

SCHWATKEN RODNEY E
 Form 4
 January 04, 2006

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)

3. Date of Earliest Transaction
 (Month/Day/Year)
 01/03/2006

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

C/O NOVASTAR FINANCIAL
 INC, 8140 WARD PARKWAY,
 SUITE 300

(Street)

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

KANSAS CITY, MO 64114

(City) (State) (Zip)

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 Indirect Beneficial Ownership (Instr. 4)
				(A) or (D) Code V Amount (D) Price			
NovaStar Financial, Inc. Common Stock	01/03/2006		M	2,500 A \$ 7.16	15,101	I	By Rodney E. Schwatken Trust.
NovaStar Financial, Inc. Common Stock	01/03/2006		M	2,500 A \$ 12.22	17,601	I	By Rodney E. Schwatken Trust.

NovaStar
Financial,
Inc.
Common
Stock

18,656 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	\$ 7.16	01/03/2006		M	2,500	12/19/2005 12/19/2011	NovaStar Financial Inc. Common Stock	2,500
Stock Option	\$ 12.22	01/03/2006		M	2,500	12/18/2005 12/18/2012	NovaStar Financial Inc. Common Stock	2,500

Reporting Owners

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

Signatures

Rodney E.
Schwatken

01/04/2006

__Signature of
Reporting Person

Date

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).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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