

December 26, 2004

NYSE Market Surveillance
attn: Larry Hill, Director
20 Broad St. 13th Floor
New York, NY 10005

Re: Novastar (NFI) trading irregularities on 12/23/2004

Dear Mr. Hill,

I am writing again about quite obvious stock manipulation of Novastar Stock (NFI) which occurred this time on 1/6/2005 at the open.

Novastar is a mortgage company with outstanding management and business model, and has excelled in building its business over the past years. Since about 2002 the stock has been the target of short sellers, has endured a number of obvious short attacks, most recently in April 2004 (I sent a prior complaint about that). NFI is on the list of most heavily shorted stocks on the NYSE.

A detailed summary of trading irregularities can be found at: <http://nfi-info.net/Trading.htm>, an independent, shareholder sponsored website, including details of the current events.

In a manner fairly similar to the irregularities on the open on 12/23/2004, NFI gapped, and traded down over \$1 on very thin volume. This was an obvious ploy by the specialist to accumulate shares by taking out the stop loss orders at or below \$45. Buy orders for over 10,000 shares existed at the time this occurred, so the specialist cannot claim that there was an order imbalance at the time.

Details of the trades of that morning and the book are posted at:
<http://www.nfi-info.net/1-6-05trade.htm>

- 1) A formal public investigation, aggressive follow-up, and prosecution of the perpetrators of the above coordinated actions. The shareholders whose stop loss orders were triggered suffered significant financial loss already.
- 2) A related investigation into the actions related to the take- down of NFI stock in April 2004, including the very large Put option purchases that predated that coordinated attack.
- 3) An investigation into the trading activities of a number of hedge funds who have shorted this stock; David Rocker of Rocker Partners comes to mind.

I am absolutely furious about this blatant manipulation of one of the most shorted stocks on the NYSE. My prior letters about this ongoing activity have garnered me a form letter in reply, however no action.

As mentioned before, I will spend an irrational amount of time, energy, and funds to make sure that this matter gets the attention it deserves. I, and a number of NFI shareholders are sufficiently agitated to pursue a civil or class action lawsuit against the NYSE (for failure to police itself), Fleet Boston and Bank of America for assisting in the illegal trading on the morning of 12/23/2004, and now 1/6/2005 and all others involved in this action.

We will also be watching carefully if regulation SHO will be enforced, and how.

I would also be grateful if you could let me know the name and address of the legal representation of the NYSE.

Sincerely,

Andreas Kaubisch
(NFI shareholder)

cc.

Lhill@nyse.com

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Rep. Jerrold Nadler