respect to underwritten offerings) and (ii) upon the request of Covered Persons holding a certain percentage of common shares covered under the registration rights agreement, the right to require us to file up to three registration statements on Form S-3 or a single registration on such other form that we are eligible to use. None of the Covered Persons has exercised its registration rights with respect to this offering or the registration statement of which this prospectus supplement is a part. However, should our Manager and these affiliates exercise these rights in the future, the common shares held by these Covered Persons would become eligible for sale into the market, subject to the restrictions set forth in the lock-up agreements noted above. If our Manager or these affiliates or any of their permitted transferees sell, or indicate an intention to sell, substantial amounts of our common shares into the public market, the trading price of our common shares could decline.

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Your interest in us may be diluted if we issue additional common shares.

Existing shareholders and potential investors in this offering do not have preemptive rights to any common shares issued by us in the future. Therefore, investors purchasing shares in this offering may experience dilution of their equity investment if we issue or sell additional common shares in the future or issue or sell securities that are convertible into or exchangeable for common shares. Further, investors purchasing shares in this offering may experience dilution of their equity investment upon (i) the issuance of 907,469 common shares currently reserved for issuance under our equity incentive plans, (ii) the issuance of 411,052 common shares upon the conversion of previously-granted LTIP units, (iii) the issuance of 212,000 common shares upon redemption of 212,000 Common Units previously issued by our Operating Partnership or (iv) the issuance of common shares to our Manager under the management agreement, pursuant to which 10% of each incentive fee payable to our Manager will be paid in common shares, subject to our Manager s right to elect to receive a greater percentage of any incentive fee in the form of common shares.

We may allocate the net proceeds from this offering to acquire assets with which you may not agree or for purposes that are different in range or focus than those contemplated in this prospectus supplement.

While we intend to use the net proceeds from this offering to acquire targeted assets, we will have significant flexibility in using the net proceeds of this offering and may use the net proceeds from this offering to acquire assets with which you may not agree or for purposes that are different in range or focus than those contemplated in this prospectus supplement or those in which we have historically invested. The failure of our Manager to apply these net proceeds effectively could result in unfavorable returns, and could cause a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

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USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of 8,000,000 common shares in this offering will be approximately $ million after deducting the underwriting discounts and commissions as well as estimated offering expenses of approximately $250,000 payable by us. If the underwriters exercise their option to purchase additional common shares in full, our net proceeds will be approximately $ million.

We expect to use the net proceeds of this offering to acquire targeted assets, in accordance with our investment objectives and strategies. Our investment decisions will depend on prevailing market conditions and the opportunities we identify and may be adjusted in response to changes in interest rates or economic and credit environments. We may also use the net proceeds of this offering for working capital and general corporate purposes. Pending such uses, we may invest the net proceeds from this offering in interest-bearing, short-term investments, including money market accounts. These investments are expected to provide a lower net return than we hope to achieve from our targeted investments.

While we intend to use the net proceeds of this offering to acquire targeted assets as described above, we will have significant flexibility in using the net proceeds of this offering and may use the net proceeds from this offering to acquire assets with which you may not agree or for purposes that are different in range or focus than those described above and elsewhere in this prospectus supplement or those in which we have historically invested.

HISTORICAL PERFORMANCE OF ELLINGTON FINANCIAL LLC PURSUANT TO SECTION 4.24 OF THE COMMODITY EXCHANGE ACT

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Name of CPO:	Ellington Financial Management LLC
Name of Commodity Pool:	Ellington Financial LLC
Type of Pool:	Public, Exchange-listed
Inception of Trading:	8/17/2007
Aggregate Gross Capital Subscriptions ($ in 000s)(1):	$564,518
Current Shareholders Equity as of 6/30/14 ($ in 000s)(2):	$624,107
Cumulative Dividends ($ in 000s)(2):	$285,599
Largest monthly draw-down(3):	-4.62% 10/31/2010
Worst peak-to-valley draw-down(4):	-4.62% 9/30/2010 through 10/31/2010

	Rate of Return(5)					
Month	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
January	1.91%	5.76%	2.26%	1.76%	2.21%	3.22%
February	0.54%	1.23%	3.42%	0.72%	0.28%	2.26%
March	1.07%	0.76%	2.74%	0.14%	0.09%	2.41%
April	1.00%	0.83%	1.10%	0.32%	1.58%	2.88%
May	1.23%	1.52%	0.80%	-0.34%	0.06%	7.47%
June	1.09%	-0.77%	0.75%	-0.35%	-0.13%	3.65%
July		0.09%	2.26%	-0.77%	0.48%	6.79%
August		1.01%	0.45%	0.47%	2.57%	3.06%
September		0.71%	1.49%	0.00%	2.44%	0.61%
October		1.74%	2.50%	-0.71%	-4.62%	3.73%
November		-0.01%	0.90%	0.95%	2.01%	-0.08%
December		0.61%	1.56%	0.25%	0.76%	0.77%
Year	7.03%	14.19%	22.16%	2.43%	7.79%	43.26%

(1) Aggregate gross capital subscriptions represent the proceeds from our initial private and public offerings and are gross of placement fees, underwriters discounts, and other offering related costs as well as shares repurchased by us.

(2) Dividends are declared and paid on a quarterly basis in arrears. The amount above does not include $19.9 million relating to the Second Quarter 2014 Dividend declared by our Board of Directors on August 5, 2014 which will be paid on September 15, 2014 to shareholders of record as of August 29, 2014.

(3) Largest monthly draw-down represents our largest negative monthly return on book value per share for any calendar month reported in the table above.

(4) Worst peak-to-valley draw-down represents our largest percentage decline in book value per share for any multi-month interval contained in the period reported in the table above. This need not be a continuous decline, but can be a series of positive and negative returns where the negative returns are larger than the positive returns.

(5) Returns based on book value per share as of the end of each month reported above.

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ADDITIONAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain additional U.S. federal income tax considerations with respect to the ownership of our common shares. This summary supplements and, where applicable, supersedes the discussion under Material U.S. Federal Income Tax Considerations in the accompanying prospectus, and should be read together with such discussion.

Domestic Corporate and REIT Subsidiaries

We have formed several domestic corporate subsidiaries, one of which may make an election to be taxed as a REIT. The consequences of such investments are described under the heading Material U.S. Federal Income Tax Considerations Nature of Our Business Activities Domestic Corporate Subsidiaries and Material U.S. Federal Income Tax Considerations Material U.S. Federal Income Tax Considerations Relating to Investments in REITs in the accompanying prospectus.

Taxation of Non-U.S. Holders of Our Shares

As discussed in Material U.S. Federal Income Tax Considerations Taxation of Non-U.S. Holders of Our Shares in the accompanying prospectus, a non-U.S. holder will generally be subject to U.S. federal withholding taxes at the rate of 30% (or such lower rate provided by an applicable tax treaty) on dividend, interest (other than interest that constitutes portfolio interest), and certain other income that is not treated as effectively connected with a U.S. trade or business. We have made investments, including investments in domestic corporate subsidiaries (one of which may elect to be taxed as REIT), the income from which will generally be subject to that withholding tax. At present, we do not believe that we will receive significant income from those investments, but no assurance can be provided that we will not in the future receive significant income that is subject to the withholding tax described above.

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UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated September , 2014, we have agreed to sell to the underwriters named below, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Morgan Stanley & Co. LLC and UBS Securities LLC are acting as representatives, the following respective numbers of common shares:

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Deutsche Bank Securities Inc.	
Morgan Stanley & Co. LLC	
UBS Securities LLC	
Credit Suisse Securities (USA) LLC	
Barclays Capital Inc	
Keefe, Bruyette & Woods, Inc.	
Total	8,000,000

The underwriting agreement provides that the underwriters are obligated to purchase all the common shares in the offering if any are purchased, other than those shares covered by the option to purchase additional shares described below.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 1,200,000 additional common shares at the public offering price less the underwriting discounts and commissions. To the extent the option is exercised, each underwriter is required to purchase a number of additional shares approximately proportionate to that underwriter s initial purchase commitment. Any shares issued or sold under the option will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

The underwriters propose to offer the common shares initially at the public offering price on the cover page of this prospectus supplement and to selling group members at that price less a selling concession of $ per share. After the initial offering, the underwriters may change the public offering price and concession. The following table summarizes the compensation we will pay to the underwriters in this offering:

	Per share		Total	
	Without Option	With Option	Without Option	With Option
Underwriting Discounts and Commissions paid by us	$	$	$	$

We estimate that our portion of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $250,000.

The underwriters have informed us that they do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the common shares being offered.

We and our Manager have agreed that we and it will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any of our common shares or securities convertible into or exchangeable or exercisable for any of our common shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Morgan Stanley & Co. LLC and UBS Securities LLC, for a period of 45 days after the date of this prospectus supplement. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Morgan Stanley & Co. LLC and UBS Securities LLC waive, in writing, such an extension.

Our directors and executive officers, and certain of Ellington s affiliates have agreed that they will not offer, sell, contract to sell, pledge, or otherwise dispose of, directly or indirectly, any common shares or securities convertible into or exchangeable or exercisable for any of our common shares, enter into a transaction that would have the same effect, or enter into any swap, hedge, or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common shares, whether any of these transactions is to be settled by delivery of our common shares or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge, or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Morgan Stanley & Co. LLC and UBS Securities LLC, for a period of 45 days after the date of this prospectus supplement. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc. , Morgan Stanley & Co. LLC and UBS Securities LLC waive, in writing, such an extension.

We have agreed to indemnify the underwriters against liabilities under th