

SCHWATKEN RODNEY E  
 Form 4  
 January 18, 2005

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 SCHWATKEN RODNEY E

2. Issuer Name and Ticker or Trading Symbol  
 NOVASTAR FINANCIAL INC  
 [NFI]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)  
 8140 WARD PARKWAY, SUITE 300  
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)  
 01/18/2005

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)  
 Principal Financial Officer

KANSAS CITY, MO 64114

(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)	
			Code	V	Amount	(A) or (D)	Price	
NovaStar Financial, Inc. Common Stock	01/18/2005		M		2,500	A	\$ 1.875 28,786	D
NovaStar Financial, Inc. Common Stock	01/18/2005		M		2,500	A	\$ 7.16 31,286	D
	01/18/2005		M		934	A	\$ 0 32,220	D

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NovaStar  
Financial,  
Inc.  
Common  
Stock

NovaStar  
Financial,  
Inc.  
Common  
Stock

NovaStar  
Financial,  
Inc.  
Common  
Stock

01/18/2005

M

2,500

A

\$  
12.22

34,720

D

01/18/2005

M

652

A

\$ 0

35,372

D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Option	\$ 1.875	01/18/2005		M	2,500	12/20/2004 12/20/2010	NovaStar Financial, Inc. Common Stock	2,500
Stock Option	\$ 7.16	01/18/2005		M	2,500	12/19/2004 12/19/2011	NovaStar Financial, Inc. Common Stock	3,434 <u>(1)</u>
	\$ 12.22	01/18/2005		M	2,500	12/18/2004 12/18/2012		

Stock  
Option

NovaStar 3,152  
Financial, (2)  
Inc.  
Common  
Stock

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SCHWATKEN RODNEY E 8140 WARD PARKWAY SUITE 300 KANSAS CITY, MO 64114			Principal Financial Officer	

## Signatures

Rodney E.  
Schwatken 01/18/2005

\_\_Signature of Date  
Reporting Person

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) 934 DERs (dividend equivalent rights) attached to \$7.16 options
- (2) 652 DERs (dividend equivalent rights) attached to \$12.22 options

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.