

1/14/2005

Mr. Matthew Schurter
Director, Market Regulation
PCX Equities Inc.
100 S. Wacker Drive, #1800
Chicago, IL 60606
Fax: 312 442 7778

Re: Novastar (NFI) trading irregularities on 12/22 and 12/23/2004, and 1/6/2005

Dear Mr. Schurter,

You had returned my earlier call on 12/26/2004, thank you kindly. I had faxed you a letter dated 12/26/2004, so far I have not received a reply. Further overt trading irregularities involving NFI occurred this time on 1/6/2005 at the open. It also appears that the PacEx is being used extensively, and almost daily to "walk- down" the share price of NFI (hitting and lowering the bid on rapid successive trades).

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.

I would be particularly interested if you could comment on the irregularities (criminal activities, actually) involving the PacEx:

A) Trading on the morning of 12/23/2004: The stock price of NFI was "taken down" by over 5\$ on very small trading volume (ca 25000 shares). This was achieved **by trading only on the Pacific Exchange**; NYSE trading of NFI did not commence until 9.47 am. By that time a volume of only several thousand shares were able to depress the share price by over 5 dollars (a short attack a few days earlier was able to depress the share price by 1.1\$ on over a million share volume). In the process this drop undoubtedly scared off a host of potential new investors, and took out a number of "stop loss" orders. The market maker and/or specialist (Fleet Boston, owned now by Bank of America) must have been complicit in this particular action. Also a number of investors charge that during this time period their buy orders lingered above the ask without getting filled, effectively shielding the ongoing PacEx trading from outside buy orders. Order details of one such market order are attached: it was entered at 9:39:58 on 12/23/2004, a time at which the Pacific Exchange was trading NFI. The order was not filled until trading commenced on the NYSE at 9:47:35. This represents proof that orders by retail clients did not make it to the market at a time when the PacEx trading was walking the NFI share price downwards, effectively shielded from buy orders by numerous individuals!

B) Trading on the Pacific Exchange: NFI is predominantly traded on the NYSE; on an average day about 80-90% of NFI trading occurs on the NYSE. There are however days when NFI volume is unusually high, rapid fire trading on the Pacific Exchange appears to "**walk- down**" the share price

of NFI (many of the trades at the bid). This strongly suggests manipulative trading, with the goal to lower the NFI share price, perhaps by trading between related accounts. As you know the individual investor is handicapped in looking at his data, however, it would be relatively easy for you to confirm, or dismiss, the notion that this irregular trading occurs between just two or perhaps just very few accounts, buying and selling throughout those days!

C) “Naked shorting”, or failure to deliver shorted NFI shares: It has been widely claimed that “naked shorting” is rampant method of share price manipulation. Details of this practice are outlined in eloquent detail at: <http://www.sec.gov/rules/proposed/s72303/decosta122203.htm>. Since the daily publication of stocks that qualify as “threshold securities”, Novastar (NFI) has found itself on this list (<http://www.nyse.com/Frameset.html?displayPage=/threshold/>). This is proof that illegal shorting is occurring, involving NFI; one more piece of evidence to support the inescapable truth that NFI is the subject of rampant and illegal manipulation!

It is urgent that these practices are stopped. As an increasingly disillusioned retail investor I would like assurances that the PacEx is not, through neglect of its oversight obligations, participating in a massive and ongoing fraud to rob investors of millions of dollars!

This time a form letter from your agency will not suffice. **I demand immediate action!** If no action is taken, I might be forced to conclude that your agency has no interest in protecting the small investor against powerful Wall Street criminals, who seem to be able to bend the system to their advantage when it is necessary.

I will spend an irrational amount of time, energy, and funds to make sure that this matter gets the attention it deserves. If this sounds like a threat, I am too frustrated to write another polite letter, and wait for my dismissal by form letter.

I would also be grateful if you could forward to me the name and contact information of the legal counsel of the Pacific Exchange.

Sincerely, and still, somehow, trusting in your ability to help. A reply would be appreciated!

Andreas Kaubisch (NFI shareholder)

Attachments:
My letter of 12/26/2004

cc.:
Mr. John Meyers
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Various law enforcement agencies