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NOVASTAR FINANCIAL INC
Form 8-K
January 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

January 8, 2008
Date of Report (Date of earliest event reported)

NOVASTAR FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	001-13533	74-2830661
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(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

8140 Ward Parkway, Suite 300, Kansas City, MO 64114

(Address of principal executive offices)
(Zip Code)

(816) 237-7000

(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.05 Costs Associated with Exit or Disposal Activities

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On January 8, 2008, the Audit Committee of the Board of Directors of the Company committed the Company to a workforce reduction pursuant to an exit or disposal plan (the "Plan") as described in paragraph 8 of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 146 Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146), under which material charges will be incurred under generally accepted accounting principles applicable to the Company.

The Company is undertaking the Plan in connection with its decision to discontinue its retail and brokerage operations in order to preserve cash and reduce debt and in light of the Company's inability to satisfy certain minimum licensing requirements for these operations relating to the net worth and financial condition of the Company. The Company and its subsidiaries will surrender to appropriate regulatory authorities or otherwise allow to lapse all licenses and other governmental authorizations relating to its mortgage origination and brokerage businesses. Discontinuing such licenses and governmental authorizations may hinder or otherwise negatively affect the ability of the Company to recommence a mortgage origination and mortgage brokerage business if market conditions improve.

The Plan will result in the elimination of approximately 170 positions. The Company expects to have approximately 30 employees, overall, after this reduction in workforce. Subject to completion of the necessary legal notices and requirements, implementation of the Plan will begin immediately and is expected to conclude during the first quarter of 2008.

The Company's mortgage portfolio management operations were not affected by the reduction.

The Company estimates that the total pre-tax charge to earnings associated with the Plan will range between \$1.3 million and \$1.8 million, consisting primarily of cash expenditures for severance costs. The Company anticipates that substantially all of the pre-tax charges to earnings and cash expenditures will be incurred in the first quarter of 2008; however, some may be incurred in the second quarter of 2008.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: January 11, 2008

NOVASTAR FINANCIAL, INC.

/s/ Rodney E. Schwatken

Rodney E. Schwatken,
Chief Financial Officer

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