

NOVASTAR FINANCIAL INC
Form SC 13G
September 19, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**SCHEDULE 13G
(Rule 13d-102)**

**Information Statement Pursuant to Rules 13d-1 and 13d-2
Under the Securities Exchange Act of 1934
(Amendment No.)***

NovaStar Financial, Inc.
(Name of Issuer)

Common Stock
(Title of Class of Securities)

669947889
(CUSIP Number)

September 11, 2007
Date of Event Which Requires Filing of the Statement

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- | | |
|----------------------------------|---------------|
| <input type="radio"/> | Rule 13d-1(b) |
| <input checked="" type="radio"/> | Rule 13d-1(c) |
| <input type="radio"/> | Rule 13d-1(d) |

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Limited Partnership	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited partnership	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 469,172 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 4.95%⁽¹⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON PN; HC	

(1) Based on 9,469,031 outstanding shares of the Common Stock of Issuer, as reported in the Issuer's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the Securities and Exchange Commission on August 9, 2007.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Investment Group, L.L.C.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited liability company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 469,172 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 4.95%⁽²⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON OO; HC	

(2)

See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Kenneth Griffin	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION U.S. Citizen	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 469,172 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 4.95%⁽³⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON IN; HC	

(3)

See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Equity Fund Ltd.	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 469,172 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 4.95%⁽⁴⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON CO	

(4)

See footnote 1 above.

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1.	NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Citadel Derivatives Group LLC	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o	
3.	SEC USE ONLY	
4.	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware limited liability company	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5.	SOLE VOTING POWER 0
	6.	SHARED VOTING POWER 469,172 shares
	7.	SOLE DISPOSITIVE POWER 0
	8.	SHARED DISPOSITIVE POWER See Row 6 above.
9.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON See Row 6 above.	
10.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES <input type="checkbox"/> o	
11.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9) Approximately 4.95%⁽⁵⁾ as of the date of this filing	
12.	TYPE OF REPORTING PERSON OO; BD	

(5)

See footnote 1 above.

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Item 1(a)

Name of Issuer: **NovaStar Financial, Inc.**

1(b)

Address of Issuer's Principal Executive Offices:

**8140 Ward Parkway, Suite 300
Kansas City, Missouri 64114**

Item 2(a)

Name of Person Filing⁽⁶⁾

Item 2(b)

Address of Principal Business Office

Item 2(c)

Citizenship

Citadel Limited
Partnership
131 S. Dearborn
Street
32nd Floor
Chicago, Illinois
60603
Delaware limited
partnership

Citadel Investment
Group, L.L.C.
131 S. Dearborn
Street
32nd Floor
Chicago, Illinois
60603
Delaware limited
liability company

Kenneth Griffin
131 S. Dearborn
Street
32nd Floor
Chicago, Illinois
60603
U.S. Citizen

Citadel Equity
Fund Ltd.
c / o C i t a d e l
Investment Group,
L.L.C.
131 S. Dearborn
Street
32nd Floor
Chicago, Illinois
60603

Cayman Islands
company

Citadel Derivatives
Group LLC
c / o C i t a d e l
Investment Group,
L.L.C.
131 S. Dearborn
Street
32nd Floor
Chicago, Illinois
60603
Delaware limited
liability company

(6) Citadel Holdings Ltd., a Cayman Islands company (“CH”), is a subsidiary of Citadel Wellington LLC, a Delaware limited liability company (“CW”), and Citadel Kensington Global Strategies Fund Ltd., a Bermuda company (“CKGSF”). Citadel Equity Fund Ltd. (“CEF”) is a subsidiary of CH. None of CW, CKGSF or CH has any control over the voting or disposition of securities held by CEF. Citadel Derivatives Group LLC is a subsidiary of CW and Citadel Limited Partnership, but CW does not have any control over the voting or disposition of securities held by Citadel Derivatives Group.

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2(d)

Title of Class of Securities:

Common Stock, par value \$0.01.

2(e)

CUSIP Number: **669947889**

Item 3 If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:

- (a) Broker or dealer registered under Section 15 of the Exchange Act;
- (b) Bank as defined in Section 3(a)(6) of the Exchange Act;
- (c) Insurance company as defined in Section 3(a)(19) of the Exchange Act;
- (d) Investment company registered under Section 8 of the Investment Company Act;
- (e) An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
- (f) An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
- (g) A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
- (h) A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;
- (i) A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act;
- (j) Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

If this statement is filed pursuant to Rule 13d-1(c), check this box. x

Item 4

Ownership:

**CITADEL LIMITED PARTNERSHIP
CITADEL INVESTMENT GROUP, L.L.C.
KENNETH GRIFFIN
CITADEL EQUITY FUND LTD.
CITADEL DERIVATIVES GROUP LLC**

(a)

Amount beneficially owned:

469,172 shares

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(b) Percent of Class:

Approximately 4.95%⁽⁷⁾ as of the date of this filing

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote:

0

(ii) shared power to vote or to direct the vote:

See Item 4(a) above.

(iii) sole power to dispose or to direct the disposition of:

0

(iv) shared power to dispose or to direct the disposition of:

See Item 4(a) above.

The obligation to file this Schedule 13G arose on September 11, 2007. The Reporting Persons have subsequently reduced their beneficial ownership to the currently reported percentage. At no time since September 11, 2007 have the Reporting Persons been the beneficial owners of greater than 10% of the Company's outstanding Common Stock as determined in accordance with Rule 13d-3 under the Securities and Exchange Act of 1934.

Item 5 Ownership of Five Percent or Less of a Class:

Not Applicable.

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

Not Applicable.

Item 7 Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company:

See Item 2 above.

Item 8 Identification and Classification of Members of the Group:

Not Applicable.

Item 9 Notice of Dissolution of Group:

Not Applicable.

(7)Based on 9,469,031 outstanding shares of the Common Stock of Issuer, as reported in the Issuer's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the Securities and Exchange Commission on August 9, 2007.

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Item 10

Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

* John C. Nagel is signing on behalf of Kenneth Griffin as attorney-in-fact pursuant to a power of attorney previously filed with the Securities and Exchange Commission on February 24, 2006, and hereby incorporated by reference herein. The power of attorney was filed as an attachment to a filing by Citadel Limited Partnership on Schedule 13G for Morgans Hotel Group Co.

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After reasonable inquiry and to the best of its knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

Dated this 19th day of September, 2007

<p>KENNETH GRIFFIN</p>	<p>CITADEL EQUITY FUND LTD.</p>
<p>By: <u>/s/ John C. Nagel</u> John C. Nagel, attorney-in-fact*</p>	<p>By: Citadel Limited Partnership, its Portfolio Manager</p>
<p>CITADEL LIMITED PARTNERSHIP</p>	<p>By: Citadel Investment Group, L.L.C., its General Partner</p>
<p>By: Citadel Investment Group, L.L.C., its General Partner</p>	<p>By: <u>/s/ John C. Nagel</u> John C. Nagel, Director and Associate General Counsel</p>
<p>By: <u>/s/ John C. Nagel</u> John C. Nagel, Director and Associate General Counsel</p>	<p>CITADEL INVESTMENT GROUP, L.L.C.</p>
<p>CITADEL DERIVATIVES GROUP LLC</p>	<p>By: <u>/s/ John C. Nagel</u> John C. Nagel, Director and Associate General Counsel</p>
<p>By: Citadel Limited Partnership, its Managing Member</p>	
<p>By: Citadel Investment Group, L.L.C., its General Partner</p>	
<p>By: <u>/s/ John C. Nagel</u> John C. Nagel, Director and Associate General Counsel</p>	