

October 4, 2005

Isn't it about time that the SEC does its job and start investigating stock price manipulations by large hedge funds. This oversight has been sorely missing for the last three years to the extreme detriment of thousands of individual investors. The following is a copy of a letter sent to the SEC in November 2004. Apparently, nothing was done in response to this letter. It is about time that the SEC fulfills its responsibilities to the public in a more timely manner. My wife and I have personally lost over \$500000.00 because of this lack of regulation oversight!

"November 17, 2004

Rinell Randolph Esq.
U.S. Securities and Exchange Commission
Office of Investor Education and Assistance 450 - 5th Street, NW
Washington, DC 20549
Phone: 202-824-5444
Fax: 202-942-9555 Email: chairmanoffice@sec.gov

Dear Mr. Randolph:

I believe that a NYSE traded company, NovaStar Financial (NYSE - NFI), is being manipulated by a Hedge Fund for the financial gain of that fund (in violation of the 1934 SEC Act and possibly in a manner consistent with racketeering)- Rocker Partners, controlled by David Rocker. In his latest SEC filings he has significant put positions as well as long shares with no voting rights which could easily be used for related party account trading - and a recent Reuters article exposed the fact that he is short the company, drawing from his Q2, 2004 letter to his investors as proof, wherein he states that he is short.

This situation seems to have begun in July, 2002 when David Rocker, through his Hedge Funds (Rocker Partners, Compass Holdings and Helmsman Holdings - the latter two BVI based funds) apparently made a very poor bet against the company. Now they are so far underwater they have seemingly taken to actively manipulating the share price through a series of potentially illegal activities. There is ample evidence that NovaStar has been the victim of an organized campaign to negatively impact their share price, involving both captive and sympathetic media outlets, class action attorneys who systematically file frivolous lawsuits on behalf of questionable plaintiffs, sympathetic or complicit members of the SEC who launch investigations timed particularly advantageously for the shorts, as well as related party trading between accounts on specific days to create a death spiral in the company's price per share.

I believe that with the information I provide in this letter, it will be a simple matter for an investigator to definitively prove that this is in fact occurring.

Some History

In July, 2002, a massive short attack began against NFI. Prior to this attack daily trading volume was roughly 75K shares per day. Since then as many as 11 million shares have traded in a single day. Average volume is over 500K now.

Mr. Rocker first appeared on the Q3, 2002 (October) NFI conference call asking off-base and innuendo laden questions about the company's strategy and business plan. Mr. Rocker was also on the Q1 2003 NFI conference call and raised a number of easily rebutted "concerns." Representatives from both Helmsman and Compass were also on the Q2 2003 conference call asking questions deliberately framed in a pejorative manner.

NFI is now in the top ten most shorted companies on the NYSE, with a October Short Interest of 10.4 million shares. The total outstanding shares of the company are 27 million.

NFI doubled its earnings and business in 2002, and tripled it in 2003, and is on track to grow by just a hair shy of a double again in 2004.

The Media

David Rocker is the single largest shareholder of TheStreet.com (TSCM.) Jim Cramer holds 3.495 million shares of TSCM as of 4/3/03 when he filed

pursuant to SEC regulations that he had sold 81,666 shares. That gave him a 14.64% stake. Other owners include David A Rocker, with a stake of

2.224 million shares, or 9.32% (held personally), and an additional 1.284 million shares (6.87%), held in Compass Holdings. This combines to

a total of 16.19%, making David Rocker the sole controller of the largest block of shares in TSCM. Thestreet.com (TSCM) began a negative media campaign against NFI in late 2002. A large number of articles appeared from that point forward, questioning everything from the company's honesty to its accounting to its business plan to its staffing

decisions. Jim Cramer was involved personally - among other claims, Mr. Cramer repeatedly made the provably false statement on his radio program

that NFI doesn't have the money to pay their dividend, ignoring the fact

that they clearly do, quarter after quarter after quarter.

Several of Mr. Rocker's already-rebutted "concerns" were echoed in Liz McDonald's articles of May 8 and May 15, 2003 in Forbes online, and repeated in Forbes print edition at the same time. She advised readers to short the stock (low \$40's at the time) and cover at \$20. Liz McDonald also hyped Martha Stewart Omnimedia as her best single long stock idea on Forbes on Fox. MSO was a \$13.5 million (1.438 mm share) holding by Rocker Partners in the June 30, 2003 SEC filing. It was \$10.6

MM (1.291 MM shares) in the Mar 30 SEC filing. The low \$40's share price

was pre-split pricing, equivalent to \$20 now.

Herb Greenberg, a notorious TheStreet.com columnist, was the leader of the attacks against the company at that publication, and he has continued his onslaught now that he has moved to CBS Marketwatch, sometimes publishing a negative piece about NFI three and four times PER WEEK. That's a lot of attention for a small mortgage lender from the Midwest to receive out of the constellation of companies traded on the public markets.

In April, 2004, a negative article was released in the Wall Street Journal, which criticized NFI for everything from its branch strategy to its accounting. Subsequent to the release of that article, it was demonstrated that most of the statements were inaccurate or flat out incorrect. The day after its release, NFI's share price plummeted from \$54 to \$37. Herb Greenberg had his first of over five articles that week released 45 minutes after the WSJ article hit the wire. 24 hours after that initial article hit the wire service, Milberg Weiss in San Diego filed the first class action suit. MW has also sued numerous other Rocker shorts, including ACAS, ALD, and KKD. It is unknown when MW was retained to file this suit, but it is suspected that it was before the article was ever released, which would be a clear indication of complicity. The SEC was quick to add to the downward pressure, and within 48 hours of MW's filing they had initiated an inquiry into the company - this is the same agency that couldn't figure out or investigate the mutual fund scandal for years. The same day that the SEC inquiry was announced, Herb Greenberg "mistakenly" issued an article claiming that one of NFI's vendors was suing it. That was untrue, and was forcibly retracted by NFI's attorneys. But by then the damage was done, and the stock had hit a low of \$28.80, after having hit \$70+ just a few short weeks earlier.

David Rocker apparently had a multi-million dollar put position that serendipitously was taken out just a few weeks before the onslaught was initiated. That position which would have expired worthless within a few more weeks turned into over \$10 million of profit, if simple calculations are even close to accurate. There was tremendous buying of puts at the ask the two trading days before that article came out - the idea that someone was front-running the article is based in fact - someone bought all of those puts, and Rocker is a safe bet.

Since that time, the Wall Street Journal also ran a full page article about the www.nfi-info.net shareholder owned and operated website, speculating as to the identity of the site's webmaster. That's a lot of WSJ attention for such a small company in such an esoteric business segment.

Manipulation

Thinly traded stocks like NFI are relatively easy to manipulate if one has a large amount of money, a large number of shares in a number of long accounts, has control over multiple investing entities in multiple

jurisdictions, and doesn't mind bending a few federal securities laws.

Several of the companies that have had large short positions and negative commentary from TheStreet.com have had frivolous class action suits brought against them. Those class action suits dramatically depressed the share prices temporarily. Anyone short those companies were able to cover at 30% of the price they would have had to before the suits.

There is no clear exit strategy for whoever is short at the moment - NFI continues to make money hand over fist, the market and sector have never been better, and the dividend keeps increasing. And yet the short interest has been increasing since May by an unbelievable average of 1 million shares per month. This short position is destined to lose everything and bankrupt the hedge funds that have taken the positions unless there is a calamitous event in the near future, hence the widespread belief that there will soon be another Media/SEC/legal onslaught to terrorize the company's mostly retired shareholder base.

I'll attempt to flush out with greater detail some of the reasons I feel there is illegal market manipulation occurring with this company.

Elliot Spitzer (NY DA) was an investor in Jim Cramer's hedge fund. Mr. Spitzer went to school with Mr. Cramer. Mr. Spitzer's office has been appraised of the situation and has responded that that's not their job (paraphrasing), in spite of the fact that they felt it clearly was their job with Canary Capital hedge fund.

A recent article written by Michael Flaherty from Reuters called "RPT-Investor Profile: Bearish fund comes out of hibernation" identifies David A. Rocker as having a short position in NFI, removing suspicion and now confirming in the press that Mr. Rocker is indeed short this company. Here is a link that can be accessed to view the article: <http://www.ecmreport.com/index.php/articles/news/765>

In this article David A. Rocker, managing general partner, is identified as being short NFI. David Rocker also purchased a very large PUT position (controlling 277,000 shares) right before the April onslaught against the company. Looking at the March/April takedown of the share value of NFI from \$70.00 per share to \$28.00 this looks like an incredibly serendipitous and well timed trade. Here is the filing: <http://www.sec.gov/Archives/edgar/data/898373/000089837304000004/z13f1q2004.txt>

So there is clearly a profit driven motive. Mr. Rocker also controls two offshore hedge funds - Compass Holdings and Helmsman Holdings. See page 40 of the following document:

<http://www.sec.gov/spotlight/hedgefunds/hedge-mccarty.pdf>

It is believed by many that these two funds might frequently trade shares of NFI back and forth using the Pacific Exchange for no other reason than to drop the share price. It appears to be an attempt to lose money on a long position in order to make money on a much larger short position as well as to strike fear into the hearts of investors, and encourage them to sell. This is speculation that could easily be verified or put to rest as incorrect. Here is some trading data from March 24, 2004. This off NYSE trading occurred in an up market, on no news, when the company had released positive earnings the week before. The only event that was noteworthy was that NFI hit \$70 that day for the first and last time:

<http://www.nfi-info.net/3-24trade.htm>

In addition to highly suspect trading practices, Rocker Partners seems to use a most willing media to spread disinformation about NFI.

Marc Cohodes is a partner of David Rocker's. He appears to be a long time source of information for the aforementioned financial writer Herb Greenberg, now with CBS MarketWatch, formerly with TheStreet.com.

Herb Greenberg's Yahoo! Chat Transcript (September 15, 1998) features a "Chat with Herb Greenberg and Marc Cohodes of Rocker Partners!" In Herb's opening comments he states "Marc Cohodes has been a quoted shortseller in my column for years."

On December 5, 2000 in an article for The Motley Fool "Addressing Cree Concerns" by Rex Moore the relationship between Mr. Greenberg and Mr. Cohodes is again discussed. "Herb Greenberg of TheStreet.com, who often cites the work of Cree short Marc Cohodes of Rocker Partners..."

In an article for TheStreet.com on February 13, 2001, "Is Black Box Really That Much Different?" by Herb Greenberg the relationship is again shared with the reader. "it's time to check back with longtime source Marc Cohodes of Rocker Partners."

Clearly there is a longstanding relationship between Marc Cohodes of Rocker Partners and Mr. Greenberg. Herb Greenberg seems always ready and willing to print inaccurate or incomplete information about NovaStar Financial, and his articles often seem to be timed to go along with an attack on the share value of this company.

On December 20, 2002, after the Q3 conference call and the resultant unexpected and unprecedented dividend increases, Herb Greenberg began a series of inflammatory and bashing pieces about NFI. Jim Cramer had also started issuing "sell" recommendations on his radio show, the latest (that I am aware of) occurring on August 5, 2003, wherein he echoed the language and innuendo used on the July 31, 2003 NFI conference call by

the Compass Holdings representative J.C. Kittinger and Helmsman Holdings representative Russell Lynn, and additionally made the provably false statement that NFI, "couldn't afford to pay its dividend". The broadcast is available in the archives at TSCM. In addition, two articles were published in May 2003 in Forbes by Elizabeth MacDonald, a Senior Editor, using many of Rocker's phrases, and advising readers to short the company and cover at \$20.00. On May 1, 2003 the share price opened at \$43.00. Not a very good call.

Here is a short list of early articles Mr. Greenberg has written referencing NovaStar Financial since David Rocker has been involved with shorting NFI. All can be found by doing a search on that site:

Herb on TheStreet

1. NovaStar Owes Investors a Better Explanation
12/20/02 02:01 PM ET

Herb on TheStreet

2. NovaStar Sellers and the REIT Stuff
12/24/02 09:44 AM ET

Herb on TheStreet

3. American Capital Cashes In on Dividend Drama
01/08/03 02:29 PM ET

Herb on TheStreet

4. Gazing at NovaStar's Insurance Setup
01/10/03 02:11 PM ET

Herb on TheStreet

5. Down Is the Trend at Columbia Sportswear
01/31/03 03:05 PM ET

Herb on TheStreet

6. Nothing Behind the Shine at NovaStar
02/07/03 04:37 PM ET

These articles have continued throughout the summer of 2004, sometimes with 3 and 4 time a week frequency.

On April 12, 2004 the Wall Street Journal printed an article that did nothing more than parrot Rocker's "concerns" and cite a two-month old Las Vegas paper's flawed reporting about a regulatory proceeding. The Wall Street Journal piece was full of errors (for a full deconstruction go to www.nfi-info.net/wsorig.htm) and even the most cursory due diligence by any journalist would have squashed the piece - it would simply have never made it to print. The day of this article in the most respected publication in the country, NFI's price plunged 30%. "

Regards,

Robert W. York

Individual Investor (Retired)
Scottsville, KY 42164
royork@nctc.com