

MEMORANDUM

To: All Option Members, Member Organizations and ROTs

From: Market Watch

Date: July 26, 2007

Re: Novastar Financial, Inc. (NFI) - 1 for 4 Reverse Stock Split

Novastar Financial Inc. (NFI) has declared a 1 for 4 reverse stock split payable to shareholders of record on a date to be announced. Distribution date for the stock split will be on a date to be announced.. **Ex-distribution date for the stock split will be Monday, July 30, 2007.**

EFFECTIVE DATE: Monday, July 30, 2007
SYMBOL: NFI becomes NJK
OZA becomes ODH
POSITION LIMITS: No change
STRIKE PRICES No change
NEW DELIVERABLE: 1) 25 Novastar Financial Inc. (NFI) Common shares

The resulting list of adjusted strike prices and symbols is as shown on the following pages:

Novastar Financial, Inc. (NFI)					Novastar Financial, Inc. (NJK)				
(Before 7/30/2007)					(Beginning 7/30/2007)				
(100 shrs NFI)					(See new deliverable above)				
			Calls	Puts				Calls	Puts
NFI	AUG	2 1/2	HZ	TZ	NJK	AUG	2 1/2	HZ	TZ
NFI	AUG	5	HA	TA	NJK	AUG	5	HA	TA
NFI	AUG	7 1/2	HU	TU	NJK	AUG	7 1/2	HU	TU
NFI	AUG	10	HB	TB	NJK	AUG	10	HB	TB
NFI	AUG	12 1/2	HV	TV	NJK	AUG	12 1/2	HV	TV
NFI	AUG	15	HC	TC	NJK	AUG	15	HC	TC
NFI	AUG	17 1/2	HW	TW	NJK	AUG	17 1/2	HW	TW
NFI	SEP	2 1/2	IZ	UZ	NJK	SEP	2 1/2	IZ	UZ
NFI	SEP	5	IA	UA	NJK	SEP	5	IA	UA
NFI	SEP	7 1/2	IU	UU	NJK	SEP	7 1/2	IU	UU
NFI	SEP	10	IB	UB	NJK	SEP	10	IB	UB
NFI	SEP	12 1/2	IV	UV	NJK	SEP	12 1/2	IV	UV
NFI	SEP	15	IC	UC	NJK	SEP	15	IC	UC
NFI	SEP	17 1/2	IW	UW	NJK	SEP	17 1/2	IW	UW
NFI	SEP	20	ID	UD	NJK	SEP	20	ID	UD
NFI	SEP	22 1/2	IX	UX	NJK	SEP	22 1/2	IX	UX
NFI	SEP	25	IE	UE	NJK	SEP	25	IE	UE
NFI	SEP	30	IF	UF	NJK	SEP	30	IF	UF
NFI	SEP	35	IG	UG	NJK	SEP	35	IG	UG
NFI	DEC	2 1/2	LZ	XZ	NJK	DEC	2 1/2	LZ	XZ
NFI	DEC	5	LA	XA	NJK	DEC	5	LA	XA
NFI	DEC	7 1/2	LU	XU	NJK	DEC	7 1/2	LU	XU
NFI	DEC	10	LB	XB	NJK	DEC	10	LB	XB
NFI	DEC	12 1/2	LV	XV	NJK	DEC	12 1/2	LV	XV
NFI	DEC	15	LC	XC	NJK	DEC	15	LC	XC
NFI	DEC	17 1/2	LW	XW	NJK	DEC	17 1/2	LW	XW

Novastar Financial, Inc. (NFI)
(Before 7/30/2007)
(100 shrs NFI)

			Calls	Puts
NFI	JAN	2 1/2	AZ	MZ
NFI	JAN	5	AA	MA
NFI	JAN	7 1/2	AU	MU
NFI	JAN	10	AB	MB
NFI	JAN	12 1/2	AV	MV
NFI	JAN	15	AC	MC
NFI	JAN	20	AD	MD
NFI	JAN	25	AE	ME
NFI	JAN	30	AF	MF
NFI	JAN	35	AG	MG
NFI	JAN	40	AH	MH
NFI	JAN	45	AI	MI
NFI	JAN	50	AJ	MJ
NFI	JAN	60	AL	ML
NFI	MAR	2 1/2	CZ	OZ
NFI	MAR	5	CA	OA
NFI	MAR	7 1/2	CU	OU
NFI	MAR	10	CB	OB
NFI	MAR	12 1/2	CV	OV
NFI	MAR	15	CC	OC

Novastar Financial, Inc. - 2009 Leap (OZA)
(Before 7/30/2007)
(100 shrs NFI)

			Calls	Put
OZA	JAN	2 1/2	AZ	MZ
OZA	JAN	15	AC	MC
OZA	JAN	20	AD	MD
OZA	JAN	25	AE	ME
OZA	JAN	30	AF	MF
OZA	JAN	35	AG	MG
OZA	JAN	40	AH	MH
OZA	JAN	45	AI	MI

Novastar Financial, Inc. (NJK)
(Beginning 7/30/2007)
(See new deliverable above)

			Calls	Puts
NJK	JAN	2 1/2	AZ	MZ
NJK	JAN	5	AA	MA
NJK	JAN	7 1/2	AU	MU
NJK	JAN	10	AB	MB
NJK	JAN	12 1/2	AV	MV
NJK	JAN	15	AC	MC
NJK	JAN	20	AD	MD
NJK	JAN	25	AE	ME
NJK	JAN	30	AF	MF
NJK	JAN	35	AG	MG
NJK	JAN	40	AH	MH
NJK	JAN	45	AI	MI
NJK	JAN	50	AJ	MJ
NJK	JAN	60	AL	ML
NJK	MAR	2 1/2	CZ	OZ
NJK	MAR	5	CA	OA
NJK	MAR	7 1/2	CU	OU
NJK	MAR	10	CB	OB
NJK	MAR	12 1/2	CV	OV
NJK	MAR	15	CC	OC

Novastar Financial, Inc. - 2009 Leap (ODH)
(Beginning 7/30/2007)
(See new deliverable above)

			Calls	Put
ODH	JAN	2 1/2	AZ	MZ
ODH	JAN	15	AC	MC
ODH	JAN	20	AD	MD
ODH	JAN	25	AE	ME
ODH	JAN	30	AF	MF
ODH	JAN	35	AG	MG
ODH	JAN	40	AH	MH
ODH	JAN	45	AI	MI

Any additional NFI series that are added prior to the ex-date will also be adjusted in the manner described above.

The new NFI option contracts representing 100 shares of NFI will be admitted to trading on July 31, 2007. Strike prices and expiration months will be announced on a separate release prior to that date.

GOOD-TILL-CANCELLED (GTC) ORDERS:

Customers should be advised that Good-til-Cancelled (GTC) orders not on AUTOM must be cancelled and re-entered prior to the ex-distribution date. GTC AUTOM orders will be deleted by PHLX Service Desk/AUTOM personnel.

Questions regarding this release may be directed to Market Watch at 1-800-THE-PHLX, choice #2, or (215) 496-1508.