NOVATION COMPANIES, INC.
2114 Central Street, Suite 600
Kansas City, MO 64108
(816) 237-7000

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Our Shareholders:

You are cordially invited to attend the annual meeting of shareholders of Novation Companies, Inc., a Maryland corporation (the "Company"), to be held on June 9, 2016 at 10:00 am, local time, at the Company's offices located at 2114 Central Street, Suite 600, Kansas City, Missouri 64108 for the following purposes:

1. to approve amendments to the Company's Articles of Amendment and Restatement and Amended and Restated Bylaws to declassify the Board of Directors;

2. to elect two directors for the terms described in the proxy statement;

3. to vote on a non-binding advisory resolution to approve the compensation of the Company's named executive officers; and

4. to transact such other business as may properly come before the annual meeting and any postponement or adjournment thereof.

The Company's Board of Directors has fixed the close of business on April 4, 2016 as the record date for determination of shareholders entitled to notice of, and to vote at, the annual meeting and any postponement or adjournment thereof.

Your vote is important. Regardless of whether you plan to attend the annual meeting, we encourage you to vote your shares promptly by using the telephone or Internet, or by signing and returning the proxy card mailed to those who receive paper copies of this proxy statement. You may revoke your proxy at any time before it is voted at the annual meeting by delivering a written statement to the Corporate Secretary that the proxy is revoked, presenting a later-dated proxy, or attending the annual meeting and voting in person.

By Order of the Board of Directors

Barry A. Igdaloff
Chairman of the Board

Kansas City, MO
April 29, 2016

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders To Be Held on June 9, 2016: The proxy statement and the Company's annual report to shareholders are available electronically free of charge at www.proxyvote.com.

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PROXY STATEMENT

The Board of Directors (the "Board") of Novation Companies, Inc., a Maryland corporation (the "Company," "we," "us" or "our"), is furnishing this proxy statement in connection with its solicitation of proxies for use at the annual meeting of shareholders (the "Annual Meeting") to be held on Thursday, June 9, 2016 at 10:00 am, Central Time, at our offices located at 2114 Central Street, Suite 600, Kansas City, Missouri 64108. We began mailing to our shareholders a notice containing instructions on how to access this proxy statement and our annual report on or about April 29, 2016.

GENERAL INFORMATION

Attending the Annual Meeting

You can attend the Annual Meeting only if you were a shareholder at the close of business on April 4, 2016, the record date for the Annual Meeting (the "Record Date"), or if you hold a valid proxy for the Annual Meeting. You should be prepared to present photo identification for admittance. If you are a shareholder of record, your name will be verified against the list of shareholders of record on the Record Date prior to your admission to the Annual Meeting. If you are not a shareholder of record, but hold shares in "street name" through a broker, bank or nominee, you should provide proof of beneficial ownership on the Record Date, such as your most recent account statement prior to the Record Date, a copy of the voting instruction card provided by your broker, bank or nominee, or other similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above, you will not be admitted to the Annual Meeting.

Record Date and Voting Rights

Holders of shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), at the close of business on the Record Date are entitled to notice of, and to vote at the Annual Meeting. As of the Record Date, 92,844,907 shares of Common Stock were outstanding. Each holder of Common Stock is entitled to one vote for each share of Common Stock held as of the Record Date.

Voting

You may vote using any of the following methods:

- *By telephone or the Internet*. Specific instructions for shareholders of record who wish to use telephone or Internet voting procedures are set forth on the notice of internet availability of proxy materials and on the proxy card. If you own shares held in street name, you will receive voting instructions from your broker, bank or nominee and may vote by telephone or the Internet if they offer that alternative. Please note that telephone and Internet voting will close at 11:59 p.m. Eastern Time on June 8, 2016.

- *Proxy card or voting instruction card*. If you received a proxy card or voting instruction card in the mail, complete, sign and date the card and return it in the prepaid envelope.

- *In person at the Annual Meeting*. All shareholders may vote in person at the Annual Meeting. You may also be represented by another person at the Annual Meeting by executing a proper proxy designating that person. If you own shares held in street name, you must obtain a legal proxy from your broker, bank or nominee and present it to the inspector of election with your ballot when you vote at the Annual Meeting.

Shares of stock represented by properly executed proxies received in time for the Annual Meeting will be voted in accordance with the choices specified in the proxies. If you return a signed proxy card without indicating your vote, your shares will be voted in accordance with the recommendations of the Board as follows:

- FOR the amendments to the Company's Articles of Amendment and Restatement and Amended and Restated Bylaws to declassify the Board (the "Board Declassification Proposal");

- FOR the election of the director nominees; and

- FOR the approval of a non-binding advisory resolution to approve the compensation of the Company's named executive officers.

If for any reason any director nominee does not stand for election, any proxies we receive will be voted in favor of the remaining nominee and may be voted for a substitute nominee in place of the nominee who does not stand. We have no reason to expect that any of the director nominees will not stand for election. We are not aware of any other business to be acted upon at the Annual Meeting other than as set forth herein. If you grant a proxy, the persons named as proxy holders, Rodney E. Schwatken and Barry A. Igdaloff, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting.

Revocability of Proxy

If you are a shareholder of record, you may revoke your proxy at any time before it is voted at the Annual Meeting by delivering a written statement to the Corporate Secretary that the proxy is revoked, by presenting a later-dated proxy, or by attending the Annual Meeting and voting in person. If you own shares held in street name, you may submit new voting instructions by contacting your broker, bank or nominee. You may also vote in person at the Annual Meeting if you obtain a legal proxy as described above in "Attending the Annual Meeting." Attendance at the Annual Meeting will not, by itself, revoke a proxy.

Solicitation of Proxies

The costs of this solicitation by the Board will be borne by the Company. Proxy solicitations will be made by mail and also may be made by personal interview, telephone, facsimile transmission and electronic mail. Banks, brokerage house nominees and other fiduciaries are requested to forward the proxy soliciting material to the beneficial owners and to obtain authorization for the execution of proxies. The Company will, upon request, reimburse those parties for their reasonable expenses in forwarding proxy materials to the beneficial owners.

Broker Non-Votes

If the shares you own are held in "street name" by a bank, brokerage firm or other nominee, your nominee, as the record holder of your shares, is required to vote your shares according to your instructions. In order to vote your shares, you will need to follow the directions your nominee provides to you. If you do not give instructions to your nominee, your nominee will determine whether it has discretionary authority to vote your shares. Applicable regulations prohibit nominees from voting shares on non-routine matters unless the beneficial owners indicate how the shares are to be voted. Therefore, unless you instruct your nominee on how to vote your shares with respect to the approval of the Board Declassification Proposal, the election of directors, and the advisory resolution on compensation of the

Company's named executive officers, your nominee will be prohibited from voting on such matters on your behalf.

If your nominee returns a valid proxy but is not able to vote your shares, they will constitute "broker non-votes," which will not be counted for the purpose of determining the presence of a quorum and will not affect the outcome of any matter being voted on at the Annual Meeting.

Votes Required for Approval of Proposals

A quorum will be present if at least a majority of the outstanding shares of our Common Stock entitled to vote at the Annual Meeting, totaling 46,422,454 shares, is represented at the Annual Meeting, either in person or by proxy. Abstentions will be considered present for the purpose of establishing a quorum. Broker non-votes will not be considered present for the purpose of establishing a quorum.

Proposal 1: Board Declassification Proposal. The affirmative vote of the holders of two-thirds of the votes entitled to be cast on this proposal at the Annual Meeting is required for approval of the Board Declassification Proposal. Abstentions and broker non-votes with respect to this proposal will have the same effect as a vote against the proposal.

Proposal 2: Election of Directors. Each of the two director nominees receiving a plurality of the votes cast at the Annual Meeting will be elected as a director. You may withhold votes from any or all nominees. Broker non-votes will have no effect on the result of this vote.

Proposal 3: Advisory Vote on Executive Compensation. The affirmative vote of a majority of the votes cast on this proposal at the Annual Meeting is required for approval of a non-binding advisory resolution to approve the compensation of the Company's named executive officers. Abstentions will have the same effect as a vote against this proposal. Broker non-votes will have no effect on the result of this vote.

Internet Availability of Proxy Materials

This year, we are again taking advantage of the rules of the Securities and Exchange Commission (the "SEC") that allow us to furnish our proxy materials primarily via the Internet, instead of mailing printed copies of those materials to each shareholder, which expedites your receipt of materials, lowers our expenses and conserves natural resources. On or about April 29, 2016, we began mailing to our shareholders a notice containing instructions on how to access this proxy statement and our annual report and how to vote on the Internet. The notice also included instructions on how to receive such materials, at no charge, by paper delivery (along with a proxy card) or by e-mail. Beneficial owners receive a similar notice from their broker, bank or other nominee. If you would prefer to receive a paper copy of our proxy materials, please follow the instructions included in the notice.

PROPOSAL 1 – DECLASSIFICATION OF THE BOARD OF DIRECTORS

Under Article VI, Section C of our Articles of Amendment and Restatement (the "Articles of Incorporation") and Article II, Section 1 of our Amended and Restated Bylaws (the "Bylaws"), the Board is divided into three classes (Class I, Class II and Class III). Each member of a class is elected for a three-year term, with the terms staggered such that approximately one-third of directors stand for election each year. There are currently two Class I directors elected to serve until our 2018 annual meeting of shareholders (the "2018 Annual Meeting") and until their successors are duly elected and qualified, two Class II directors elected to serve until the Annual Meeting and until their successors are duly elected and qualified, and two Class III directors elected to serve until our 2017 annual meeting of shareholders (the "2017 Annual Meeting") and until their successors are duly elected and qualified. Art M. Burtscher, one of our Class I directors, notified the Company of his resignation from the Board effective at the Annual Meeting.

The Board recognizes that there is a trend in corporate governance in favor of the annual election of directors and has determined that it would be in the best interests of the Company and its shareholders to declassify the Board to allow the Company's shareholders to vote on the election of the entire Board each year. Additionally, the Company agreed to seek binding shareholder approval at the Annual Meeting to declassify the Board under the terms of an Agreement, dated as of April 22, 2015 (the "Lone Star Value Agreement"), by and among the Company, Lone Star Value Investors, LP, Lone Star Value Investors GP, LLC, Lone Star Value Management, LLC and Jeffrey E. Eberwein (collectively, "Lone Star Value"). In light of the foregoing, the Board unanimously adopted and is submitting for shareholder approval amendments to the Articles of Incorporation and the Bylaws that would phase out the classification of the Board beginning at the Annual Meeting (the "Declassification Amendments"), as described in detail below.

If the Board Declassification Proposal is approved by shareholders, we will call a recess to the Annual Meeting to permit us to file the proposed amendment to the Articles of Incorporation with the State Department of Assessments and Taxation of Maryland and effect the proposed amendment to the Bylaws, each to phase out the classification of the Board, prior to the election of directors at the Annual Meeting. Thereafter, the declassification of the Board will be phased in as follows:

- the director nominees elected at the Annual Meeting, currently Class II directors, will be elected to serve until the 2017 Annual Meeting and until their successors are duly elected and qualified;

- the current Class III directors will continue to serve until the 2017 Annual Meeting and until their successors are duly elected and qualified;

- under the terms of the Lone Star Value Agreement, Robert G. Pearse, a Class I director whose term is scheduled to expire at the 2018 Annual Meeting, will tender his resignation effective at the 2017 Annual Meeting; and

- effective at the 2017 Annual Meeting and at each annual meeting of shareholders thereafter, all directors will be elected annually.

If the Board Declassification Proposal is not approved by shareholders, the Board will remain classified. In such case, the director nominees elected at the Annual Meeting will be elected as Class II directors for a three-year term to serve until our 2019 annual meeting of shareholders (the "2019 Annual Meeting") and until their successors are duly elected and qualified, and current Class I (other than Mr. Burtscher) and Class III directors will continue to serve the remainder of their terms. The Board does not intend to appoint a replacement for Mr. Burtscher, but rather to reduce the size of the Board by one director.

The description of the Declassification Amendments set forth above is qualified in its entirety by reference to the full text of the proposed amendment to the Articles of Incorporation attached as Appendix A to this proxy statement and the full text of the proposed amendment to the Bylaws attached as Appendix B to this proxy statement, each marked to show the changes described above.

The approval of the Board Declassification Proposal requires the affirmative vote of the holders of two-thirds of the votes entitled to be cast on this proposal at the Annual Meeting.

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE APPROVAL OF THE BOARD DECLASSIFICATION PROPOSAL.

PROPOSAL 2 – ELECTION OF DIRECTORS

Under the terms of our Articles of Incorporation and Bylaws, the Board is divided into three classes (Class I, Class II and Class III). Each member of a class is elected for a three-year term, with the terms staggered such that approximately one-third of directors stand for election each year. There are currently two Class I directors elected to serve until the 2018 Annual Meeting and until their successors are duly elected and qualified, two Class II directors elected to serve until the Annual Meeting and until their successors are duly elected and qualified, and two Class III directors elected to serve until the 2017 Annual Meeting and until their successors are duly elected and qualified. Mr. Burtscher, one of our Class I directors, notified the Company of his resignation from the Board effective at the Annual Meeting. Mr. Gillman, who was appointed to the Board on January 6, 2016, was recommended to the Nominating and Corporate Governance Committee by a non-management director.

As discussed in detail in "Proposal 1 – Declassification of the Board of Directors," the Company will present the Board Declassification Proposal for shareholder approval at the Annual Meeting. If the Board Declassification Proposal is approved by shareholders, we will call a recess to the Annual Meeting to permit us to file the proposed amendment to the Articles of Incorporation with the State Department of Assessments and Taxation of Maryland and effect the proposed amendment to the Bylaws, each to phase out the classification of the Board, prior to the election of directors at the Annual Meeting. Thereafter, the director nominees elected at the Annual Meeting, currently Class II directors, will be elected to serve until the 2017 Annual Meeting and until their successors are duly elected and qualified. If the Board Declassification Proposal is not approved by shareholders, the director nominees elected at the Annual Meeting will be elected as Class II directors for a three-year term to serve until the 2019 Annual Meeting and until their successors are duly elected and qualified.

Jeffrey E. Eberwein and Charles M. Gillman, currently serving as Class II directors, are nominated for election to the Board at the Annual Meeting.

Each of the two director nominees receiving a plurality of the votes cast at the Annual Meeting will be elected as a director. You may withhold votes from any or all nominees. Broker non-votes will have no effect on the result of this vote.

THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR EACH OF THE DIRECTOR NOMINEES IDENTIFIED IN THIS PROPOSAL.

Nominees and Directors

Set forth below is certain information regarding each nominee for director and continuing director of the Company. The information presented includes information provided to the Company by each nominee and director including such person's name, age, principal occupation and business experience for at least the past five years, the names of other publicly-held companies of which such person currently serves as a director or has served as a director during the past five years and the year in which the nominee first became a director of the Company.

In addition to the information presented below regarding the specific experience, qualifications, attributes and skills of each nominee and director that led the Board to the conclusion that such person should serve as a director, the Board also believes that all of the nominees and directors have a reputation for high personal and professional ethics, integrity, values and character. Each nominee and director brings to the Board a strong background and set of skills, providing the Board with experience in a wide variety of areas, including corporate governance and board service, executive management, accounting and finance, and risk assessment. Each nominee and director is committed to achieving, monitoring and improving on the Company's business strategy.

Director Nominees

Jeffrey E. Eberwein, age 45, has been a member of the Board since April 2015. Mr. Eberwein is the founder and chief executive officer of Lone Star Value Management, LLC, a registered investment firm. Prior to founding Lone Star Value Management, LLC in January 2013, Mr. Eberwein was a Portfolio Manager at Soros Fund Management from January 2009 to December 2011 and Viking Global Investors from March 2005 to September 2008. Mr. Eberwein is Chairman of the Board of AMERI Holdings, Inc., ATRM Holdings, Inc., Crossroads Systems, Inc., Digirad Corporation and Hudson Global, Inc. Mr. Eberwein previously served on the board of directors of The Goldfield Corporation from May 2012 to May 2013, On Track Innovations Ltd. from December 2012 to March 2014, and NTS, Inc. from December 2012 until its sale to a private equity firm was completed in June 2014. Mr. Eberwein served on the Board of Hope for New York, a 501(c)(3) organization dedicated to serving the poor in New York City from 2011 until 2014, where he was Treasurer and on the Executive Committee. Mr. Eberwein earned an MBA from The Wharton School, University of Pennsylvania and a BBA with High Honors from The University of Texas at Austin.

The Board believes that Mr. Eberwein's qualifications to serve on the Board include his expertise in finance and experience in the investment community and serving as a director of public companies.

Charles M. Gillman, age 45, has been a member of the Board since January 2016. Mr. Gillman is the head of the IDWR Multi-Family Office (the "IDWR"), a position he has held since 2013. The IDWR employs a team of analysts with expertise in finding publicly traded companies that require operational enhancement and an improvement in corporate capital allocation. From 2001 to 2013, Mr. Gillman was a portfolio manager of certain family office investment portfolios at Nadel and Gussman, LLC. Prior to his employment at Nadel and Gussman, Mr. Gillman worked in the investment industry and as a strategic management consultant at McKinsey & Company, where he gained experience designing operational turnarounds of U.S. and international companies. Mr. Gillman currently serves on the board of directors of Digirad Corporation and Hooper Holmes, Inc. Mr. Gillman is a Summa Cum Laude graduate of the Wharton School and a Director of the Penn Club of New York which serves as the Manhattan home of the Wharton and Penn alumni community.

The Board believes that Mr. Gillman's qualifications to serve on the Board include his significant experience as a successful portfolio manager, M&A experience and divestiture experience.

Class I Directors – Terms Expiring 2018

Art N. Burtscher, age 65, has been a member of the Board since 2001. Since 2004, Mr. Burtscher has been Chairman of McCarthy Group Advisors, LLC, an Omaha, Nebraska, investment advisory firm. McCarthy Group Advisors was acquired by Westwood Holdings Group, Inc. in November 2010. Mr. Burtscher remains with Westwood Holdings Group, Inc. as a director and President of the Western Region. From 2000 to 2004, he was President of McCarthy Group Asset Management. From 1988 to 2000, Mr. Burtscher served as President and Chief Executive Officer of Great Western Bank in Omaha, Nebraska. Mr. Burtscher also serves on the board of directors of NIC, Inc. Additionally, Mr. Burtscher serves on the boards of directors and audit committees of The Durham Museum and Nebraska Methodist Hospital and on the boards of directors of American National Bank, SilverStone Group, Jet Linx and the United Way of the Midlands Foundation. He is also a trustee for DLR Group.

The Board believes Mr. Burtscher's qualifications to serve on the Board include his experience in the financial services industry, his extensive knowledge of financial, business and investment matters and his service as a director of public companies. Mr. Burtscher notified the Company of his resignation from the Board effective at the Annual Meeting.

Robert G. Pearse, age 56, has been a member of the Board since April 2015. Mr. Pearse currently serves as a Managing Partner at Yucatan Rock Ventures, where he specializes in technology investments and consulting, and has served in that position since August 2012. Mr. Pearse also serves as a director for Aviat Networks, Inc., Ameri Holdings, Inc., and Crossroads Systems, Inc. From 2005 to 2012, Mr. Pearse served as vice president of Strategy and Market Development at NetApp, Inc., a computer storage and data management company. From 1987 to 2004, Mr. Pearse held leadership positions at Hewlett-Packard, most recently as the vice president of Strategy and Corporate Development from 2001 to 2004 focusing on business strategy, business development and acquisitions. Mr. Pearse's professional experience also includes positions at PricewaterhouseCoopers LLP, Eastman Chemical Company, and General Motors Company. Mr. Pearse earned a Master of Business Administration degree from the Stanford Graduate School of Business in 1986, and a Bachelor of Science degree in Mechanical Engineering from the Georgia Institute of Technology in 1982.

The Board believes Mr. Pearse's qualifications to serve on the Board include his extensive business development and financial expertise. Mr. Pearse's term on the Board will expire in 2018; provided, however, he agreed tender his resignation effective at the 2017 Annual Meeting if the Board is declassified, as described in the Board Declassification Proposal.

Class III Directors – Terms Expiring 2017

Howard M. Amster, age 68, has been a member of the Board since 2009. Mr. Amster currently is an owner and operator of multiple real estate investments. Since March 1998, Mr. Amster has served as President of Pleasant Lake Apts. Corp., the corporate general partner of Pleasant Lake Apts. Limited Partnership. Mr. Amster also serves as a director of Maple Leaf Financial, Inc., the holding company for Geauga Savings Bank, and newAX, Inc. (formerly Astrex, Inc.), and since 2000, has served as a Principal with Ramat Securities Ltd., a securities brokerage firm. From 1992 to 2000, Mr. Amster was an investment consultant with First Union Securities (formerly EVEREN Securities and formerly Kemper Securities).

The Board believes Mr. Amster's qualifications to serve on the Board include his investment experience and his service as a director of public companies. Mr. Amster's term on the Board will expire in 2017.

Barry A. Igdaloff, age 61, has been a member of the Board since 2009, and has been the Chairman of the Board since January 2016. Mr. Igdaloff served as the sole proprietor of Rose Capital, a registered investment advisor in Columbus, Ohio, since 1995. Mr. Igdaloff has been a director of Dynex Capital, Inc. since 2000. Previously, Mr. Igdaloff was a director of Guest Supply, Inc. prior to its acquisition by Sysco Foods in 2001. Prior to entering the investment business, Mr. Igdaloff was an employee of Ernst & Whinney's international tax department. Mr. Igdaloff is a non-practicing CPA and a non-practicing attorney.

The Board believes Mr. Igdaloff's qualifications to serve on the Board include his financial expertise, his years of experience as an investment advisor, attorney, and CPA and his service as a director of public companies. Mr. Igdaloff's term on the Board will expire in 2017.

Certain Arrangements Relating to the Appointment of Directors

Mr. Eberwein and Mr. Pearse were appointed to the Board on April 22, 2015, pursuant to the Lone Star Value Agreement, which provided, among other things, that the size of the Board would be increased from six to eight directors, that Mr. Eberwein and Mr. Pearse were to be appointed to fill the vacancies on the Board, and that each would be nominated for election as a director at the 2015 annual meeting of shareholders (the “2015 Annual Meeting”). The Company also agreed to seek binding shareholder approval at the Annual Meeting to declassify the Board and Lone Star Value agreed to vote its shares in favor of the election of the Company’s slate of directors at the 2015 Annual Meeting.

CORPORATE GOVERNANCE AND RELATED MATTERS

Director Independence

The Board has determined that all of our directors and director nominees are independent within the meaning of SEC and NASDAQ rules. The Board has also determined that all directors serving on the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are independent within the meaning of SEC and NASDAQ rules. Although the Company's securities are not listed on NASDAQ, the Company uses the independence standards provided for in NASDAQ rules in determining whether or not our directors and director nominees are independent.

Board Leadership Structure

Barry A. Igdaloff currently serves as the Chairman of the Board. The Board has determined that separating the roles of Chief Executive Officer and Chairman of the Board is in the best interests of the Company's shareholders at this time. This structure permits the Chief Executive Officer to focus exclusively on the management of our day-to-day operations and the Board to provide appropriate oversight.

Board and Committee Meetings

During 2015, there were 14 meetings of the Board, 5 meetings of the Audit Committee, 6 meetings of the Compensation Committee and 4 meetings of the Nominating and Corporate Governance Committee, in addition to actions taken by unanimous written consent. Each director participated in at least 75% of the meetings of the Board and the committees on which he served during the periods for which he has been a director or committee member. None of our directors attended the 2015 Annual Meeting. We have no written policy regarding director attendance at our annual meetings of shareholders.

Board Committees

The Board has a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. Descriptions of the responsibilities of such committees are provided below. These descriptions are qualified in their entirety by the full text of the written committee charters that may be found on the Company's website at www.novationcompanies.com.

Audit Committee. The responsibilities of the Audit Committee are set forth in its charter and include assisting the Board in fulfilling its oversight responsibility relating to: (i) the integrity of the Company's financial statements and financial reporting process and its system of internal accounting and financial controls; (ii) the performance of the internal audit function; (iii) the performance of the independent auditors, which would include an evaluation of the independent auditor's qualifications and independence; (iv) the Company's compliance with legal and regulatory requirements, including disclosure controls and procedures; and (v) the preparation of an Audit Committee report to be included in the Company's annual proxy statement. The Audit Committee consists of Barry A. Igdaloff, Howard M. Amster, and Robert G. Pearse, with Mr. Igdaloff serving as the chairman. The Board has determined that Barry Igdaloff and Robert G. Pearse qualify as "audit committee financial experts" under SEC rules and that each Audit Committee member has sufficient knowledge in reading and understanding the Company's financial statements to serve on the Audit Committee.

Nominating and Corporate Governance Committee. The responsibilities of the Nominating and Corporate Governance Committee are set forth in its charter and include the following: (i) identify individuals qualified to become Board members consistent with the criteria established by the Board; (ii) recommend to the Board the director nominees for the next annual meeting of shareholders; (iii) lead the Board in the annual review of the Board's performance and the review of management's performance; and (iv) shape the corporate governance policies and practices including developing a set of corporate governance principles applicable to the Company and recommending them to the Board. The Nominating and Corporate Governance Committee consists of Jeffrey E. Eberwein, Howard M. Amster and Robert G. Pearse, with Mr. Eberwein serving as the chairman.

Compensation Committee. The responsibilities of the Compensation Committee are set forth in its charter and include the following: (i) review and approve the goals, objectives and compensation structure for our Chief Executive Officer, Chief Financial Officer and senior management; (ii) review, approve and recommend to the Board any new incentive-compensation and equity-based plans that are subject to Board approval; and (iii) approve any required disclosure on executive officer compensation for inclusion in the Company's annual proxy statement and Annual Report on Form 10-K. The Compensation Committee consists of Robert G. Pearse, Howard M. Amster and Jeffrey E. Eberwein, with Mr. Pearse serving as the chairman.

Compensation Committee Process and Advisors

The Compensation Committee is responsible for discharging the responsibilities of the Board with respect to the compensation of our executive officers. The Compensation Committee recommends overall compensation of our executive officers to the Board. The Board approves all compensation of our executive officers. The Compensation Committee may form and delegate authority to subcommittees, comprised of one or more members of the Compensation Committee, as necessary or appropriate, and each such subcommittee shall have the full power and authority of the Compensation Committee.

The charter of the Compensation Committee permits the Compensation Committee to engage outside consultants. In 2015, the Compensation Committee retained a compensation consultant, Pay Governance LLC, to evaluate its compensation program for 2015 and to ensure the compensation program furthers the Company's compensation program objectives with respect to compensation determinations for 2015. Based on the information presented by Pay Governance LLC, the Compensation Committee adjusted and approved base salaries and incentive compensation levels for our Named Executive Officers.

Corporate Governance Documents

The Company's Corporate Governance Guidelines, Code of Conduct, and the charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are available at the corporate governance section of our website, www.novationcompanies.com. The Company will also provide copies of these documents free of charge to any shareholder who sends a written request to: Novation Companies, Inc., Investor Relations, 2114 Central Street, Suite 600, Kansas City, MO 64108.

The Company has adopted a Code of Conduct that applies to our directors, principal executive officer, principal financial officer, principal accounting officer, and other employees. We intend to satisfy the disclosure requirements regarding any amendment to, or waiver from, a provision of our Code of Conduct that applies our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions by disclosing such matters on our website within four business days.

Our investor relations contact information follows:

Investor Relations
2114 Central Street
Suite 600
Kansas City, MO 64108
816.237.7000
Email: ir@novationcompanies.com

Shareholder Communications with the Board

Shareholders may communicate directly with any member of the Board or any individual chairman of a Board committee by writing directly to those individuals at the following address: Novation Companies, Inc., 2114 Central Street, Suite 600, Kansas City, MO 64108. Communications that are intended for the non-management, independent directors generally should be marked to the attention of the chairman of the Nominating and Corporate Governance Committee. The Company's general policy is to forward, and not to intentionally screen, any substantive mail received at the Company's corporate office that is sent directly to a director; however, (i) routine advertisements and business solicitations and (ii) communications deemed to be a security risk or principally for harassment purposes, may not be forwarded in the discretion of the Corporate Secretary, provided that in the latter case the Chairman of the Board is notified thereof.

Risk Oversight

The Board oversees an enterprise-wide approach to risk management, designed to support the achievement of Company objectives, improve long-term Company performance and create shareholder value. A fundamental part of risk management is understanding the risks the Company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The involvement of the full Board in setting the Company's business strategy and objectives is integral to the Board's assessment of the Company's risk and also a determination of what constitutes an appropriate level of risk for the Company. The full Board conducts an annual risk assessment of the Company's financial risk, legal/compliance risk and operational/strategic risk and addresses individual risk issues throughout the year as necessary.

While the Board has the ultimate oversight responsibility for the risk management process, the Board delegates responsibility for certain aspects of risk management to the Audit Committee. Per its charter, the Audit Committee focuses on key financial risks and related controls and processes and discusses with management the Company's major financial reporting exposures and the steps management has taken to monitor and control such exposures.

The Board believes its leadership structure enhances overall risk oversight. While the Board requires risk assessments from management, the combination of Board member experience, diversity of perspectives, continuing education and independence of governance processes provide an effective basis for testing, overseeing and supplementing management assessments.

Identifying and Evaluating Nominees for Directors

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the

Nominating and Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current members of the Board, professional search firms, shareholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year. Shareholder nominations should be addressed to: Novation Companies, Inc., 2114 Central Street, Suite 600, Kansas City, MO 64108, attention Corporate Secretary. The Nominating and Corporate Governance Committee will consider properly submitted shareholder nominations for candidates for the Board, following verification of the shareholder status of persons proposing candidates. If any materials are provided by a shareholder in connection with the nominating of a director candidate, such material will be forwarded to the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will also review materials provided by professional search firms or other parties.

The Nominating and Corporate Governance Committee considers candidates for the Board based upon several criteria set forth in the Company's Corporate Governance Guidelines, including their broad-based business and professional skills and experience, education, accounting and financial expertise, age, reputation, civic and community relationships, concern for the long-term interest of shareholders, personal integrity and judgment, knowledge and experience in the Company's industry (such as operations, finance, accounting and marketing experience and education) and diversity. The Nominating and Corporate Governance Committee considers diversity in the broadest sense, thus including factors such as age, sex, race, ethnicity and geographic location, as well as a variety of experience and educational backgrounds when seeking nominees to the Board. The Nominating and Corporate Governance Committee does not have a formal diversity policy in place.

The Nominating and Corporate Governance Committee does not assign specific weights to the criteria and no particular criterion is necessarily applicable to all prospective nominees. When evaluating nominees, the composition of the entire Board is also taken into account, including the need for a majority of independent directors. In addition, the assessment of a candidate includes consideration of the number of public boards on which he or she serves because of the time requirements for duties and responsibilities associated with serving on the Board. The Nominating and Corporate Governance Committee believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. The Nominating and Corporate Governance Committee assesses the effectiveness of the Corporate Governance Guidelines, including with respect to director nominations and qualifications and achievement of having directors with a broad range of experience and backgrounds, through completion of the annual self-evaluation process.

Material Changes to the Procedures by which Shareholders May Recommend Nominees to the Board

On April 1, 2015, the Board adopted Amended and Restated Bylaws that, among other things, provided for additional requirements for shareholders to properly submit a nominee to the Board. Material additional requirements included: (i) that shareholders must disclose more extensive information in their notice, including information related to proposed nominees or persons acting in concert with the shareholder who proposes the nominees or business, hedging activities, interests of the shareholder (or persons acting in concert with the shareholder) regarding the nominees or the business proposal, ownership of securities of the Company's peer group and commercial or other relationships with the Company; (ii) that the Board can request written verification of information previously submitted by the shareholder; and (iii) that the shareholder proposing the nominee must notify the Company of any inaccuracy or change in information provided. These requirements apply beginning with the Annual

Meeting. The Board believes that these additional requirements ensure that the Board has all necessary information for identifying and evaluating nominees that are submitted by shareholders.

Director Compensation

The Board approves compensation for non-employee directors for the periods between our annual meetings of shareholders. For the period between our 2014 and 2015 annual meetings of shareholders, our non-employee directors received a retainer of $50,000, and the chairmen of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the Lead Independent Director received retainers of $10,000, $5,000, $5,000 and $10,000, respectively. These amounts were paid in cash. For the period between our 2015 annual meetings of shareholders and the upcoming Annual Meeting, our non-employee directors received fees in approximately the same amounts, paid in restricted stock through awards made on August 10, 2015, which shares vest on August 10, 2016.

On March 2, 2015, current directors Amster, Burtscher and Igdaloff, and former directors Gregory T. Barmore and Edward W. Mehrer, entered into Amended and Restated Restricted Stock Award Agreements that amended and restated Restricted Stock Award Agreements dated August 9, 2011. These agreements expressly adopted the change of control provision and the definition of "change of control" set forth in the Company's 2004 Incentive Stock Plan, as amended March 2, 2015 (the "2004 Incentive Plan") and provided that any non-vested and non-forfeited restricted stock would immediately vest upon a director's resignation from the Board or decision not to stand for re-election after reaching the age of 65 following a continuous term of 10 years or more, or the age of 55 following a continuous term of 20 years or more.

The following table sets forth the compensation for each of the Company's non-employee directors for the fiscal year ended December 31, 2015.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Total ($)
Howard M. Amster	25,000 (2)	49,712	74,712
Gregory T. Barmore (4)	32,500	59,654	92,154
Art N. Burtscher	27,500	54,683	82,183
Jeffrey E. Eberwein	9,500	49,712	59,212
Barry A. Igdaloff	25,000	59,654	84,654
Edward W. Mehrer (4)	33,334 (3)	—	33,334
Robert G. Pearse	9,500	54,683	64,183

(1) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. On August 10, 2015, the Company awarded restricted stock to directors as payment for their annual retainer and fees for service as a committee chair or Lead Independent Director. These awards vest on August 10, 2016.

(2) Mr. Amster was also reimbursed for approximately $651 of expenses which are not included herein.

(3) Includes Mr. Mehrer's director fees for service through the date of the 2015 annual meeting, which were paid in cash.

(4) Mr. Barmore resigned from the Board effective December 31, 2015 and Mr. Mehrer retired from the Board at the 2015 Annual Meeting.

On January 6, 2016, the Board appointed Charles M. Gillman as a director of the Company. In connection with Mr. Gillman's appointment, we awarded him 96,154 shares of restricted stock under the Company's 2015 Incentive Stock Plan (the "2015 Incentive Plan") as a pro-rated portion of his annual retainer for service as a director, which vests on August 10, 2016.

AUDIT COMMITTEE REPORT

The Audit Committee engages the independent registered public accounting firm, reviews with such firm the plans and results of any audits, reviews other professional services provided by such firm, reviews the independence of such firm, considers the range of audit and non-audit fees and reviews with management its evaluation of the Company's internal control structure.

The Audit Committee has reviewed and discussed the Company's consolidated financial statements for fiscal year 2015 with management and Grant Thornton LLP, the Company's independent registered public accounting firm. In its discussion, management has represented to the Audit Committee that the Company's consolidated financial statements for fiscal year 2015 were prepared in accordance with U.S. generally accepted accounting principles. In addition, the Audit Committee has discussed with Grant Thornton LLP the matters required to be discussed in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") by Auditing Standard No. 16, *Communications with Audit Committees*.

The Audit Committee has received from the independent registered public accounting firm written disclosures and a letter from such firm required by applicable requirements of the PCAOB regarding such firm's communications with the Audit Committee concerning independence, and has discussed with such firm its independence.

Based on these reviews and discussions, the Audit Committee has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for filing with the SEC.

Audit Committee

Barry A. Igdaloff (Chairman)
Howard M. Amster
Robert G. Pearse

EXECUTIVE OFFICERS

Rodney E. Schwatken serves as our Chief Executive Officer, Chief Financial Officer and Treasurer. Biographical information regarding Mr. Schwatken is set forth below.

Rodney E. Schwatken, age 52, has served as our Chief Executive Officer since August 2015 and as our Chief Financial Officer since January 2008. He previously served as our Senior Vice President from January 2008 to August 2015, and as our Vice President-Strategic Initiatives from March 2006 to January 2008, where he was responsible for special projects generally related to corporate development and management of the Company's strategic transactions. From March 1997 to March 2007, Mr. Schwatken held various titles including Vice President and Controller (Chief Accounting Officer) of the Company and was responsible for corporate accounting, including implementation of accounting policies and procedures and developing and implementing proper internal control over all financial recordkeeping. From June 1993 to March 1997, when he joined the Company, Mr. Schwatken was Accounting Manager with U.S. Central Credit Union, a $30 billion dollar investment, liquidity and technology resource for the credit union industry. From January 1987 to June 1993, Mr. Schwatken was employed by Deloitte & Touche LLP in Kansas City, Missouri, most recently as an audit manager.

EXECUTIVE COMPENSATION

Our named executive officers for 2015 (collectively, our "Named Executive Officers") were as follows:

Name	Title
Rodney E. Schwatken	Chief Executive Officer, Chief Financial Officer and Treasurer
Brett A. Monger	Former Vice President, Controller and Chief Accounting Officer (1)
Matthew Lautz	Former Senior Vice President and Chief Information Officer (1)
W. Lance Anderson	Former President and Chief Executive Officer (1)

(1) Mr. Monger was terminated from his positions with the Company effective April 1, 2016. Mr. Lautz resigned from his positions with the Company and its subsidiaries effective January 6, 2016. Mr. Anderson resigned as Chief Executive Officer of the Company effective August 14, 2015.

Summary Compensation Table

The following table sets forth the compensation of our Named Executive Officers for the periods indicated.

Name and Principal	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (1)	All Other Comp ($)	Total ($)
Rodney E. Schwatken	2015	250,962	—	—	62,765 (2)	—	313,727
Chief Executive Officer and Chief Financial Officer	2014	225,000	100,000	—	—	10,229 (3)	335,229
Brett A. Monger (4) *Former Vice President, Controller and Chief Accounting Officer*	2015	118,196	25,000	—	—	—	143,196
Matthew Lautz (5)	2015	299,038	—	—	62,765 (2)	—	361,803
Former Senior Vice President and Chief Information Officer	2014	234,135	120,000	—	378,640 (6)	—	732,775
W. Lance Anderson (7)	2015	374,875	—	—	—	—	374,875
Former Chief Executive Officer	2014	665,784	371,250	—	—	—	1,037,034

(1) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718.
(2) On August 18, 2015, Mr. Schwatken and Mr. Lautz were each granted options to purchase 350,000 shares of our Common Stock at an exercise price of $0.51 per share, which vest in equal installments of 87,500 on August 18 of the years 2016 to 2019.
(3) Consists of partial reimbursement of medical insurance and other insurance related payments.
(4) Mr. Monger was terminated from his positions with the Company effective April 1, 2016.
(5) Mr. Lautz resigned from his positions with the Company and its subsidiaries effective January 6, 2016.
(6) On June 20, 2014, Mr. Lautz was granted options to purchase 1,329,590 shares of our Common Stock at an exercise price of $0.51 per share.
(7) Mr. Anderson resigned from his position as Chief Executive Officer of the Company effective August 14, 2015.

Outstanding Equity Awards at Fiscal Year-End 2015

The following table sets forth the outstanding stock options for each of our Named Executive Officers as of December 31, 2015 (all stock awards to our Named Executive Officers had vested as of December 31, 2015).

Name	Option Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Rodney E. Schwatken	1,446,730	—	0.97	11/10/2019
	—	350,000 (1)	0.51	8/18/2025
Brett A. Monger	37,500	12,500 (2)	0.63	3/8/2022 (2)
Matthew Lautz	75,000	—	0.51	11/10/2021 (3)
	75,000	—	0.60	10/3/2022 (3)
	137,500	137,500 (3)	0.53	3/13/2023 (3)
	332,398	997,192 (3)	0.51	6/20/2024 (3)
	—	350,000 (3)	0.51	8/18/2025 (3)
W. Lance Anderson	—	—	—	—

(1) These options vest in equal installments of 87,500 shares on August 18 of the years 2016 to 2019.

(2) These options vest in equal installments of 12,500 shares on March 8 of the years 2013 to 2016. All of these options were vested at the time of Mr. Monger's termination effective April 1, 2016, and will be exercisable for three months following such termination.

(3) As a result of Mr. Lautz's resignation from his positions with the Company and its subsidiaries effective January 6, 2016, under the terms of the respective stock option agreements, no additional options will vest after such date, and the vested options will be exercisable for three years with respect to the option awards made on November 10, 2011, October 3, 2012 and March 13, 2013, and three months with respect to the option awards made on June 20, 2014 and August 18, 2015.

Employment Agreements and Arrangements with Named Executive Officers

Rodney E. Schwatken

Mr. Schwatken entered into an employment agreement with the Company on January 7, 2008 (the "Schwatken Employment Agreement"). Mr. Schwatken's base salary was increased from $225,000 to $300,000, effective as of August 18, 2015, in connection with his appointment as our Chief Executive Officer. The Schwatken Employment Agreement has an indefinite term and provides that Mr. Schwatken is an employee "at-will," and his employment may be terminated at any time by either party, with or without cause, for any reason or no reason.

If Mr. Schwatken's employment is terminated by the Company other than for "cause" or by Mr. Schwatken for "good reason" (each as defined in the Schwatken Employment Agreement), Mr. Schwatken will receive, over a period of 12 months following termination, compensation at an annual rate equal to his then-existing annual base salary, in exchange for consulting services outlined in the Schwatken Employment Agreement. If termination by the Company without cause or by Mr. Schwatken for good reason occurs following a "change of control" (as defined in the Schwatken Employment Agreement) then, in addition to the foregoing, Mr. Schwatken will receive a lump-sum severance amount equal to the greater of $200,000 or the sum of his then-existing annual base salary and actual incentive pay for the prior fiscal year, and all outstanding equity awards will immediately vest upon the date of such termination. Mr. Schwatken is bound by certain non-competition, non-solicitation, confidentiality and similar obligations under, and as more particularly described in, the Schwatken Employment Agreement.

Effective March 2, 2015, we entered into an Amended and Restated Stock Option Agreement with Mr. Schwatken amending his Stock Option Agreement dated as of November 10, 2009 (the

"Schwatken 3/15 Option Agreement") in connection with his option to purchase 1,446,730 shares of our Common Stock at a price of $0.97 per share, granted under the 2004 Incentive Plan and expiring on November 10, 2019. Under the terms of the Schwatken 3/15 Option Agreement, upon Mr. Schwatken's death or termination for "disability" (as defined in the Schwatken 3/15 Option Agreement), the options will vest in full and will be exercisable until the earlier of 12 months after the date of such death or termination (provided that if Mr. Schwatken dies within 12 months after termination for disability, the option may be exercised until 12 months from the date of death) or until the expiration of the option. Upon Mr. Schwatken's termination for "good reason" or without "cause" (each as defined in the Schwatken Employment Agreement), any vested options may be exercised until the earlier of three years after the effective date of such termination of employment or until their expiration. Upon Mr. Schwatken's "retirement" (as defined in the Schwatken 3/15 Option Agreement), the unvested options will continue to vest in accordance with their terms unless the Compensation Committee determines in good faith that Mr. Schwatken has breached any of his obligations to the Company. The options may be exercised until the earlier of (x) three years (i) after the date of such retirement, with respect to options vested at the retirement date or (ii) after the date of vesting, with respect to options that vest after the date of such retirement, and (y) the expiration of the option. Upon Mr. Schwatken's termination for "cause" (as defined in the Schwatken Employment Agreement), the options will terminate and no longer be exercisable.

On August 18, 2015, the Compensation Committee granted Mr. Schwatken an option to purchase 350,000 shares of Common Stock at a price of $0.51 per share. The option was granted under the 2015 Incentive Plan, vests in equal installments of 87,500 on August 18 of the years 2016 to 2019, and expires on August 18, 2025. Under the terms of the related Stock Option Agreement (the "Schwatken 8/15 Option Agreement") and the 2015 Incentive Plan, upon Mr. Schwatken's death or termination for "disability" (as defined in the Schwatken 8/15 Option Agreement), the options will vest in full and will be exercisable until the earlier of 12 months after the date of such death or termination (provided that if Mr. Schwatken dies within 12 months after termination for disability, the option may be exercised until 12 months from the date of death) or until the expiration of the option. Upon Mr. Schwatken's termination for "cause" (as defined in the Schwatken Employment Agreement), the option will terminate and no longer be exercisable. Upon Mr. Schwatken's termination for "good reason" or without "cause" (each as defined in the Schwatken Employment Agreement), any vested options may be exercised until the earlier of three years after the effective date of such termination of employment or until their expiration. Upon Mr. Schwatken's "retirement" (as defined in the Schwatken 8/15 Option Agreement), the unvested options will continue to vest in accordance with their terms unless the Compensation Committee determines in good faith that Mr. Schwatken has breached any of his obligations to the Company or otherwise taken any willful action that has had a significant adverse effect upon the Company. The options may be exercised until the earlier of (x) three years (i) after the date of such retirement, with respect to options vested at the retirement date, or (ii) after the date of vesting, with respect to options that vest after the date of such retirement, and (y) the expiration of the options.

Brett A. Monger

Mr. Monger was terminated from his positions with the Company effective April 1, 2016. In connection with his termination, Mr. Monger entered into a Severance Agreement and General Release with the Company (the "Monger Severance Agreement") that upon its effectiveness provides for certain releases by Mr. Monger of, and certain other commitments to, the Company, and for a lump sum payment to Mr. Monger equal to 10 months of his annual base salary, or $100,000. Mr. Monger was provided with severance in exchange for, among other things, his releases and in recognition of his long service to the Company and his efforts in connection with the sale of Corvisa and providing transitional support to the buyer.

Mr. Monger entered into an employment agreement with the Company on March 1, 2012 (the "Monger Employment Agreement"). The Monger Employment Agreement provided for an initial term of three years, renewing automatically for successive one year periods unless either party provided prior written notice, and provided that Mr. Monger was an employee "at-will," and his employment may be terminated at any time by either party, with or without cause, for any reason or no reason. The Monger Employment Agreement also provided that upon his termination by the Company other than for "cause", by Mr. Monger for "good reason" or upon the occurrence of a "change of control" (each as defined in the Monger Employment Agreement), Mr. Monger would receive severance equal to six months of his then-existing annual base salary, in equal installments over six months. Under the terms of the Monger Severance Agreement, upon its effectiveness the Company is released from all payment obligations under the Monger Employment Agreement.

Effective March 8, 2012, we entered into a Stock Option Agreement with Mr. Monger (the "Monger Option Agreement") with respect to his option to purchase 50,000 shares of our Common Stock at a price of $0.63 per share, granted under the 2004 Incentive Plan and expiring on March 8, 2022. At the time of Mr. Monger's termination effective April 1, 2016, all of these options were vested and, under the terms of the Monger Option Agreement, will be exercisable for three months following such termination.

Matthew Lautz

Mr. Lautz resigned from his positions with the Company and its subsidiaries effective January 6, 2016, under the terms of a Transaction Bonus and Release Agreement with the Company (the "Transaction Bonus and Release Agreement"). The Transaction Bonus and Release Agreement provided for Mr. Lautz's resignation and for payment of a bonus of up to $285,000 subject to and effective upon the closing of the sale of the Company's subsidiary Corvisa LLC ("Corvisa") to ShoreTel, Inc. or an affiliate thereof on or before February 29, 2016. The transaction closed on January 6, 2016 and Mr. Lautz received a bonus of $285,000.

Mr. Lautz entered into an employment agreement with the Company on March 2, 2012 (the "Lautz Employment Agreement"). Mr. Lautz's base salary was increased from $275,000 to $350,000, effective as of August 18, 2015, in connection with his appointment as the Chief Executive Officer of Corvisa LLC. The Lautz Employment Agreement provided for an initial term of three years, renewing automatically for successive one year periods unless either party provided prior written notice. Under the terms of the Transaction Bonus and Release Agreement, the Company was released from all payment obligations and Mr. Lautz was released from his non-competition covenant under the Lautz Employment Agreement.

Mr. Lautz entered into various stock option agreements with the Company, including four separate agreements amended and restated as of March 2, 2015 with respect to option awards made on November 10, 2011, October 3, 2012, March 13, 2013 and June 20, 2014 under the 2004 Incentive Plan, and a stock option agreement dated as of August 18, 2015 with respect to an option award made that date under the 2015 Incentive Plan. Following Mr. Lautz's resignation effective January 6, 2016, under the terms of the stock option agreements, no additional options will vest after such date, and the vested options will be exercisable for three years with respect to the option awards made on November 10, 2011, October 3, 2012 and March 13, 2013, and three months with respect to the option awards made on June 20, 2014 and August 18, 2015.

W. Lance Anderson

Mr. Anderson resigned as Chief Executive Officer of the Company effective August 14, 2015. Mr. Anderson did not have an employment agreement with the Company.

Mr. Anderson entered into a stock option agreement with the Company, amended and restated as of August 14, 2015, with respect to an option award made on March 15, 2011 under the 2004 Incentive Plan. Under the terms of the agreement, the unvested portion of these options expired on the date of Mr. Anderson's resignation and the vested portion of these options expired three months after his resignation.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2015 with respect to compensation plans under which the Company's Common Stock may be issued.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity compensation plans approved by stockholders (1)	9,160,297	$0.65	3,413,740
Equity compensation plans not approved by stockholders	—	—	—
Total	9,160,297	$0.65	3,413,740

(1) Represents shares that may be issued pursuant to outstanding options awarded under the 2004 Incentive Plan and the 2015 Incentive Plan. The 2015 Incentive Plan replaced the 2004 Incentive Plan upon its approval by shareholders, so shares remaining available for future issuance are solely under the 2015 Incentive Plan.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth sets forth certain information with respect to beneficial ownership of the Company's Common Stock as of April 4, 2016 by: (i) each person, or group of affiliated persons, known to us to beneficially own more than 5% of our outstanding Common Stock, (ii) each of our directors and named executive officers, and (iii) all of our current directors and executive officers as a group. The amounts and percentages of Common Stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. The information relating to 5% beneficial owners is based on information we received from such holders. Except as otherwise set forth below, the address of the persons listed below is c/o Novation Companies, Inc., 2114 Central Street, Suite 600, Kansas City, Missouri 64108.

	Beneficial Ownership of Common Stock	
Name of Beneficial Owner	**Shares**	**Percent of Class** (1)
Named Executive Officers and Directors		
Rodney E. Schwatken (2)	1,508,273	1.6%
Howard M. Amster (3)	4,058,998	4.4%
Art N. Burtscher (4)	514,832	*
Jeffrey E. Eberwein (5)	3,293,273	3.5%
Charles M. Gillman (6)	96,154	*
Barry A. Igdaloff (7)	7,908,233	8.5%
Robert G. Pearse (8)	211,539	*
Brett A. Monger (9)	50,100	*
Matthew Lautz (10)	632,898	*
W. Lance Anderson (11)	1,098,449	1.2%
All current directors and executive officers as a group (7 persons) (12)	17,591,302	18.6%
5% Beneficial Owners		
Massachusetts Mutual Life Insurance Company (13)	19,258,775	20.7%

* Less than 1%

(1) Based on 92,844,907 shares of Common Stock outstanding as of April 4, 2016. Shares of Common Stock issuable upon exercise of options, warrants or other rights or the conversion of other convertible securities beneficially owned that are exercisable or convertible within 60 days are deemed outstanding for the purpose of computing the percentage ownership of the person holding such securities and rights and all directors and executive officers as a group.

(2) Consists of 1,276 shares of Common Stock; 1,446,730 shares of Common Stock issuable upon exercise of options; and 60,267 shares of Common Stock held by a trust of which Mr. Schwatken is the trustee.

(3) Consists of 2,996,250 shares of common stock; 252,308 shares of unvested restricted stock; 36,168 shares of Common Stock issuable upon exercise of options; and 774,272 shares of Common Stock held in two trusts of which Mr. Amster is the trustee.

(4) Consists of 207,125 shares of Common Stock; 271,539 shares of unvested restricted stock; and 36,168 shares of Common Stock issuable upon exercise of options.

(5) Consists of 192,308 shares of unvested restricted stock; 2,852,963 shares of common stock held by Lone Star Value Investors, LP; and 248,002 shares of common stock held by an account separately managed by Lone Star Value Management, LLC. Mr. Eberwein is the manager of Lone Star Value Investors GP, LLC, the general partner of Lone Star Value Investors, LP, and Mr. Eberwein is also the sole member of Lone Star Value Management, LLC, the investment manager of Lone Star Value Investors, LP, which exercises voting and investment control over securities held by Lone Star Investors, LP. Mr. Eberwein disclaims beneficial ownership of the shares held by Lone Star Value Investors, LP except to the extent of his pecuniary interest therein.

(6) Consists of 96,154 shares of unvested restricted stock.

(7) Consists of 4,411,727 shares of Common Stock; 290,770 shares of unvested restricted stock; 36,168 shares of Common Stock issuable upon exercise of options; and 3,169,568 shares of Common Stock controlled by Mr. Igdaloff as a registered investment advisor.

(8) Consists of 211,539 shares of unvested restricted stock.

(9) Consists of 100 shares of Common Stock; and 50,000 shares of Common Stock issuable upon exercise of options.

(10) Consists of 13,000 shares of Common Stock; and 619,898 shares of Common Stock issuable upon exercise of options.

(11) Consists of 1,026,609 shares of Common Stock; 36,111 shares of Common Stock held in a trust with his spouse; and 35,729 shares of Common Stock held by Mr. Anderson's son.

(12) Consists of 14,721,450 shares of Common Stock; 1,314,618 shares of unvested restricted stock; and 1,555,234 shares of Common Stock issuable upon exercise of options. Excludes beneficial ownership of Messrs. Monger, Anderson and Lautz, who are not current executive officers of the Company.

(13) Based on a Form 3 filed on December 14, 2011, Massachusetts Mutual Life Insurance Company ("MassMutual") may be deemed to own beneficially and indirectly 19,258,775 shares of Common Stock held in one or more advisory accounts and private investment funds. Babson Capital Management LLC acts as investment adviser to these advisory accounts and private investment funds, and in such capacities may also be deemed to be the beneficial owner of such shares. The address of MassMutual is 1295 State Street, Springfield, MA 01111.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and holders of more than 10% of our Common Stock, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of the forms furnished to us and written representations made by our directors and officers, we believe that our directors, officers and holders of more than 10% of our Common Stock complied with all applicable filing requirements during fiscal year 2015.

RELATED PARTY TRANSACTIONS

The Company has adopted a written policy that addresses the review, approval or ratification of any transaction, arrangement, or relationship or series of similar transactions, arrangements or relationships, including any indebtedness or guarantee of indebtedness, between the Company and any related party, in which the aggregate amount involved exceeds the lesser of $120,000 or 1% of the average of the Company's total assets at year end for the last two completed fiscal years. Under the policy, a related party of the Company includes:

- Any executive officer, or any director or nominee for election as a director;
- Any person who owns more than 5% of the Company's voting securities;
- Any immediate family member of any of the foregoing; or
- Any entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 10% beneficial ownership interest.

Under the policy, the Board reviews the material facts of any related party transaction and approves it prior to its occurrence. If advance approval is not feasible, then the Board will either ratify the transaction at its next regularly scheduled meeting or the transaction will be rescinded. In making its determination to approve or ratify any related party transaction, the Board may consider such factors as (i) the extent of the related party's interest in the transaction, (ii) if applicable, the availability of other sources of comparable products or services, (iii) whether the terms of the transaction are no less favorable than terms generally available to Company in unaffiliated transactions under like circumstances, (iv) the benefit to the Company, and (v) the aggregate value of the transaction.

No director may engage in any Board discussion or approval of any related party transaction in which he or she is a related party, but that director is required to provide the Board with all material information reasonably requested concerning the transaction.

In conjunction with adopting this policy, the Board reviewed and approved any existing related party transactions.

Agreements and Transactions with Certain Executive Officers

Steve Haslam retired from the Company effective October 1, 2014, but was involved in certain transactions with the Company prior to his retirement. On March 8, 2012, the same date that Mr. Haslam entered into an employment agreement with the Company, Mr. Haslam and StreetLinks LLC entered into a Separation and Release Agreement (the "Haslam Release Agreement"), pursuant to which Mr. Haslam's employment with StreetLinks was terminated. Mr. Haslam's termination by StreetLinks triggered the

Company's right of first refusal to purchase Mr. Haslam's membership units of StreetLinks under the operating agreement of StreetLinks. Mr. Haslam held 1,927 membership units of StreetLinks, which represented approximately 4.89% of the outstanding StreetLinks membership units. Pursuant to a Membership Interest Purchase Agreement, dated March 8, 2012, by and between Mr. Haslam and the Company (the "Haslam Purchase Agreement"), Mr. Haslam sold all of his 1,927 membership units of StreetLinks to the Company. The total purchase price under the Haslam Purchase Agreement was $6,112,500 (the "Haslam Purchase Price"), which was payable to Mr. Haslam as follows: $500,000 on March 8, 2012; $500,000 on June 30, 2012; and $250,000 on the last day of each quarter thereafter until March 8, 2016, on which date the unpaid principal balance of $1,612,500 was to be paid, plus interest at the rate of four percent per annum, compounded quarterly, on the unpaid balance with regard to all payments other than the initial payment. Through December 31, 2013, the Company had timely paid $2,250,000 in principal and $345,000 in interest to Mr. Haslam under the Haslam Purchase Agreement. Mr. Haslam's sole remedy for non-payment by the Company under the Haslam Purchase Agreement was an equitable right to return of the amount of StreetLinks membership units attributable to the pro-rata portion of the Haslam Purchase Price then owed but not paid. On April 16, 2014, the Company and Mr. Haslam reached an agreement pursuant to which the Company returned to Mr. Haslam, and Mr. Haslam accepted in lieu of further payment, 1,218 membership units of StreetLinks attributable to the remaining pro-rata portion of the Haslam Purchase Price of $3,862,500 in principal and $234,000 in interest.

On April 16, 2014, the Company entered into the Purchase and Sale Agreement (the "StreetLinks Sale Agreement") by and among the Company, StreetLinks LLC, the members of StreetLinks LLC, (collectively, the "Sellers") and Assurant Services LLC ("Assurant") to sell all of the membership units in StreetLinks LLC (the "StreetLinks Transaction"). The aggregate purchase price paid by Assurant to the Sellers was $72 million structured as $60 million paid in cash upon closing and up to an additional $12 million paid post-closing in cash if StreetLinks generates certain measures of total revenue in 2015 and/or 2016.

Steve Haslam, the Company's Senior Vice President and Chief Operating Officer at the time of the sale, owned approximately 3% of StreetLinks prior to sale transaction under the StreetLinks Sale Agreement. He and the Company each constitute one of the "Sellers" under the StreetLinks Sale Agreement. Under the StreetLinks Sale Agreement, the Sellers are severally liable to Assurant for breaches of representations, warrants and covenants. The Sellers will be liable to Assurant for breaches of certain representations and warranties in the StreetLinks Sale Agreement up to the amount of such Seller's pro rata ownership in StreetLinks LLC prior to the StreetLinks Transaction. In the event a Seller is unable to make a required indemnification payment, then the Buyer may assign the right to such payment to the Company and in return the Company will make payment on the claim directly to Assurant.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee annually reviews its selection of our independent registered public accounting firm and has not yet selected an independent registered public accounting firm to audit the Company's financial statements for the fiscal year ending December 31, 2016. Grant Thornton LLP served as our independent registered public accounting firm for the fiscal years ended December 31, 2015 and 2014, and is continuing to serve as our independent registered public accounting firm at this time. We do not expect that a representative of Grant Thornton LLP will be present at the Annual Meeting.

Principal Accounting Firm Fees

The following table presents aggregate fees billed for professional services rendered by Grant Thornton LLP for fiscal years 2015 and 2014. There were no other professional services rendered or fees billed by Grant Thornton LLP for fiscal years 2015 or 2014.

	For the Fiscal Year Ended December 31,	
	2015	**2014**
Audit fees (1)	$ 379,284	$ 318,053
Audit-related fees (2)	175,590	110,000
Tax fees	—	—
All other fees	—	—
Total	$ 554,874	$ 428,053

(1) Audit fees consist principally of fees for the annual and quarterly reviews of our consolidated financial statements and assistance with and review of documents filed with the SEC.

(2) For both 2015 and 2014, these fees represent additional services, consultations, etc. related to the Company's various discontinued operations. For 2015, these fees consist principally of fees for the audit of the financial statements of Corvisa in connection with our sale of Corvisa to ShoreTel, Inc.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy with respect to the pre-approval of all audit and non-audit services provided by our independent registered public accounting firm. All fees paid to our independent registered public accounting firm for fiscal years 2015 and 2014 were pre-approved in accordance with these policies.

PROPOSAL 3 – ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") provides that our shareholders have the opportunity to vote to approve, on an advisory, non-binding basis, the compensation of the Named Executive Officers as disclosed in this proxy statement in accordance with the SEC rules.

We are asking shareholders to indicate their support for the compensation of our Named Executive Officers, who are named in the "Summary Compensation Table" included in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives shareholders the opportunity to express their views on the compensation of our Named Executive Officers. Accordingly, we will ask shareholders to vote FOR the following resolution at the Annual Meeting:

> "RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's proxy statement for the 2016 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Summary Compensation Table and the other related tables and disclosure."

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or the Board. The Board and the Compensation Committee value the opinions of our shareholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our shareholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

The adoption of the advisory resolution to approve the compensation of the Named Executive Officers requires the affirmative vote of a majority of the votes cast on this proposal at the Annual Meeting.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE ADOPTION OF THE RESOLUTION APPROVING THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS.

SHAREHOLDER PROPOSALS OR NOMINATIONS

Any shareholder proposal made in accordance with the requirements of Rule 14a-8 promulgated under the Exchange Act, including the nomination of a director, and intended to be presented at the 2017 Annual Meeting and included in the proxy statement and form proxy relating to such meeting, must satisfy the requirements of the proxy rules promulgated by the SEC and must be received at the Company's principal executive offices on or before December 30, 2016.

Under SEC rules, if we do not receive notice of a shareholder proposal at least 45 days prior to the first anniversary of the date of mailing of the prior year's proxy statement, then our appointed proxy holders will be permitted to use their discretionary voting authority when the proposal is raised at the annual meeting, without any discussion of the matter in the related proxy statement. In connection with the 2017 Annual Meeting, if we do not have notice of a shareholder proposal on or before March 15, 2017, we will be permitted to use our discretionary voting authority as outlined above.

Our Bylaws provide that any shareholder wishing to bring any matter, including the nomination of a director, before an annual meeting of shareholders must deliver notice to our Corporate Secretary at our principal executive offices not later than 5:00 p.m., Central Time, on the 90th day prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, in order for notice by the stockholder to be timely, such notice must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Central Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

ADDITIONAL INFORMATION

A single set of proxy materials may be delivered to any household at which two or more shareholders reside unless contrary instructions have been received from an affected shareholder. This procedure, referred to as householding, reduces the volume of duplicate materials shareholders receive and reduces mailing expenses. Once you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If you wish to receive a separate set of proxy materials for the Annual Meeting, we will deliver them promptly upon request made by writing to Novation Companies, Inc., Investor Relations, 2114 Central Street, Suite 600, Kansas City, MO 64108. Stockholders sharing an address can request delivery of a single copy of proxy materials for the Annual Meeting if they are receiving multiple copies of these materials by writing to Novation Companies, Inc., Investor Relations, 2114 Central Street, Suite 600, Kansas City, MO 64108.

<u>APPENDIX A</u>

PROPOSED AMENDMENT TO THE ARTICLES OF INCORPORATION

The proposed amendment to the Company's Articles of Amendment and Restatement would revise Article VI, Section C thereof as shown below (new language is indicated by double-underlining and deletions are indicated by strike-throughs).

Article VI <u>DIRECTORS</u>

C. ~~The directors (other than any director elected solely by holders of one or more classes or series of preferred stock) shall be classified, with respect to the terms for which they severally hold office, into three classes, with the term of office of the first class to expire the next succeeding annual meeting of stockholders, the term of office of the second class to expire at the second succeeding annual meeting of stockholders, and the term of office of the third class to expire at the third succeeding annual meeting of stockholders. At each annual meeting of the stockholders, the successors to the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.~~ ~~The number of directors in each class shall be determined by the Board of Directors.~~ <u>Each director elected at and after the annual meeting of shareholders of 2016 shall be elected for a one-year term expiring at the next succeeding annual meeting of shareholders and until such director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal. For the avoidance of doubt, any director elected prior to the annual meeting of shareholders of 2016 shall serve for the remainder of the term to which such director was elected or until such director's earlier death, resignation or removal.</u>

APPENDIX B

PROPOSED AMENDMENT TO THE BYLAWS

The proposed amendment to the Company's Amended and Restated Bylaws would revise Article II, Section 1 thereof as shown below (new language is indicated by double-underlining and deletions are indicated by strike-throughs).

ARTICLE II

DIRECTORS

Section 1. NUMBER, ~~CLASSIFICATION,~~ ELECTION AND TERM. The affairs of the Corporation shall be under the direction and control of a Board of Directors which shall be initially composed of three (3) members who shall hold office until its successors are duly chosen and qualified. ~~The directors shall be divided into three Classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The term of the initial Class I directors shall terminate on the date of the annual meeting of stockholders held in 1997; the term of the initial Class II directors shall terminate on the date of the annual meeting of stockholders held in 1998; and the term of the initial Class III directors shall terminate on the date of the annual meeting of stockholders held in 1999. At each annual meeting of stockholders beginning in 1997, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term.~~ The number of directors shall be increased or decreased from time to time by vote of a majority of the entire Board of Directors; provided, however, that the number of directors may not exceed fifteen (15) nor be less than three (3) except as permitted by law. ~~If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible.~~ A director elected by stockholders shall hold office until ~~the annual meeting for the year in which his or her term expires and until~~ his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

At all times subsequent to the first closing in the Corporation's initial private placement of its Capital Stock (the "Private Placement"), except in the case of a vacancy, a majority of the Board of Directors shall be Independent Directors (as hereinafter defined). For the purposes of these Bylaws, "Independent Director" shall mean a director of the Corporation who is not an officer or employee of the Corporation or any subsidiary or affiliate of the Corporation. General Electric Capital Corporation and its affiliates, including GE Capital Mortgage Corporation, shall not be deemed to be affiliates of the Corporation for purposes of this definition. Directors need not be stockholders in the Corporation.

Whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the Board of Directors shall consist of said directors so elected in addition to the number of directors fixed as provided above in the first paragraph of this Section 1. Notwithstanding the foregoing, and except as otherwise may be required by law, whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of stockholders.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year ended December 31, 2015

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

For the Transition Period From __________to __________

Commission File Number 001-13533

NOVATION COMPANIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland	**74-2830661**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2114 Central Street, Suite 600, Kansas City, MO	**64108**
(Address of Principal Executive Office)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (816) 237-7000

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Title of Each Class
Common Stock, $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
☐	☐	☐	☒

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2015 was approximately $17,674,450, based upon the closing sales price of the registrant's common stock on that date on the OTCQB market of the OTC Markets Group, Inc.

The number of shares of the Registrant's Common Stock outstanding on February 12, 2016 was 92,844,907.

Documents Incorporated by Reference
Portions of the registrant's definitive proxy statement relating to its 2016 annual meeting of shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

NOVATION COMPANIES, INC.
FORM 10-K
For the Fiscal Year ended December 31, 2015

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PART I

Unless the context otherwise requires, references in this Annual Report on Form 10-K to “Novation,” the “Company,” “NOVC,” “we,” “us” and “our,” refer to Novation Companies, Inc. and its consolidated subsidiaries and their respective predecessors.

Forward-Looking Statements

Statements in this report regarding Novation and its business, that are not historical facts are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are those that predict or describe future events, do not relate solely to historical matters and include statements regarding management's beliefs, estimates, projections, and assumptions with respect to, among other things, our future operations, business plans and strategies, as well as industry and market conditions, all of which are subject to change at any time without notice. Words such as "believe," "expect," "anticipate," "promise," "plan," and other expressions or words of similar meanings, as well as future or conditional auxiliary verbs such as "would," "should," "could," or "may" are generally intended to identify forward-looking statements. Actual results and operations for any future period may vary materially from those discussed herein. Some important factors that could cause actual results to differ materially from those anticipated include: our ability to identify and acquire operating businesses or make other investments that generate taxable income; decreases in cash flows from our mortgage securities; our ability to remain in compliance with the agreements governing our indebtedness; the outcome of litigation actions pending against us or other legal contingencies; our compliance with applicable local, state and federal laws and regulations; compliance with new accounting pronouncements; the impact of general economic conditions; and the risks that are from time to time included in our filings with the Securities and Exchange Commission (“SEC”), including this report. Other factors not presently identified may also cause actual results to differ. This report speaks only as of its date and we expressly disclaim any duty to update the information herein except as required by federal securities laws.

Item 1. Business

Our Business

As of December 31, 2015, the Company owned 100% of Corvisa LLC ("Corvisa"), a developer and seller of cloud-based communication software under the CorvisaOne® brand, telecommunications services, and implementation consulting services. On December 21, 2015, the Company entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Corvisa Services LLC ("Corvisa Services"), a wholly owned subsidiary of the Company, and ShoreTel, Inc. ("ShoreTel"), pursuant to which ShoreTel agreed to purchase all of the membership interests of Corvisa, subject to the terms and conditions under the Purchase Agreement.

The sale of Corvisa was completed on January 6, 2016. The aggregate consideration for the transaction included approximately $8.4 million in cash, subject to a potential post-closing working capital adjustment, of which amount approximately $7.0 million was paid at the closing and the following was deposited in escrow: (i) $1.0 million for a period of twelve months to secure certain indemnification obligations of the Company; and (ii) $0.35 million to secure certain obligations of the Company in connection with the post-closing working capital adjustment. In connection with the closing of this transaction, the Company and ShoreTel also entered into a Transition Services Agreement and an Escrow Agreement.

At ShoreTel’s request, the Company disposed of Corvisa’s third-party software implementation consulting business in December 2015. The Company sold the assets related exclusively to this business, including but not limited to customer contracts, computer hardware and marketing materials, to Canpango LLC (“Canpango”), which agreed to hire certain employees of the business, to assume Corvisa’s obligations under the customer contracts, and to pay to the Company a portion of the business’s existing accounts receivable collected in the next nine months, less associated collection costs. Canpango is led by a former employee of Corvisa, and certain current and former employees of Corvisa have financial interests in Canpango. The sales price, assets and operations related exclusively to this business were not material to the Company’s financial statements when taken as a whole.

With the sale of Corvisa complete, the Company intends to continue its strategy of seeking to acquire operating businesses or make other investments that generate taxable earnings. As of the date the financial statements included in this report are issued, the Company has not yet identified any specific acquisition targets.

On August 18, 2014, the Company sold certain intellectual property, software, and customer data of its subsidiary, Advent Financial Services LLC (“Advent”), to Santa Barbara Tax Products Group, LLC, and announced that it would be conducting an orderly winding-down of the remaining business and operations of Advent; a financial settlement services provider for professional tax preparers nationwide.

On April 16, 2014, the Company and the non-controlling members of StreetLinks LLC ("StreetLinks"), a national residential appraisal and mortgage real estate valuation management services company, entered into a purchase and sale agreement with Assurant Services, LLC, a subsidiary of Assurant, Inc. ("Assurant"), pursuant to which Assurant purchased 100% of the outstanding membership units of StreetLinks.

Prior to 2008, the Company originated, purchased, securitized, sold, invested in and serviced residential nonconforming mortgage loans and mortgage securities. Although those activities have been discontinued, as a result of those activities, the Company acquired and owns mortgage securities that continue to be a source of our cash flow.

Employees

As of December 31, 2015, the Company employed, directly or through subsidiaries, an aggregate of 115 full-time employees. With the sale of Corvisa, this number declined to approximately 18 employees. The Company anticipates further reductions in headcount as the accounting and other administrative services are transitioned to ShoreTel pursuant to the transition services agreement. None of the Company's employees are represented by a union or covered by a collective bargaining agreement.

Additional Information

The Company is a Maryland corporation formed on September 13, 1996 as “CapStar Financial, Inc.” The Company’s name was changed to “NovaStar Financial, Inc.” effective October 11, 1996, and to “Novation Companies, Inc.” effective May 23, 2012. Our corporate executive offices are located at 2114 Central Street, Suite 600, Kansas City, MO 64108. Our telephone number is (816) 237-7000.

Our website address is www.novationcompanies.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our website at www.novationcompanies.com as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. Reports and other information we file with the SEC may also be viewed at the SEC's website at www.sec.gov, or viewed or obtained at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. Our website is not intended to be a part of, nor are we incorporating it by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and notes thereto, before deciding whether to invest in our common stock. Any of these risks, as well as additional risks and uncertainties that we are unaware of, could negatively affect our results of operations, financial condition, liquidity and business prospects, and cause the trading price of our common stock to decline, and cause you to lose all or part of your investment.

Risks Related to our Business

Our success is dependent on our ability to identify and acquire operating businesses or make other investments that generate taxable earnings, which is subject to significant uncertainties and limitations.

With the sale of Corvisa complete, we intend to continue our strategy of seeking to acquire operating businesses or make other investments that generate taxable earnings. There can be no assurances that we will be able to identify or successfully acquire new operating businesses. The process of identifying an acquisition target and negotiating an acquisition may take an extended period of time and could result in significant additional expenditures, such as legal and consulting fees. Our ability to acquire operating businesses is significantly constrained by our likely inability to obtain additional debt financing. Moreover, we may never realize the anticipated benefits of any acquisition, which could significantly harm our results of operations, financial condition and business prospects.

Acquisitions, business combinations and other transactions present integration risk and may have negative consequences for our business and our stockholders.

The process of integrating acquired businesses into the Company may result in unforeseen difficulties, liabilities and costs. Significant management attention and resources are required to integrate any acquired businesses. Difficulties that we encounter in integrating the operations of acquired businesses could significantly harm our results of operations, financial condition and business prospects.

Our ability to use our net operating loss carryforwards and net unrealized built-in losses could be severely limited in the event of certain transfers of our voting securities.

We currently have recorded a significant deferred tax asset, before valuation allowance, almost all of which relates to certain net operating loss carryforwards and net unrealized built-in-losses. While we believe that it is more likely than not that we will not be able to utilize such losses in the future, the net operating loss carryforwards and net unrealized built-in losses could provide significant future tax savings to us if we are able to fully utilize such losses. However, our ability to use these tax benefits may be impacted, restricted or eliminated due to a future “ownership change” within the meaning of Section 382 of the Code. An ownership change could occur that would severely limit our ability to use the tax benefits associated with the net operating loss carryforwards and net unrealized built-in losses, which may result in higher taxable income for us (and a significantly higher tax cost as compared to the situation where these tax benefits are preserved).

We may become subject to the regulation under the Investment Company Act of 1940, which would impose significant responsibilities and restrictions on our ability to do business.

We plan to continue to conduct our business and operations in such a manner as not to be deemed an investment company under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Investment companies are subject to extensive, restrictive and potentially adverse regulations relating to, among other things, operating methods, management, capital structure and transactions with affiliates. An entity may generally be deemed to be an investment company for purposes of the Investment Company Act if (a) it is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities; or (b) absent an applicable exemption, it owns investment securities having a value exceeding 40% of certain assets (the “40% Test”). We do not believe we are primarily engaged in an investment company type business, nor do we propose to primarily engage in such a business. However, as a result of the sale of Corvisa in January 2016, we can no longer definitively conclude that we pass the 40% Test.

We intend to rely on the exemption from investment company status under Rule 3a-2 under the Investment Company Act, which provides that a company is deemed not to be an investment company for up to one year provided that the company has a bona fide intent to be engaged primarily, as soon as is reasonably possible, in a business other than that of an investment company. Accordingly, we intend to continue our strategy of seeking to acquire operating businesses as soon as reasonably possible, or seek to rely on another exemption under the Investment Company Act. This may limit our ability to make certain investments other than the acquisition of operating businesses, or require us to take or forego certain actions, which could otherwise be beneficial to us.

If we are not able to acquire operating businesses during the one-year grace period under Rule 3a-2 or rely on another exemption under the Investment Company Act, we may be required to take certain other actions to comply with the Investment Company Act, which actions may include divesting certain desirable assets immediately or registering as an investment company.

Covenant restrictions under our indebtedness may limit our ability to operate our business.

The indentures governing the senior notes (the "Indentures") we issued on March 22, 2011 (the “Senior Notes”) contain, among other things, covenants that may restrict our and our subsidiaries' ability to finance future operations, capital needs or to engage in other business activities. Without the prior consent of the holders of our Senior Notes, the terms of our Senior Notes and the related Indentures restrict, among other things, our ability and the ability of our subsidiaries to:

- incur indebtedness;
- create certain liens;
- make payments from our subsidiaries to us;
- make payments to our shareholders;
- acquire our outstanding shares, or the shares of our subsidiaries;
- make payments on debt securities *pari passu* or junior to the Senior Notes; and
- merge, consolidate, transfer and/or sell substantially all of our assets.

There can be no assurance that we will be able to receive the consent of the persons holding the Senior Notes should we have a need to take one of the restricted actions, which such limitation may hinder our ability to operate or grow our business in the future.

Loss of key members of our management could disrupt our business.

The loss of certain key members of management could have a material adverse effect on our business, financial condition and results of operations. We may not be able to retain our existing senior management, fill new positions or vacancies created by expansion or turnover or attract additional qualified senior management personnel.

We may not have access to financing on reasonable terms or at all, which may be necessary for us to acquire and operate new businesses.

We do not currently have in place any agreements or commitments for short-term financing nor any agreements or commitments for additional long-term financing. In light of these factors and current market conditions, we may not be able to secure additional financing for a potential acquisition.

Differences in our actual experience compared to the assumptions that we use to determine the value of our residual mortgage securities and to estimate fair values could further adversely affect our financial position.

The Company uses significant unobservable inputs (Level 3 inputs) to estimate the fair value of its residual mortgage securities. Material differences between actual experience and the assumptions used to determine the fair value of these securities may negatively impact our financial condition and results of operations. For example, one significant unobservable input used to determine the fair value of the Company's residual mortgage securities is the prepayment rate for the underlying mortgage loan collateral. If prepayment rates are faster (higher) than our estimates, the value of the securities may decline significantly.

The cash flows from, and value of, our mortgage securities will further decline as the underlying mortgage loan collateral declines.

There are many factors that affect the cash flows from, and value of, our mortgage securities, many of which are beyond our control. In general, the nature of mortgage securities is that as the underlying mortgage loan collateral is repaid or defaults, the cash flows from, and value of, our securities will decline.

Risks Related to our Legacy Businesses

We may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could further harm our liquidity.

When we sold mortgage loans, whether as whole loans or pursuant to a securitization, we made customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our whole loan sale agreements require us to repurchase or substitute mortgage loans in the event we breach any of these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower, broker, or employee fraud. Likewise, we are required to repurchase or substitute mortgage loans if we breach a representation or warranty in connection with our securitizations. We have received various repurchase demands as performance of subprime mortgage loans has deteriorated. A majority of repurchase requests have been denied, otherwise a negotiated purchase price adjustment was agreed upon with the purchaser. Enforcement of repurchase obligations against us would further harm our liquidity.

There can be no assurance that the Company will earn any post-closing consideration under the terms of the StreetLinks sale.

On April 16, 2014, the Company, and the minority owners of StreetLinks, sold StreetLinks LLC to Assurant Services, LLC and Assurant, Inc. A portion of the total sales price of StreetLinks was in the form of an earn-out of up to $12 million dependent on the total revenue of StreetLinks in fiscal 2015 and 2016 (the “Earn-Out”), and subject to adjustment for working capital and the other terms and conditions set forth in the definitive agreement.

Under the Earn-Out, if (a) the total revenue of StreetLinks is $184 million or more for calendar year 2015, then Assurant will pay to all the sellers of StreetLinks an aggregate of $12 million (subject to reduction for certain earned bonus payments to StreetLinks employees); but if not, then (b) if the total revenue of StreetLinks is greater than $167.5 million for the calendar year 2016, Assurant will pay to all the seller’s up to an aggregate of $12 million (subject to reduction for certain earned bonus payments to StreetLinks employees), based on a linear scale where full payment of the $12 million would occur at total revenue of $184 million. At the time of the sale, the Company owned 88% of StreetLinks.

There can be no assurance that the Company will receive any payment under the Earn-Out. Assurant has agreed to act in good faith in conducting the business of StreetLinks and to keep separate records, but generally Novation does not control how Assurant may operate the business of StreetLinks. StreetLinks did not meet the revenue target set for calendar year 2015.

Risks Related to our Capital Stock

There can be no assurance that our common stock will continue to be traded in an active market.

Our common stock currently trades on the OTCQB market of the OTC Markets Group, Inc. Trading of securities on this quotation service is generally limited and is effected on a less regular basis than on exchanges, such as the NYSE, and accordingly investors who own or purchase our stock will find that the liquidity or transferability of the stock may be limited. Additionally, a shareholder may find it more difficult to dispose of, or obtain accurate quotations as to the market value of, our stock. If an active public trading market cannot be sustained, the trading price of our common stock could be adversely affected and the ability of an investor to transfer their shares of our common stock may be limited.

The market price and trading volume of our common stock may be volatile, which could result in substantial losses for our shareholders.

The market price of our capital stock can be highly volatile and subject to wide fluctuations. In addition, the trading volume in our capital stock may fluctuate and cause significant price variations to occur. Investors may experience volatile returns and material losses. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our capital stock include:

- actual or perceived changes in our ability to continue as a going concern;
- actual or anticipated changes in our earnings and cash flow;
- general market and economic conditions, including the operations and stock performance of other industry participants;
- the impact of new state or federal legislation or adverse court decisions;
- actual or anticipated changes in the delinquency and default rates on mortgage loans, in general, and specifically on the loans we invest in through our mortgage securities;
- actual or anticipated changes in financial estimates by securities analysts;
- sales, or the perception that sales could occur, of a substantial number of shares of our common stock by insiders;
- additions or departures of senior management and key personnel; and
- actions by institutional shareholders.

Some provisions of our charter, bylaws, Maryland law and our current shareholder rights plan may deter takeover attempts, which may limit the opportunity of our shareholders to sell their common stock at favorable prices.

Certain provisions of our charter, bylaws, Maryland law, and our current shareholder rights plan could discourage, delay or prevent transactions that involve an actual or threatened change in control, and may make it more difficult for a third party to acquire us, even if doing so may be beneficial to our shareholders. For example, our board of directors is divided into three classes with three year staggered terms of office. This makes it more difficult for a third party to gain control of our board because a majority of directors cannot be elected at a single meeting. Further, under our charter, generally a director may only be removed for cause and only by the affirmative vote of the holders of at least a majority of all classes of shares entitled to vote in the election for directors together as a single class. Our bylaws make it difficult for any person other than management to introduce business at a duly called meeting requiring such other person to follow certain advance notice procedures. Maryland law provides protection for Maryland corporations against unsolicited takeover situations. Finally, we have a shareholder rights plan to protect our net operating loss carryforwards by preventing any shareholder from becoming a 5% shareholder, which may constitute a change in control of the Company.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The executive and administrative offices for the Company are located in Kansas City, Missouri, and consist of approximately 12,000 square feet of leased office space. The Company is also a party to an operating lease for 30,000 square feet of office space in Tampa, Florida. The Company abandoned this operating lease during the fourth quarter of 2014. With the sale of Corvisa, the Company is currently in the process of re-evaluating its current office space needs and assessing its alternatives under its existing operating leases.

Item 3. Legal Proceedings

The Company is a party to various legal proceedings. Except as set forth below, these proceedings are of an ordinary and routine nature.

On May 21, 2008, a purported class action case was filed in the Supreme Court of the State of New York, New York County, by the New Jersey Carpenters' Health Fund, on behalf of itself and all others similarly situated. Defendants in the case included NovaStar Mortgage Funding Corporation (“NMFC”), a wholly-owned subsidiary of the Company, and its individual directors, several securitization trusts sponsored by the Company (“affiliated defendants”) and several unaffiliated investment banks and credit rating agencies. The case was removed to the United States District Court for the Southern District of New York. On June 16, 2009, the plaintiff filed an amended complaint. The plaintiff seeks monetary damages, alleging that the defendants violated sections 11, 12 and 15 of the Securities Act of 1933, as amended, by making allegedly false statements regarding mortgage loans that served as collateral for securities purchased by the plaintiff and the purported class members. On August 31, 2009, the Company filed a motion to dismiss the plaintiff's claims, which the court granted on March 31, 2011, with leave to amend. The plaintiff filed a second amended complaint on May 16, 2011, and the Company again filed a motion to dismiss. On March 29, 2012, the court dismissed the plaintiff's second amended complaint with prejudice and without leave to replead. The plaintiff filed an appeal. On March 1, 2013, the appellate court reversed the judgment of the lower court, which had dismissed the case.

Also, the appellate court vacated the judgment of the lower court which had held that the plaintiff lacked standing, even as a class representative, to sue on behalf of investors in securities in which plaintiff had not invested, and the appellate court remanded the case back to the lower court for further proceedings. On April 23, 2013 the plaintiff filed its memorandum with the lower court seeking a reconsideration of the earlier dismissal of plaintiff's claims as to five offerings in which plaintiff was not invested, and on February 5, 2015 the lower court granted plaintiff's motion for reconsideration and vacated its earlier dismissal. Given the stage of the litigation, the Company cannot provide an estimate of the range of any loss. The Company believes that the affiliated defendants have meritorious defenses to the case and expects them to defend the case vigorously.

On June 20, 2011, the National Credit Union Administration Board, as liquidating agent of U.S. Central Federal Credit Union, filed an action against NMFC and numerous other defendants in the United States District Court for the District of Kansas, claiming that the defendants issued or underwrote residential mortgage-backed securities pursuant to allegedly false or misleading registration statements, prospectuses, and/or prospectus supplements. On August 24, 2012, the plaintiff filed an amended complaint making essentially the same claims against NMFC. NMFC filed a motion to dismiss the amended complaint which was denied on September 12, 2013. The defendants had claimed that the case should be dismissed based upon a statute of limitations and sought an appeal of the court's denial of this defense. An interlocutory appeal of this issue was allowed, and on August 27, 2013, the Tenth Circuit affirmed the lower court’s denial of defendants’ motion to dismiss the plaintiff’s claims as being time barred; the appellate court held that the Extender Statute, 12 U.S.C. §1787(b)(14) applied to plaintiff’s claims. On June 16, 2014, the United States Supreme Court granted a petition of NMFC and its co-defendants for certiorari, vacated the ruling of the Tenth Circuit, and remanded the case back to that court for further consideration in light of the Supreme Court’s decision in CTS Corp. v. Waldburger, 134 S. Ct. 2175 (2014). On August 19, 2014, the Tenth Circuit reaffirmed its prior decision, and on October 2, 2014 the defendants filed a petition for writ of certiorari with the Supreme Court, which was denied. Given the stage of the litigation, the Company cannot provide an estimate of the range of any loss. The Company believes that NMFC has meritorious defenses to the case and expects it to defend the case vigorously.

On February 28, 2013 the Federal Housing Finance Agency, as conservator for the Federal Home Loan Mortgage Corporation (Freddie Mac) and on behalf of the Trustee of the NovaStar Mortgage Funding Trust, Series 2007-1 (the “Trust”), a securitization trust in which the Company retains a residual interest, filed a summons with notice in the Supreme Court of the State of New York, County of New York against the Company and NovaStar Mortgage, Inc. (“NMI”), a wholly-owned subsidiary of the Company. The notice provides that this is a breach of contract action with respect to certain, unspecified mortgage loans and defendant's failure to repurchase such loans under the applicable agreements. Plaintiff alleges that defendants, from the closing date of the transaction that created the Trust, were aware of the breach of the representations and warranties made and failed to notice and cure such breaches, and due to the failure of defendants to cure any breach, notice to defendants would have been futile. The summons with notice was not served until June 28, 2013. By letter dated June 24, 2013, the Trustee of the Trust forwarded a notice from Freddie Mac alleging breaches of representations and warranties with respect to 43 loans, as more fully set forth in included documentation. The 43 loans had an aggregate, original principal balance of about $6.5 million. On August 19, 2013, Deutsche Bank National Trust Company, as Trustee, filed a complaint identifying alleged breaches of representations and warranties with respect to seven loans that were included in the earlier list of 43 loans. Plaintiff also generally alleged a trust-wide breach of representations and warranties by defendants with respect to loans sold and transferred to the trust. Plaintiff seeks specific performance of repurchase obligations; compensatory, consequential, recessionary and equitable damages for breach of contract; specific performance and damages for anticipatory breach of contract; and indemnification (indemnification against NMI only). On October 9, 2013, the Company and NMI filed a motion to dismiss plaintiff’s complaint. This motion to dismiss was withdrawn after plaintiff filed an amended complaint on January 28, 2014, and on March 4, 2014 the Company and NMI filed a motion to dismiss the amended complaint. Given the stage of the litigation, the Company cannot provide an estimate of the range of any loss. The Company believes that it has meritorious defenses to the case and expects to defend the case vigorously.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock currently trades on the OTCQB market of the OTC Markets Group, Inc. under the symbol "NOVC". The following table sets forth the high and low bid prices as reported by this quotation service, for the periods indicated.

	High	Low
2015		
First Quarter	$ 0.35	$ 0.24
Second Quarter	0.42	0.22
Third Quarter	0.32	0.22
Fourth Quarter	0.31	0.12
2014		
First Quarter	$ 0.37	$ 0.23
Second Quarter	0.40	0.24
Third Quarter	0.31	0.23
Fourth Quarter	0.34	0.19

As of February 12, 2016, we had approximately 722 shareholders of record of the Company's common stock. This figure does not represent the actual number of beneficial owners of our common stock because such stock is frequently held in "street name" by securities dealers and others for the benefit of individual owners who may vote the shares.

No dividends were declared during 2015 or 2014, nor do we expect to declare any stock dividend distributions in the near future. The indentures governing the Senior Notes contain certain restrictive covenants which prohibit the Company and its subsidiaries, from among other things, making any cash dividend or distribution to Novation shareholders. Should the restrictions be relieved, dividend distributions will be made at the discretion of the Board of Directors and will depend on earnings, financial condition, cost of equity, investment opportunities and other factors as the Board of Directors may deem relevant.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition and results of operations for the years ended December 31, 2015 and 2014. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and Notes to the Consolidated Financial Statements set forth in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties and that are not historical facts, including statements about our beliefs and expectations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and particularly under the headings "Risk Factors," "Business" and "Forward-Looking Statements" contained in Item 1A, Item 1, and Part I of this Form 10-K, respectively.

Executive Overview

The Management's Discussion and Analysis of Financial Condition and Operating Results ("MD&A") includes the following sections:

- Corporate Overview, Background and Strategy **–** a brief overview of our business, current strategy, and significant recent events.
- Consolidated Results of Operations **–** an analysis of our results of operations for the years ended December 31, 2015 and 2014 as presented in our Consolidated Financial Statements.
- Operating Segment Results of Operations **–** an analysis of our results of operations for the years ended December 31, 2015 and 2014 as presented in our Consolidated Financial Statements for our reporting segments.
- Liquidity and Capital Resources **–** an analysis of our cash flows and financial commitments.
- Critical Accounting Estimates **–** a discussion of our critical accounting estimates, which involve a high degree of judgment or complexity. This section also includes the impact of new accounting standards.

Corporate Overview, Background and Strategy

Our Business

A description of our business is included in Item 1 of this report and is incorporated herein by reference.

Our Strategy

The Company is continuing its strategy of seeking to acquire operating businesses or making other investments that generate taxable earnings. As of the date the financial statements included in this report are issued, the Company has not yet identified any specific acquisition targets.

The key performance measures for executive management are:

- maintaining and/or generating adequate liquidity to sustain us and allow us to take advantage of acquisition opportunities, and
- generating taxable income and long-term value for our shareholders.

The following key performance metrics are derived from our consolidated financial statements for the periods presented and should be read in conjunction with the more detailed information therein and with the disclosure included in this report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Table 1 – Summary of Financial Highlights and Key Performance Metrics (dollars in thousands; except per share amounts)

	December 31,	
	2015	**2014**
Cash and cash equivalents	$ 2,826	$ 3,235
Marketable securities	$ 18,897	$ 43,057
Net (loss) income available to common shareholders, per diluted share	$ (0.32)	$ 0.34

Consolidated Results of Operations

Year ended December 31, 2015 as Compared to the Year Ended December 31, 2014

Service Fee Income and Cost of Services – Transition Services

In connection with the sale of StreetLinks, the Company and Assurant entered into a transition services agreement, pursuant to which the Company agreed to provide ongoing information technology, human resources management and accounting services to StreetLinks for a period of up to eighteen months. The majority of the professional services fees earned by the Company under the transition services agreement during 2014 were attributed to Corvisa Services and Corvisa and have been included in discontinued operations. The remaining $0.2 million of fees included in the service fee income – transition services line item on the consolidated statement of operations represent fees earned for accounting services performed under the transition services agreement. As these services were substantially complete as of December 31, 2014, there were no such fees earned during 2015.

Interest Income – Mortgage Securities

Interest income on mortgage securities decreased to approximately $6.1 million in 2015 from $7.2 million in 2014. Fluctuations in the interest income received from our mortgage portfolio are typically due to factors beyond the Company's control, such as the performance of the underlying loan collateral, prepayment speeds, interest rates, etc. The Company expects interest income and cash flow from these securities to decline as the principal on the underlying loan collateral is paid, written down, or written off.

General and Administrative

General and administrative expenses decreased to approximately $5.7 million in 2015 compared to $8.2 million in 2014. The decrease in general and administrative expenses is due primarily to a decrease in compensation and benefits as a result of the new executive compensation structure enacted for 2015, the resignation of the Company's former Chief Executive Officer, Lance Anderson, during the third quarter of 2015, and the retirement of the Company's former Chief Operating Officer, Steve Haslam, during the third quarter of 2014. The decrease in general and administrative expenses is also due to a reduction in rent expense in 2015 due to the abandonment of an operating lease during the fourth quarter of 2014.

As a result of the Company's recent divestiture activity, the Company is eliminating a significant portion of its remaining employees subsequent to 2015. In addition, the Company is taking steps to reduce other operating and overhead costs, including the reduction in leased office space. Although the anticipated cost savings cannot be quantified at this time, the Company expects a significant reduction in operating costs beginning in the second quarter of 2016 as the accounting and other administrative services performed by the Company on behalf of Corvisa are transitioned to ShoreTel pursuant to the transition services agreement.

Other (Expense) Income

Other (expense) income was not material for any period presented.

Interest Expense

Interest expense is comprised primarily of interest on the Company's senior debt. During 2015, interest expense increased to $3.2 million from $2.9 million in 2014. This increase was driven primarily by an increase in accretion expense associated with the senior debt, as the actual interest expense and related cash payments were materially consistent year over year. See Note 6 to the consolidated financial statements for additional information regarding the Company's borrowings.

Income Tax Benefit

The income tax benefit from continuing operations was not material during 2015. This is due primarily to continued losses from operations and the full valuation allowance against the Company's deferred tax assets. During 2014, the Company recorded an income tax benefit from continuing operations of approximately $1.7 million, which relates primarily to current year operating losses from continuing operations and the utilization of a portion of the Company's deferred tax assets to offset the income tax expense from discontinued operations. See Note 10 to the consolidated financial statements for further details regarding the Company's income tax provision and deferred tax assets.

Liquidity and Capital Resources

As of December 31, 2015, the Company had approximately $2.8 million in unrestricted cash and cash equivalents and $0.6 million of restricted cash, portions of which are included in the other current assets and other assets line items on the consolidated balance sheet. In addition, the Company held approximately $18.9 million in marketable securities, which consist of approximately $16.9 million in corporate notes and bonds with average remaining maturities between six months and 21 months as of December 31, 2015, and approximately $2.0 million in mortgage securities, which contributed approximately $6.3 million in cash flows during 2015. The Company's marketable securities are classified as available-for-sale and are included in the current and non-current marketable securities line items on the consolidated balance sheet as of December 31, 2015. For additional information regarding the Company's marketable securities, see Note 4 to the consolidated financial statements. Additional information regarding the Company's contractual obligations is included in the "Contractual Obligations" section below.

Based on current projections, the Company believes its existing liquid assets, as described above, and the ongoing cash flows from its mortgage securities portfolio will be sufficient to sustain the Company for a period of at least twelve months and enable the Company to effectively implement this strategy. While the Company acknowledges that cash flows from its mortgage securities portfolio can be volatile in nature, the recent performance of these securities suggests that these securities will continue to be a source of cash flows for the near future.

The Company's ongoing contractual obligations subsequent to the sale of Corvisa consist primarily of the Senior Notes and certain operating lease agreements. Additional information regarding these contractual obligations is included in the "Contractual Obligations" section below.

As discussed in Note 7 to the consolidated financial statements set forth in Item 8 of this report, we are also the subject of various legal proceedings, the outcomes of which are uncertain. We may also face demands in the future that are unknown to us today related to our legacy lending and servicing operations.

The Indentures contain restrictive covenants (the “Negative Covenants”) subject to certain exceptions, including receipt of written consent of the holders of the Senior Notes. The Negative Covenants prohibit the Company and its subsidiaries, from among other things, incurring debt, permitting any lien upon any of its property or assets, making any cash dividend or distribution or liquidation payment, acquiring our shares or equity in our subsidiaries, making payment on our debt securities that rank *pari passu* or junior to the Senior Notes, or disposing of any equity interest in certain subsidiaries or all or substantially all of the assets of certain subsidiaries unless certain conditions are met. The Senior Notes accrue interest at a rate of 1.0% per annum until the earlier of (1) the completion of an equity offering by the Company or its subsidiaries that results in proceeds of $40 million or more or (2) January 1, 2016. Thereafter, the Senior Notes will accrue interest at a rate of three-month LIBOR plus 3.5% per annum (the “Full Rate”). Interest on the Senior Notes is paid on a quarterly basis and no principal payments are due until maturity on March 30, 2033. The Negative Covenants remain in effect until both of the following conditions are met: (i) the Senior Notes begin accruing interest at the Full Rate, and (ii) the Company satisfies certain financial covenants (the “Financial Covenants”). Satisfaction of the Financial Covenants requires the Company to demonstrate on a consolidated basis that (1) its Tangible Net Worth is equal to or greater than $40 million, and (2) either (a) the Interest Coverage Ratio is equal to or greater than 1.35x, or (b) the Leverage Ratio is not greater than 95% (each such term as defined in the Indentures). As the Senior Notes were not accruing interest at the Full Rate, the Negative Covenants were still in effect as of December 31, 2015 and 2014. Compliance with the Financial Covenants is required only when the Company seeks to take action prohibited by the Negative Covenants that has not been approved by the holders of the Senior Notes.

With respect to the Company's recent divestiture activity, which is discussed further in Note 3 to the consolidated financial statements, the sale of a subsidiary is not prohibited by the Negative Covenants provided that the sale is at fair market value and the proceeds are reinvested in the Company. As such, the Company was in compliance with all Negative Covenants as of December 31, 2015 and 2014.

Overview of Cash Flow for the Year Ended December 31, 2015

The following table provides a summary of our operating, investing and financing cash flows as taken from our consolidated statements of cash flows for 2015 and 2014.

Table 2 – Summary of Operating, Investing and Financing Cash Flows (dollars in thousands)

	For the Year Ended December 31,	
	2015	**2014**
Consolidated Statements of Cash Flows:		
Cash flows (used in) provided by operating activities of continuing operations	$ (1,742)	$ 5,034
Cash flows provided by investing activities of continuing operations	26,993	15,269
Cash flows used in financing activities of continuing operations	(25,660)	(22,460)

Operating Activities

The decrease in net cash flows from operating activities to approximately $1.7 million used in operating activities during 2015 from approximately $5.0 million provided by operating activities during 2014 is driven primarily by a reduction in collections of amounts due from discontinued operations.

Investing Activities

The increase in the net cash flows provided by investing activities is due primarily to an increase in cash proceeds from the sales and maturities of marketable securities during 2015, coupled with a significant reduction in purchases of marketable securities period over period. This was partially offset by cash proceeds received from the sale of StreetLinks during 2014, as no such proceeds were received during 2015.

Financing Activities

The increase in net cash flows used in financing activities year over year is due primarily to an increase in cash payments for contributions of capital to discontinued operations, which was partially offset by a reduction in cash received from distributions of earnings of discontinued operations.

Contractual Obligations

We have entered into certain long-term debt and lease agreements which obligate us to make future payments to satisfy the related contractual obligations. The following table summarizes the contractual obligations of our continuing operations as of December 31, 2015.

Table 3 – Contractual Obligations (dollars in thousands)

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Senior notes (A)	$ 167,787	$ 3,866	$ 8,271	$ 8,878	$ 146,772
Operating leases	2,087	700	1,200	187	—
Total obligations	$ 169,874	$ 4,566	$ 9,471	$ 9,065	$ 146,772

(A) In computing the future obligations relating to the Senior Notes, interest payments are calculated using an interest rate of 1.0% per annum until January 2016 and the estimated Full Rate thereafter, as based on current forward rate curves. The Senior Notes are assumed to mature in March 2033. The Senior Notes, including the actual interest rates, are described in detail in Note 6 to our consolidated financial statements.

The estimated liability associated with uncertain tax positions of $0.4 million which is included in the other liabilities line item of the noncurrent liabilities section of the consolidated balance sheet as of December 31, 2015, are not included in the table above as the timing of payment cannot be reasonably or reliably estimated.

Critical Accounting Estimates

We prepare our consolidated financial statements in conformity with GAAP and, therefore, are required to make estimates regarding the values of our assets and liabilities and in recording income and expenses. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. These estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented. The following summarizes the components of our consolidated financial statements where understanding accounting policies is critical to understanding and evaluating our reported financial results, especially given the significant estimates used in applying the policies. The discussion is intended to demonstrate the significance of estimates to our financial statements and the related accounting policies. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosure.

Mortgage Securities

Our mortgage securities represent beneficial interests we retained in securitization transactions. The residual securities include interest-only mortgage securities, prepayment penalty bonds and over-collateralization bonds.

The residual securities we retained in securitization transactions structured as sales primarily consist of the right to receive the future cash flows from a pool of securitized mortgage loans which include:

- the interest spread between the coupon net of servicing fees on the underlying loans, the cost of financing, mortgage insurance, payments or receipts on or from derivative contracts and bond administrative costs;
- prepayment penalties received from borrowers who pay off their loans early in their term; and
- overcollateralization which is designed to protect the primary bondholder from credit loss on the underlying loans.

We believe the accounting estimates related to the valuation of our residual securities and establishing the rate of income recognition are “critical accounting estimates” because they can materially affect net income and shareholders’ equity and require us to forecast interest rates, mortgage principal payments, prepayments and loan default assumptions which are highly uncertain and require a large degree of judgment. The rate used to discount the projected cash flows is also critical in the valuation of our residual securities. We use internal, historical collateral performance data and published forward yield curves when modeling future expected cash flows and establishing the rate of income recognized on mortgage securities. We believe the value of our residual securities is appropriate, but can provide no assurance that future changes in interest rates, prepayment and loss experience or changes in the market discount rate will not require write-downs of the residual assets. At each reporting date, the fair value of the residual securities is estimated based on the present value of future expected cash flows to be received. Management’s best estimate of key assumptions, including credit losses, prepayment speeds, expected call dates, market discount rates and forward yield curves commensurate with the risks involved, are used in estimating future cash flows. See Note 8 to the consolidated financial statements for the current fair value of our residual securities.

Income Taxes

In determining the amount of deferred tax assets to recognize in the financial statements, the Company evaluates the likelihood of realizing such benefits in future periods. The income taxes guidance requires the recognition of a valuation allowance if it is more likely than not that all or some portion of the deferred tax asset will not be realized. Income tax guidance indicates the more likely than not threshold is a level of likelihood that is more than 50%.

Under the income tax guidance, companies are required to identify and consider all available evidence, both positive and negative, in determining whether it is more likely than not that all or some portion of its deferred tax assets will not be realized. Positive evidence includes, but is not limited to the following: cumulative earnings in recent years, earnings expected in future years, excess appreciated asset value over the tax basis and positive industry trends. Negative evidence includes, but is not limited to the following: cumulative losses in recent years, losses expected in future years, a history of operating losses or tax credit carryforwards expiring, and adverse industry trends.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is required to counter to support a conclusion that a valuation allowance is not needed for all or some of the deferred tax assets. Cumulative losses in recent years are significant negative evidence that is difficult to overcome when determining the need for a valuation allowance. Similarly, cumulative earnings in recent years represent significant positive objective evidence. If the weight of the positive evidence is sufficient to support a conclusion that it is more likely than not that a deferred tax asset will be realized, a valuation allowance should not be recorded.

The Company examines and weighs all available evidence (both positive and negative and both historical and forecasted) in the process of determining whether it is more likely than not that a deferred tax asset will be realized. The Company considers the relevance of historical and forecasted evidence when there has been a significant change in circumstances. Additionally, the Company evaluates the realization of its recorded deferred tax assets on an interim and annual basis. The Company does not record a full valuation allowance if the weight of the positive evidence exceeds the negative evidence and is sufficient to support a conclusion that it is more likely than not that its deferred tax asset will be realized.

If a valuation allowance is necessary, the Company considers all sources of taxable income in determining the amount of valuation allowance to be recorded. Sources of taxable income identified in the income tax guidance include the following: 1) taxable income in prior carryback year, 2) future reversals of existing taxable temporary differences, 3) future taxable income exclusive of reversing temporary differences and carryforwards, and 4) tax planning strategies.

The Company currently evaluates estimates of uncertainty in income taxes based upon a framework established in the income tax accounting guidance. The guidance prescribes a recognition threshold and measurement standard for the recognition and measurement of tax positions taken or expected to be taken in a tax return. In accordance with the guidance, the Company evaluates whether a tax position will more likely than not be sustained upon examination by the appropriate taxing authority. The Company measures the amount to recognize in its financial statements as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. The recognition and measurement of tax benefits is often judgmental, and determinations regarding the tax benefit can change as additional developments occur relative to the issue.

Impact of Recently Issued Accounting Pronouncements

Information regarding the impact of recently issued accounting pronouncements is included in Note 2 to the consolidated financial statements set forth in Item 8 of this report, which is incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

NOVATION COMPANIES, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Novation Companies, Inc.

We have audited the accompanying consolidated balance sheets of Novation Companies, Inc. a Maryland corporation, and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholders' deficit, and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Novation Companies, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the presentation of deferred income taxes in 2015 and 2014 due to the adoption of FASB Accounting Standards Update No. 2015-17 – *Balance Sheet Classification of Deferred Taxes*.

/s/ GRANT THORNTON LLP

Kansas City, Missouri
February 16, 2016

NOVATION COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	$ 2,826	$ 3,235
Marketable securities, current	17,500	28,410
Other current assets	1,119	966
Current assets of discontinued operations	1,843	5,565
Total current assets	23,288	38,176
Non-Current Assets		
Marketable securities, non-current	1,397	14,647
Property and equipment, net of accumulated depreciation	358	504
Other assets	481	611
Non-current assets of discontinued operations	6,415	7,273
Total non-current assets	8,651	23,035
Total assets	$ 31,939	$ 61,211
Liabilities and Shareholders' Deficit		
Liabilities:		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,453	$ 2,314
Other current liabilities	—	628
Current liabilities of discontinued operations	2,470	3,263
Total current liabilities	3,923	6,205
Non-Current Liabilities		
Senior notes	88,385	85,937
Other liabilities	391	494
Non-current liabilities of discontinued operations	1,833	1,925
Total non-current liabilities	90,609	88,356
Total liabilities	94,532	94,561
Commitments and contingencies (Note 7)		
Shareholders' deficit:		
Capital stock, $0.01 par value per share, 120,000,000 shares authorized:		
Common stock, 92,748,753 shares issued and outstanding	928	915
Additional paid-in capital	744,575	743,919
Accumulated deficit	(809,532)	(780,803)
Accumulated other comprehensive income	1,436	2,619
Total shareholders' deficit	(62,593)	(33,350)
Total liabilities and shareholders' deficit	$ 31,939	$ 61,211

See notes to consolidated financial statements.

NOVATION COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share and per share amounts)

	For the Year Ended December 31,	
	2015	**2014**
Income:		
Service fee income – transition services	$ —	$ 243
Interest income – mortgage securities	6,131	7,192
Total	6,131	7,435
Operating Expenses:		
General and administrative	5,704	8,206
Total	5,704	8,206
Other (expense) income	(27)	84
Interest expense	(3,193)	(2,941)
Loss from continuing operations before income taxes	(2,793)	(3,628)
Income tax benefit	(28)	(1,722)
Net loss from continuing operations	(2,765)	(1,906)
(Loss) income from discontinued operations, net of income taxes	(25,964)	32,845
Net (loss) income	$ (28,729)	$ 30,939
(Loss) Earnings Per Common Share attributable to Novation:		
Basic	$ (0.32)	$ 0.34
Diluted	$ (0.32)	$ 0.34
Weighted average basic common shares outstanding	91,138,068	90,926,211
Weighted average diluted common shares outstanding	91,138,068	90,926,211

See notes to consolidated financial statements.

NOVATION COMPANIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(dollars in thousands)

	For the Year Ended December 31,	
	2015	**2014**
Net (loss) income	$ (28,729)	$ 30,939
Other comprehensive income (loss):		
Change in unrealized gain on marketable securities – available-for-sale	(1,183)	(484)
Total comprehensive income (loss)	$ (29,912)	$ 30,455

See notes to consolidated financial statements.

NOVATION COMPANIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(dollars in thousands, except share amounts)

	Total NCI Shareholders' Deficit					
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Shareholders' Deficit
Balance, December 31, 2014	$ 915	$ 743,919	$ (780,803)	$ 2,619	$ —	$ (33,350)
Issuance of nonvested shares	13	(13)	—	—	—	—
Compensation recognized under stock compensation plans	—	669	—	—	—	669
Net loss	—	—	(28,729)	—	—	(28,729)
Other comprehensive loss	—	—	—	(1,183)	—	(1,183)
Balance, December 31, 2015	$ 928	$ 744,575	$ (809,532)	$ 1,436	$ —	$ (62,593)

Continued

	Total NCI Shareholders' Deficit					
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Shareholders' Deficit
Balance, December 31, 2013	$ 915	$ 739,468	$ (811,742)	$ 3,103	$ 36	$ (68,220)
Compensation recognized under stock compensation plans	—	637	—	—	—	637
Distributions to noncontrolling interests	—	—	—	—	(5)	(5)
Exchange of membership interests for forgiveness of note payable	—	3,814	—	—	107	3,921
Other changes in noncontrolling interests	—	—	—	—	(138)	(138)
Net income	—	—	30,939	—	—	30,939
Other comprehensive loss	—	—	—	(484)	—	(484)
Balance, December 31, 2014	$ 915	$ 743,919	$ (780,803)	$ 2,619	$ —	$ (33,350)

See notes to consolidated financial statements.

Concluded

NOVATION COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Year Ended December 31,	
	2015	**2014**
Cash flows from operating activities:		
Net (loss) income	$ (28,729)	$ 30,939
(Loss) income from discontinued operations, net of income taxes	(25,964)	32,845
Net loss from continuing operations	(2,765)	(1,906)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Accretion of marketable securities, net	(235)	(512)
Amortization of deferred debt issuance costs and senior debt discount	2,448	2,070
Other non-cash losses, net	203	277
Compensation recognized under stock compensation plans	669	637
Depreciation expense	148	249
Deferred taxes	—	(1,498)
Changes in:		
Due from discontinued operations	89	6,609
Other current assets and liabilities, net	(1,346)	500
Other noncurrent assets and liabilities, net	(91)	(603)
Accounts payable and accrued expenses	(862)	(789)
Net cash (used in) provided by operating activities of continuing operations	(1,742)	5,034
Net cash used in operating activities of discontinued operations	(23,005)	(17,332)
Net cash used in operating activities	(24,747)	(12,298)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	26,995	12,085
Proceeds from other investing activities, net	2	—
Proceeds from sale of subsidiary	—	54,748
Purchases of marketable securities	—	(51,379)
Purchases of property and equipment	(4)	(185)
Net cash provided by investing activities of continuing operations	26,993	15,269
Net cash used in investing activities of discontinued operations	(4,490)	(6,253)
Net cash provided by investing activities	22,503	9,016
Cash flows from financing activities:		
Cash payments for contributions of capital to discontinued operations	(25,660)	(23,229)
Cash receipts from distributions of earnings from discontinued operations	—	774
Principal payments under capital leases	—	(5)
Net cash used in financing activities of continuing operations	(25,660)	(22,460)
Net cash provided by financing activities of discontinued operations	25,428	22,129
Net cash used in financing activities	(232)	(331)

Continued

NOVATION COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Year Ended December 31,	
	2015	**2014**
Net decrease in cash and cash equivalents of continuing operations	$ (409)	$ (2,157)
Cash and cash equivalents of continuing operations, beginning of period	3,235	5,392
Cash and cash equivalents of continuing operations, end of period	$ 2,826	$ 3,235
Net decrease in cash and cash equivalents of discontinued operations	$ (2,067)	$ (1,456)
Cash and cash equivalents of discontinued operations, beginning of period	2,419	3,875
Cash and cash equivalents of discontinued operations, end of period	$ 352	$ 2,419

Supplemental Disclosure of Cash Flow Information
(dollars in thousands)

	For the Year Ended December 31,	
	2015	**2014**
Cash paid for interest	$ 871	$ 910
Cash (paid) received from income taxes, net	(708)	48
Cash received on mortgage securities - available-for-sale with no cost basis	5,603	6,479
Non-cash investing and financing activities:		
Exchange of membership interests for forgiveness of note payable	—	3,921

See notes to consolidated financial statements. Concluded

Note 1. Basis of Presentation, Business Plan and Liquidity

Description of Operations. As of December 31, 2015, Novation Companies, Inc. (the “Company” or “Novation” or “we” or “us”) owned 100% of Corvisa LLC ("Corvisa"), a developer and seller of cloud-based communication software under the CorvisaOne® brand, telecommunications services, and implementation consulting services. On December 21, 2015, the Company entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Corvisa Services LLC ("Corvisa Services"), a wholly owned subsidiary of the Company, and ShoreTel, Inc. ("ShoreTel"). Subject to the terms and conditions under the Purchase Agreement, ShoreTel agreed to purchase all of the membership interests of Corvisa. This transaction closed on January 6, 2016. The operations of Corvisa have been classified as discontinued operations for all periods presented.

With the sale of Corvisa, the Company intends to continue its strategy of seeking to acquire operating businesses or making other investments that generate taxable earnings. As of the date the financial statements included in this report are issued, the Company has not yet identified any specific acquisition targets.

With the Company's divestiture of StreetLinks LLC ("StreetLinks") and Advent Financial Services LLC ("Advent") in 2014, both of which are discussed further below, the Company transferred the employees of Corvisa Services and approximately $1.0 million of Corvisa Services' assets to Corvisa during the fourth quarter of 2014. Prior to the transfer, Corvisa Services provided certain IT, procurement, human resources, and other shared services to the Company's portfolio of operating subsidiaries. As a result of these transfers, and in accordance with the relevant accounting guidance on transactions between entities under common control, the operating results of Corvisa Services have been consolidated with the operating results of Corvisa and included in discontinued operations for all periods presented.

On August 18, 2014, the Company sold certain intellectual property, software, and customer data of its subsidiary, Advent Financial Services LLC (“Advent”), to Santa Barbara Tax Products Group, LLC, and announced that it would be conducting an orderly winding-down of the remaining business and operations of Advent; a financial settlement services provider for professional tax preparers nationwide. The operations of Advent have been classified as discontinued operations for all periods presented.

On April 16, 2014, the Company and the non-controlling members of StreetLinks LLC ("StreetLinks"), a national residential appraisal and mortgage real estate valuation management services company, entered into a purchase and sale agreement with Assurant Services, LLC, a subsidiary of Assurant, Inc. ("Assurant"), pursuant to which Assurant purchased 100% of the outstanding membership units of StreetLinks. The operations of StreetLinks have been classified as discontinued operations for all periods presented.

Prior to 2008, we originated, purchased, securitized, sold, invested in and serviced residential nonconforming mortgage loans and mortgage securities. Although those activities have been discontinued, as a result of those activities, we acquired and own mortgage securities that continue to be a source of our cash flow.

See Note 3 to the consolidated financial statements for additional information regarding the Company's divestiture activity.

Liquidity. As of December 31, 2015, the Company had approximately $2.8 million in unrestricted cash and cash equivalents and $0.6 million of restricted cash, portions of which are included in the other current assets and other assets line items on the consolidated balance sheet. In addition, the Company held approximately $18.9 million in marketable securities, which consist of approximately $16.9 million in corporate notes and bonds with average remaining maturities between six months and 21 months as of December 31, 2015, and approximately $2.0 million in mortgage securities, which contributed approximately $6.3 million in cash flows during 2015. The Company's marketable securities are classified as available-for-sale as of December 31, 2015 and are included in the current and non-current marketable securities line items on the consolidated balance sheet as of December 31, 2015. For additional information regarding the Company's marketable securities, see Note 4 to the consolidated financial statements.

Based on current projections, the Company believes its existing liquid assets, as described above, and the ongoing cash flows from its mortgage securities portfolio will be sufficient to sustain the Company for a period of at least twelve months and enable the Company to effectively implement its strategy of seeking to acquire operating businesses or making other investments that generate taxable income. While the Company acknowledges that cash flows from its mortgage securities portfolio can be volatile in nature, the recent performance of these securities would suggest that these securities will continue to be a source of cash flows for the near future.

The Company's ongoing contractual obligations subsequent to the sale of Corvisa consist primarily of its Senior Notes, which are detailed further in Note 6 to the consolidated financial statements, and certain operating lease agreements, which are detailed in Note 7.

Financial Statement Presentation. The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the period. The Company uses estimates and judgments in establishing the fair value of its mortgage securities and accounting for income taxes, including the determination of the timing of the establishment or release of the valuation allowance related to the deferred tax asset balances and reserves for uncertain tax positions. While the consolidated financial statements and footnotes reflect the best estimates and judgments of management at the time, actual results could differ significantly from those estimates.

The consolidated financial statements of the Company include the accounts of all wholly-owned and majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Note 2. Summary of Significant Accounting and Reporting Policies

Cash and Cash Equivalents and Restricted Cash. Cash equivalents consist of liquid investments with an original maturity of three months or less. Cash equivalents are stated at cost, which approximates fair value. Restricted cash includes funds the Company is required to post as cash collateral or transfer to escrow accounts and its release is subject to contractual requirements and time restrictions. The cash may not be released to the Company without the consent of the counterparties, which is generally at their discretion. The cash could also be subject to the indemnification of losses incurred by the counterparties. The Company had approximately $0.6 million of restricted cash as of both December 31, 2015 and 2014, portions of which are included in the other current assets and other assets line items of the consolidated balance sheets. Restricted cash is held primarily in money market funds and time deposits and relates to our legacy mortgage lending activities and lease arrangements. Amounts related to our legacy mortgage lending activities will be released from restriction upon the expiration of the related underlying statute of obligations for surety claims. Amounts related to our lease arrangements will be released from restriction periodically over the term of the lease.

The Company maintains cash balances at several major financial institutions in the United States. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to $250,000. At December 31, 2015, approximately 55% of the Company's cash and cash equivalents, including restricted cash and other short-term depository accounts, were with any one institution. The uninsured balances of the Company's unrestricted cash and cash equivalents, restricted cash and other short-term depository accounts aggregated $2.9 million as of December 31, 2015.

Marketable Securities – Available-for-Sale. Marketable securities are stated at fair value in accordance with the relevant accounting guidance. The Company determines the fair value of its marketable securities based on pricing from our third party service provider and market prices from industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. To the extent observable inputs are not available, as is the case with the Company's mortgage securities – available-for-sale, the Company estimates fair value using significant unobservable inputs (Level 3 inputs). The methods and processes used to estimate the fair value of the Company's mortgage securities are discussed further below.

Mortgage securities – available-for-sale represent beneficial interests the Company retains in securitization transactions which consist of residual interests (the "residual securities") in certain components of the cash flows of the underlying mortgage loans to the securitization trusts. As payments are received on the residual securities, the payments are applied to the cost basis of the related mortgage securities. Each period, the accretable yield for each mortgage security is evaluated and, to the extent there has been a change in the estimated cash flows, it is adjusted and applied prospectively. The accretable yield is recorded as interest income with a corresponding increase to the carrying basis of the mortgage security.

The Company estimates the fair value of its residual securities retained based on the present value of future expected cash flows to be received. Management's best estimate of key assumptions, including credit losses, prepayment speeds, market discount rates and forward yield curves commensurate with the risks involved, are used in estimating future cash flows.

All of the Company's available-for-sale securities are reported at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive income. To the extent the cost basis of these securities exceeds the estimated fair value and the unrealized loss is considered to be other than temporary, an impairment charge is recognized and the amount recorded in accumulated other comprehensive income or loss is reclassified to earnings as a realized loss. The Company uses the specific identification method in computing realized gains or losses.

Earnings Per Share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is calculated assuming all options, nonvested shares and performance-based awards of the Company's common stock have been exercised, unless the exercise would be antidilutive. See Note 9 to the consolidated financial statements for additional details on earnings per share calculation.

Leases. The Company categorizes leases as either operating or capital at the inception of the lease. Certain of the Company's lease agreements provide for scheduled rent increases during the lease term, rent holidays, or other incentives. Rent expense is recognized on a straight-line basis over the term of the lease from the time at which the Company takes possession of the property without regard to deferred payment terms, such as rent holidays. Additionally, incentives received are treated as a reduction of costs over the term of the lease.

Income Taxes. The Company had a gross deferred tax asset of $282.1 million and $269.6 million as of December 31, 2015 and 2014, respectively. In determining the amount of deferred tax assets to recognize in the financial statements, the Company evaluates the likelihood of realizing such benefits in future periods. The income tax guidance requires the recognition of a valuation allowance if it is more likely than not that all or some portion of the deferred tax asset will not be realized. Income tax guidance indicates the more likely than not threshold is a level of likelihood that is more than 50%.

Under the income tax guidance, companies are required to identify and consider all available evidence, both positive and negative, in determining whether it is more likely than not that all or some portion of its deferred tax assets will not be realized. Positive evidence includes, but is not limited to the following: cumulative earnings in recent years, earnings expected in future years, excess appreciated asset value over the tax basis and positive industry trends. Negative evidence includes, but is not limited to the following: cumulative losses in recent years, losses expected in future years, a history of operating losses or tax credit carryforwards expiring, and adverse industry trends.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is required to counter to support a conclusion that a valuation allowance is not needed for all or some of the deferred tax assets. Cumulative losses in recent years are significant negative evidence that is difficult to overcome when determining the need for a valuation allowance. Similarly, cumulative earnings in recent years represent significant positive objective evidence. If the weight of the positive evidence is sufficient to support a conclusion that it is more likely than not that a deferred tax asset will be realized, a valuation allowance should not be recorded.

The Company examines and weighs all available evidence (both positive and negative and both historical and forecasted) in the process of determining whether it is more likely than not that a deferred tax asset will be realized. The Company considers the relevance of historical and forecasted evidence when there has been a significant change in circumstances. Additionally, the Company evaluates the realization of its recorded deferred tax assets on an interim and annual basis. The Company does not record a full valuation allowance if the weight of the positive evidence exceeds the negative evidence and is sufficient to support a conclusion that it is more likely than not that its deferred tax asset will be realized.

If a valuation allowance is necessary, the Company considers all sources of taxable income in determining the amount of valuation allowance to be recorded. Sources of taxable income identified in the income tax guidance include the following: 1) taxable income in prior carryback year, 2) future reversals of existing taxable temporary differences, 3) future taxable income exclusive of reversing temporary differences and carryforwards, and 4) tax planning strategies.

The Company currently evaluates estimates of uncertainty in income taxes based upon a framework established in the income tax accounting guidance. The guidance prescribes a recognition threshold and measurement standard for the recognition and measurement of tax positions taken or expected to be taken in a tax return. In accordance with the guidance, the Company evaluates whether a tax position will more likely than not be sustained upon examination by the appropriate taxing authority. The Company measures the amount to recognize in its financial statements as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. The recognition and measurement of tax benefits is often judgmental, and determinations regarding the tax benefit can change as additional developments occur relative to the issue.

New Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, as part of its simplification initiative (i.e., the Board’s effort to reduce the cost and complexity of certain aspects of U.S. GAAP). The ASU requires entities to present deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as noncurrent in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or noncurrent in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance. For public business entities, the ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the ASU is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for all entities. The Company has elected to early adopt this guidance during the fourth quarter of 2015 and has elected to apply the new presentation retrospectively. The impact to the prior period balance sheet as a result of the retrospective application of this guidance was a decrease in both noncurrent assets and current liabilities of approximately $1.0 million. For additional information regarding the Company's deferred tax assets and liabilities, see Note 10 to the consolidated financial statements.

In January 2015, the FASB issued ASU 2015-1, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates from GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under this ASU, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The ASU is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. Entities may apply the guidance prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted if the guidance is applied as of the beginning of the annual period of adoption. The Company does not expect this guidance to have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. This new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." This ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The Company elected to early adopt this guidance during the fourth quarter of 2015. The adoption of this guidance did not have a significant impact on the Company's financial statements for the years ended December 31, 2015 and 2014.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Compared with current GAAP, this ASU also requires significantly expanded disclosures about revenue recognition. On July 9, 2015 the FASB voted to defer the effective date of this ASU by one year. Early adoption is permitted. However, entities are not allowed to adopt this ASU before the original effective date (that is, annual periods beginning after December 15, 2016). The Company is evaluating the impact of ASU 2014-09 on its consolidated financial statements and related disclosures. Upon completion of the sale of Corvisa, the Company no longer enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. As such, the Company does not currently expect this guidance to have a significant impact on the Company's financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued this ASU to provide more decision-useful information and to make it more difficult for a disposal transaction to qualify as a discontinued operation. This ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The Company adopted the provisions of ASU 2014-08 beginning with the sale of Corvisa.

Note 3. Divestitures

Corvisa LLC (Cloud SaaS Segment)

On December 21, 2015, the Company entered into the Purchase Agreement with Corvisa Services and ShoreTel. Subject to the terms and conditions under the Purchase Agreement, ShoreTel agreed to purchase 100% of the membership interests of Corvisa. The transaction closed on January 6, 2016. The aggregate consideration for the transaction included approximately $8.4 million in cash, subject to a potential post-closing working capital adjustment, of which amount approximately $7.0 million was paid at the closing and the following was deposited in escrow: (i) approximately $1.0 million for a period of twelve months to secure certain indemnification obligations of the Company; and (ii) $0.35 million to secure certain obligations of the Company in connection with the post-closing working capital adjustment.

In connection with the transaction, the Company and ShoreTel also agreed to enter into a Transition Services Agreement pursuant to which each of the Company and ShoreTel would provide the other with specified services for a transition period following the closing. The Company does not expect the cash flows associated with these services to be significant to Corvisa, and the Company will have no significant continuing involvement with Corvisa beyond these services.

During the fourth quarter, the Company incurred approximately $0.8 million in severance and related one-time termination benefits associated with this transaction. Approximately $0.1 million of this expense was included in current liabilities of discontinued operations as of December 31, 2015. Also during the fourth quarter, the Company incurred approximately $0.5

million of legal and audit fees related to this transaction. These costs are included in the loss from discontinued operations line item in the consolidated statement of operations.

The Company anticipates an initial gain on the transaction of approximately $0.8 million, which will be reflected in discontinued operations during the first quarter of 2016. As the release of the amounts deposited in escrow is contingent upon future events and circumstances, such as indemnification claims, the Company will treat these amounts as a gain contingency. As such, no post-closing consideration will be recognized in earnings until the amounts have been released to the Company. Also included in discontinued operations during the first quarter of 2016 will be certain transaction-related costs that were contingent upon the closing of the sale. These costs include approximately $0.3 million of earned bonus payments to a Corvisa executive and approximately $1.0 million of advisory fees. In addition, the closing of this transaction triggered the acceleration of approximately $0.1 million in stock-based compensation expense.

At ShoreTel's request, the Company disposed of Corvisa's third-party software implementation consulting business in December 2015. The Company sold the assets related exclusively to this business, including but not limited to customer contracts, computer hardware and marketing materials, to Canpango LLC ("Canpango"), which agreed to hire certain employees of the business, to assume Corvisa's obligations under the customer contracts, and to pay to the Company a portion of the business's existing accounts receivable collected in the next nine months, less associated collection costs. Canpango is led by a former employee of Corvisa, and certain current and former employees of Corvisa have financial interests in Canpango. The sales price, assets and operations related exclusively to this business were not material to the Company's financial statements when taken as a whole.

Advent Financial Services LLC (Financial Intermediary Segment)

On August 18, 2014, Advent sold certain intellectual property, software, and customer data to Santa Barbara Tax Products Group, LLC, for cash consideration of $1.0 million paid at closing. The transaction resulted in a gain of approximately $0.8 million, which is included in net income from discontinued operations on the consolidated statement of operations.

Also on August 18, 2014, the Company announced that it was conducting an orderly winding-down of Advent's remaining business and operations. As the run-off operations are substantially complete, and as the Company will not have any significant continuing involvement in Advent, the operations of Advent have been classified as discontinued operations for all periods presented.

StreetLinks LLC (Appraisal Management Segment)

Prior to 2013, the Company entered into a Membership Interest Purchase Agreement (the "Unit Purchase Agreement") with its Chief Operating Officer, Mr. Steve Haslam, pursuant to which Mr. Haslam sold 1,927 units in StreetLinks to the Company in exchange for a total purchase price of $6.1 million, payable in quarterly installments. At the time of the original transaction, Mr. Haslam's units represented approximately 5% of the outstanding StreetLinks membership units. On April 16, 2014, the Company and Mr. Haslam agreed to terminate the Unit Purchase Agreement. In full satisfaction of the Company's outstanding obligations under the Unit Purchase Agreement, the Company transferred back to Mr. Haslam 1,218 StreetLinks membership units (approximately 3% of StreetLinks), which represents the portion of the membership units attributable to the $3.9 million in unpaid installment payments and $0.2 million in interest remaining under the Unit Purchase Agreement. The termination of the Unit Purchase Agreement and simultaneous transfer of 1,218 StreetLinks membership units to Mr. Haslam reduced the Company's ownership interest to approximately 88% as of April 16, 2014. In accordance with the relevant accounting guidance, the termination of the Unit Purchase Agreement and simultaneous transfer of ownership interests was treated as an equity transaction, increasing additional paid-in capital and StreetLinks' noncontrolling interest by approximately $3.8 million and $0.1 million, respectively, with no corresponding gain or loss recognized in the consolidated statement of operations.

On April 16, 2014, the Company and non-controlling members of StreetLinks (the "Sellers") entered into a purchase and sale agreement with Assurant, pursuant to which Assurant purchased 100% of the outstanding membership units of StreetLinks in exchange for $60.0 million paid in cash at closing and up to $12.0 million in post-closing consideration contingent upon the total revenue of StreetLinks in fiscal years 2015 and 2016. The Company received approximately $53.9 million in cash proceeds at closing, of which $1.0 million was used to make certain earned bonus payments to three StreetLinks executives. Subsequent to closing, the Company received an additional $0.8 million relating to adjustments for working capital. The transaction resulted in a gain of approximately $48.2 million during 2014, which is included in the income (loss) from discontinued operations, net of income taxes line item on the consolidated statement of operations. Also included in the income (loss) from discontinued operations, net of income taxes line for 2014 are approximately $1.8 million of transaction-related expenses, such as legal and consulting fees.

The post-closing consideration provides for payment if (1) the total revenue of StreetLinks is $184 million or more for calendar year 2015, Assurant shall pay to the Sellers an aggregate of $12.0 million; but if not, then (2) if the total revenue of StreetLinks is greater than $167.5 million for the calendar year 2016, Assurant shall pay to Sellers up to an aggregate of $12.0 million, based on a linear scale where full payment of the $12.0 million would occur at total revenue of $184 million. The post-closing consideration will be reduced for certain earned bonus payments to three StreetLinks executives of $2.0 million if the maximum post-closing consideration is earned and otherwise prorated based on the same linear scale. There can be no assurance that the Company will receive any post-closing consideration. Assurant has agreed to act in good faith in conducting the business of StreetLinks and to keep separate records, but generally the Company does not control how Assurant may operate the business of StreetLinks. In accordance with the relevant accounting guidance, the post-closing consideration will be treated as a gain contingency. As such, no post-closing consideration will be recognized in earnings until the contingency is resolved. StreetLinks did not meet the revenue target set for calendar year 2015.

In connection with the sale, the Company and Assurant also entered into a transition services agreement, pursuant to which the Company provided ongoing information technology, human resources management and accounting services to StreetLinks. The cash flows related to these services were not significant to StreetLinks. The Company has had no significant continuing involvement with StreetLinks beyond these services. The agreed-upon professional services were substantially complete as of December 31, 2014. The majority of the professional services fees earned by the Company under the transition services agreement during 2014 were attributed to Corvisa Services and Corvisa and have been included in discontinued operations. The fees remaining in the service fee income – transition services line item on the consolidated statement of operations represent fees earned for accounting services performed under the transition services agreement.

The Company has also executed a Non-Competition, Non-Solicitation and Non-Disclosure Agreement with StreetLinks providing that Novation is prohibited from competing in the real estate appraisal management or valuation services business through April 2018.

Results of Discontinued Operations

For 2015, net income from discontinued operations consists of the net operating income and losses of the disposed entities and any necessary eliminations and income tax expense. For 2014, net income from discontinued operations consists of the net operating income and losses of the disposed entities and any necessary eliminations through the date of sale or disposal, the gain on the sale of StreetLinks and any transaction-related expenses, income tax expense, and the gain on the sale of Advent intellectual property.

The results of the Company's discontinued operations are summarized below (dollars in thousands):

	For the Year Ended December 31,	
	2015	**2014**
Service fee income	$ 3,254	$ 42,651
Income from discontinued operations before income taxes	$ (25,964)	$ 34,894
Income tax expense	—	2,049
Income from discontinued operations, net of income taxes	$ (25,964)	$ 32,845

The assets and liabilities of discontinued operations as of December 31, 2015 and 2014 are comprised of the assets and liabilities of Advent and Corvisa. The major classes of assets and liabilities of discontinued operations as of December 31, 2015 and 2014 are detailed below (dollars in thousands).

	December 31, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	$ 352	$ 2,419
Service fee receivable, net	282	729
Marketable securities, current	—	1,405
Other current assets	1,209	1,012
Total current assets	1,843	5,565
Non-Current Assets		
Property and equipment, net of accumulated depreciation	5,708	5,128
Marketable securities, noncurrent	—	1,365
Other assets	707	780
Total non-current assets	6,415	7,273
Total assets	$ 8,258	$ 12,838
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,159	$ 2,949
Other current liabilities	311	314
Total current liabilities	2,470	3,263
Non-Current Liabilities		
Other liabilities	1,833	1,925
Total non-current liabilities	1,833	1,925
Total liabilities	$ 4,303	$ 5,188

Note 4. Marketable Securities

The following table presents certain information on the Company's portfolio of available-for-sale securities as of December 31, 2015 and 2014 (dollars in thousands):

	As of December 31, 2015			
Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable securities, current				
Corporate notes and bonds	$ 15,517	$ —	$ (28)	$ 15,489
Mortgage securities	525	1,486	—	2,011
Total	16,042	1,486	(28)	17,500
Marketable securities, non-current				
Corporate notes and bonds	1,419	—	(22)	1,397
Total	$ 1,419	$ —	$ (22)	$ 1,397

	As of December 31, 2014			
Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable securities, current				
Corporate notes and bonds	$ 23,056	$ —	$ (25)	$ 23,031
Commercial paper	1,998	—	—	1,998
Mortgage securities	682	2,699	—	3,381
Total	25,736	2,699	(25)	28,410
Marketable securities, non-current				
Corporate notes and bonds	13,694	—	(45)	13,649
Agency securities	1,000	—	(2)	998
Total	$ 14,694	$ —	$ (47)	$ 14,647

Prior to 2008, the Company originated, purchased, securitized, sold, invested in and serviced residential nonconforming mortgage loans and mortgage securities. As a result of those activities, we acquired mortgage securities that continue to be a source of our earnings and cash flow. As of December 31, 2015 and 2014, these mortgage securities consisted entirely of the Company's investment in the residual securities issued by securitization trusts sponsored by the Company. Residual securities consist of interest-only, prepayment penalty and overcollateralization bonds.

There were no other-than-temporary impairments relating to available-for-sale securities for 2015 and 2014. The average remaining maturities of the Company’s short-term and long-term available-for-sale investments as of December 31, 2015 were approximately six and 21 months, respectively. Maturities of mortgage securities owned by the Company depend on repayment characteristics and experience of the underlying financial instruments. See Note 8 to the consolidated financial statements for details on the Company's fair value methodology.

The following table relates to the securitizations where the Company retained an interest in the assets issued by the securitization trust (dollars in thousands):

	Size/ Principal Outstanding (A)	Assets on Balance Sheet (B)	Liabilities on Balance Sheet	Maximum Exposure to Loss(C)	Year to Date Loss on Sale	Year to Date Cash Flows
December 31, 2015	$ 3,601,468	$ 2,011	$ —	$ 2,011	$ —	$ 6,287
December 31, 2014	$ 4,062,068	$ 3,381	$ —	$ 3,381	$ —	$ 7,136

(A) Size/Principal Outstanding reflects the estimated principal of the underlying assets held by the securitization trust.
(B) Assets on balance sheet are securities issued by the entity and are recorded in the current marketable securities line item of the consolidated balance sheets.
(C) The maximum exposure to loss includes the assets held by the Company. The maximum exposure to loss assumes a total loss on the referenced assets held by the securitization trust.

Note 5. Property and Equipment, Net

All of the Company's property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of the Company's property and equipment are the lesser of 5 years or remaining lease term for leasehold improvements, 5 years for furniture and fixtures, 3 to 5 years for office and computer equipment, and 1 to 3 years for software.

Maintenance and repairs are charged to expense. Major renewals and improvements are capitalized. Gains and losses on dispositions are credited or charged to earnings as incurred. Depreciation and amortization expense relating to property and equipment was $0.1 million and $0.2 million for 2015 and 2014, respectively.

The following table shows the Company's property and equipment, net as of December 31, 2015 and 2014 (dollars in thousands):

	December 31, 2015	December 31, 2014
Furniture, fixtures and office equipment	$ 314	$ 318
Hardware and computer equipment	157	519
Software	547	580
Leasehold improvements	402	402
Total Cost	1,420	1,819
Less: Accumulated depreciation and amortization	(1,062)	(1,315)
Property and equipment, net	$ 358	$ 504

Note 6. Borrowings

Senior Notes. The Company has outstanding unsecured senior notes (collectively, the “Senior Notes”) pursuant to three indentures (collectively, the "Indentures") with an aggregate principal balance of $85.9 million. The Senior Notes were created through an exchange of the Company's previously outstanding junior subordinated notes that occurred prior to 2012. This exchange was considered a modification of a debt instrument for accounting purposes, and therefore the Company uses the effective interest method to accrete from the existing balance as of the modification date to $88.4 million and $85.9 million as of December 31, 2015 and 2014, respectively. Under the effective interest method, significant changes in the rate at which a debt instrument accrues interest over its term can result in a recorded balance in excess of the aggregate principal balance of the debt instrument.

The Senior Notes accrue interest at a rate of 1.0% per annum until the earlier of (1) the completion of an equity offering by the Company or its subsidiaries that results in proceeds of $40 million or more or (2) January 1, 2016. Thereafter, the Senior Notes will accrue interest at a rate of three-month LIBOR plus 3.5% per annum (the “Full Rate”). Interest on the Senior Notes is paid on a quarterly basis and no principal payments are due until maturity on March 30, 2033.

The Indentures governing the Senior Notes contain certain restrictive covenants (the “Negative Covenants”) subject to certain exceptions in the Indentures, including written consent of the holders of the Senior Notes. The Negative Covenants prohibit the Company and its subsidiaries, from among other things, incurring debt, permitting any lien upon any of its property or assets, making any cash dividend or distribution or liquidation payment, acquiring shares of the Company or its subsidiaries, making payment on debt securities of the Company that rank *pari passu* or junior to the Senior Notes, or disposing of any equity interest in certain subsidiaries or all or substantially all of the assets of certain subsidiaries unless certain conditions are met. The Negative Covenants remain in effect until both of the following conditions are met: (i) the Senior Notes begin accruing interest at the Full Rate, and (ii) the Company satisfies certain financial covenants (the “Financial Covenants”). Satisfaction of the Financial Covenants requires the Company to demonstrate on a consolidated basis that (1) its Tangible Net Worth is equal to or greater than $40 million, and (2) either (a) the Interest Coverage Ratio is equal to or greater than 1.35x, or (b) the Leverage Ratio is not greater than 95% (each such term as defined in the Indentures). As the Senior Notes were not accruing interest at the Full Rate, the Negative Covenants, as defined above, were still in effect as of December 31, 2015 and 2014. Compliance with the Financial Covenants is required only when the Company seeks to take action prohibited by the Negative Covenants that has not been approved by the holders of the Senior Notes.

With respect to the Company's recent divestiture activity, which is discussed further in Note 3 to the consolidated financial statements, the sale of a subsidiary is not prohibited by the Negative Covenants provided that the sale is at fair market value and the proceeds are reinvested in the Company. As such, the Company was in compliance with the Negative Covenants as of December 31, 2015 and 2014.

Note 7. Commitments and Contingencies

Commitments. In September 2014, Steve Haslam, who was then Senior Vice President and Chief Operating Officer of the Company, announced that, in lieu of accepting a new role with the Company and relocating, he was retiring from the Company effective October 1, 2014. Pursuant to the terms of his Employment Agreement dated March 8, 2012, Mr. Haslam elected to terminate his employment for "Good Reason" in connection with the new position and relocation offered to him. In addition to accrued but unpaid salary and other benefits, Mr. Haslam was paid $0.4 million in severance from the date of termination through October 1, 2015. The full amount of Mr. Haslam's severance was charged to income from continuing operations during the third quarter of 2014 in accordance with the relevant accounting guidance. As of December 31, 2014, the remaining severance obligation of approximately $0.3 million was included in accounts payable and accrued expenses. There was no such accrual as of December 31, 2015, as the obligation had been paid in its entirety.

The Company leases office space under various operating lease agreements, most of which contain renewal options and include escalating rents over the lease term. Rent expense for 2015 and 2014 aggregated $0.3 million and $1.1 million, respectively. The decrease in rent expense from 2014 to 2015 is due primarily to the abandonment of an operating lease during the fourth quarter of 2014. At December 31, 2015, future minimum lease commitments under those leases for the next five years are as follows (dollars in thousands):

	Lease Obligations
2015	$ 700
2016	722
2017	478
2018	187
2019	—
	$ 2,087

Contingencies. Prior to 2008, the Company originated, purchased, securitized, sold, invested in and serviced residential nonconforming mortgage loans and mortgage securities. The Company has received indemnification and loan repurchase demands with respect to alleged violations of representations and warranties ("defects") and with respect to other alleged misrepresentations and contractual commitments made in loan sale and securitization agreements. These demands have been received substantially beginning in 2006 and have continued into recent years. Prior to the Company ceasing the origination of loans in its mortgage lending business, it sold loans to securitization trusts and other third parties and agreed to repurchase loans with material defects and to otherwise indemnify parties to these transactions. Beginning in 1997 and ending in 2007, affiliates of the Company sold loans to securitization trusts and third parties with the potential of such obligations. The aggregate original principal balance of these loans was $43.1 billion at the time of sale or securitization. The remaining principal balance of these loans is not available as these loans are serviced by third parties and may have been refinanced, sold or liquidated. Claims to repurchase loans or to indemnify under securitization documents have not been acknowledged as valid by the Company. In some cases, claims were made against affiliates of the Company that have ceased operations and have no or limited assets. The Company has not repurchased any loans or made any such indemnification payments since 2010.

Historically, repurchases of loans or indemnification of losses where a loan defect has been alleged have been insignificant and any future losses for alleged loan defects have not been deemed to be probable or reasonably estimable; therefore, the Company has recorded no reserves related to these claims. The Company does not use internal groupings for purposes of determining the status of these loans. The Company is unable to develop an estimate of the maximum potential amount of future payments related to repurchase demands because the Company does not have access to information relating to loans sold and securitized and the number or amount of claims deemed probable of assertion is not known nor is it reasonably estimated. Further, the validity of claims received remains questionable. Also, considering that the Company completed its last sale or securitization of loans during 2007, the Company believes that it will be difficult for a claimant to successfully validate any additional repurchase demands. Management does not expect that the potential impact of claims will be material to the Company's financial statements.

Pending Litigation. The Company is a party to various legal proceedings. Except as set forth below, these proceedings are of an ordinary and routine nature. Any legal fees associated with these proceedings are expensed as incurred.

Although it is not possible to predict the outcome of any legal proceeding, in the opinion of management, other than the active proceedings described in detail below, proceedings and actions against the Company should not, individually, or in the aggregate, have a material effect on the Company's financial condition, operations and liquidity. Furthermore, due to the uncertainty of any potential loss as a result of pending litigation and due to the Company's belief that an adverse ruling is not probable, the Company has not accrued a loss contingency related to the following matters in its consolidated financial statements. However, a material outcome in one or more of the active proceedings described below could have a material impact on the results of operations in a particular quarter or fiscal year.

On May 21, 2008, a purported class action case was filed in the Supreme Court of the State of New York, New York County, by the New Jersey Carpenters' Health Fund, on behalf of itself and all others similarly situated. Defendants in the case included NovaStar Mortgage Funding Corporation (“NMFC”), a wholly-owned subsidiary of the Company, and its individual directors, several securitization trusts sponsored by the Company (“affiliated defendants”) and several unaffiliated investment banks and credit rating agencies. The case was removed to the United States District Court for the Southern District of New York. On June 16, 2009, the plaintiff filed an amended complaint. The plaintiff seeks monetary damages, alleging that the defendants violated sections 11, 12 and 15 of the Securities Act of 1933, as amended, by making allegedly false statements regarding mortgage loans that served as collateral for securities purchased by the plaintiff and the purported class members. On August 31, 2009, the Company filed a motion to dismiss the plaintiff's claims, which the court granted on March 31, 2011, with leave to amend. The plaintiff filed a second amended complaint on May 16, 2011, and the Company again filed a motion to dismiss. On March 29, 2012, the court dismissed the plaintiff's second amended complaint with prejudice and without leave to replead. The plaintiff filed an appeal. On March 1, 2013, the appellate court reversed the judgment of the lower court, which had dismissed the case. Also, the appellate court vacated the judgment of the lower court which had held that the plaintiff lacked standing, even as a class representative, to sue on behalf of investors in securities in which plaintiff had not invested, and the appellate court remanded the case back to the lower court for further proceedings. On April 23, 2013 the plaintiff filed its memorandum with the lower court seeking a reconsideration of the earlier dismissal of plaintiff's claims as to five offerings in which plaintiff was not invested, and on February 5, 2015 the lower court granted plaintiff's motion for reconsideration and vacated its earlier dismissal. Given the stage of the litigation, the Company cannot provide an estimate of the range of any loss. The Company believes that the affiliated defendants have meritorious defenses to the case and expects them to defend the case vigorously.

On June 20, 2011, the National Credit Union Administration Board, as liquidating agent of U.S. Central Federal Credit Union, filed an action against NMFC and numerous other defendants in the United States District Court for the District of Kansas, claiming that the defendants issued or underwrote residential mortgage-backed securities pursuant to allegedly false or misleading registration statements, prospectuses, and/or prospectus supplements. On August 24, 2012, the plaintiff filed an amended complaint making essentially the same claims against NMFC. NMFC filed a motion to dismiss the amended complaint which was denied on September 12, 2013. The defendants had claimed that the case should be dismissed based upon a statute of limitations and sought an appeal of the court's denial of this defense. An interlocutory appeal of this issue was allowed, and on August 27, 2013, the Tenth Circuit affirmed the lower court’s denial of defendants’ motion to dismiss the plaintiff’s claims as being time barred; the appellate court held that the Extender Statute, 12 U.S.C. §1787(b)(14) applied to plaintiff’s claims. On June 16, 2014, the United States Supreme Court granted a petition of NMFC and its co-defendants for certiorari, vacated the ruling of the Tenth Circuit, and remanded the case back to that court for further consideration in light of the Supreme Court’s decision in CTS Corp. v. Waldburger, 134 S. Ct. 2175 (2014). On August 19, 2014, the Tenth Circuit reaffirmed its prior decision, and on October 2, 2014 the defendants filed a petition for writ of certiorari with the Supreme Court, which was denied. Given the stage of the litigation, the Company cannot provide an estimate of the range of any loss. The Company believes that NMFC has meritorious defenses to the case and expects it to defend the case vigorously.

On February 28, 2013 the Federal Housing Finance Agency, as conservator for the Federal Home Loan Mortgage Corporation (Freddie Mac) and on behalf of the Trustee of the NovaStar Mortgage Funding Trust, Series 2007-1 (the “Trust”), a securitization trust in which the Company retains a residual interest, filed a summons with notice in the Supreme Court of the State of New York, County of New York against the Company and NovaStar Mortgage, Inc. (“NMI”), a wholly-owned subsidiary of the Company. The notice provides that this is a breach of contract action with respect to certain, unspecified mortgage loans and defendant's failure to repurchase such loans under the applicable agreements. Plaintiff alleges that defendants, from the closing date of the transaction that created the Trust, were aware of the breach of the representations and warranties made and failed to notice and cure such breaches, and due to the failure of defendants to cure any breach, notice to defendants would have been futile. The summons with notice was not served until June 28, 2013. By letter dated June 24, 2013, the Trustee of the Trust forwarded a notice from Freddie Mac alleging breaches of representations and warranties with respect to 43 loans, as more fully set forth in included documentation. The 43 loans had an aggregate, original principal balance of about $6.5 million. On August 19, 2013, Deutsche Bank National Trust Company, as Trustee, filed a complaint identifying alleged breaches of representations and warranties with respect to seven loans that were included in the earlier list of 43 loans. Plaintiff also generally alleged a trust-wide breach of representations and warranties by defendants with respect to loans sold and transferred to the trust. Plaintiff seeks specific performance of repurchase obligations; compensatory, consequential, recessionary and equitable damages for breach of contract; specific performance and damages for anticipatory breach of contract; and indemnification (indemnification against NMI only). On October 9, 2013, the Company and NMI filed a motion to dismiss plaintiff’s complaint. This motion to dismiss was withdrawn after plaintiff filed an amended complaint on January 28, 2014, and on March 4, 2014 the Company and NMI filed a motion to dismiss the amended complaint. Given the stage of the litigation, the Company cannot provide an estimate of the range of any loss. The Company believes that it has meritorious defenses to the case and expects to defend the case vigorously.

Note 8. Fair Value Accounting

Fair Value Measurements

The Company's valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Valuations based on quoted prices in active markets for *identical* assets and liabilities.
- Level 2 – Valuations based on observable inputs in active markets for *similar* assets and liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates.
- Level 3 – Valuations based on significant unobservable inputs that are supported by little or no market activity, such as discounted cash flow methodologies based on internal cash flow forecasts.

The following tables present for each of the fair value hierarchy levels, the Company's assets and liabilities which are measured at fair value on a recurring basis as of December 31, 2015 and 2014 (dollars in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	**Fair Value at December 31, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents:				
Cash	$ 1,674	$ 1,674	$ —	$ —
Money market funds	1,152	1,152	—	—
Marketable securities, current:				
Corporate notes and bonds	15,489	—	15,489	—
Mortgage securities	2,011	—	—	2,011
Marketable securities, non-current:				
Corporate notes and bonds	1,397	—	1,397	—
Total	$ 21,723	$ 2,826	$ 16,886	$ 2,011

		Fair Value Measurements at Reporting Date Using		
Description	**Fair Value at December 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents:				
Cash	$ 2,354	$ 2,354	$ —	$ —
Money market funds	881	881	—	—
Marketable securities, current:				
Corporate notes and bonds	23,031	—	23,031	—
Commercial paper	1,998	—	1,998	—
Mortgage securities	3,381	—	—	3,381
Marketable securities, non-current:				
Corporate notes and bonds	13,649	—	13,649	—
Agency securities	998	—	998	—
Total	$ 46,292	$ 3,235	$ 39,676	$ 3,381

Valuation Methods and Processes

The Company determines the fair value of its cash equivalents and marketable securities based on pricing from our service provider and market prices from industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures.

To the extent observable inputs are not available, as is the case with the Company's mortgage securities, the Company estimates fair value using present value techniques and generally does not have the option to choose other valuation methods for these securities. The methods and processes used to estimate the fair value of the Company's mortgage securities are discussed further below. There have been no significant changes to the Company's valuation techniques during 2014. Accordingly, there have been no material changes to the financial statements resulting from changes to our valuation techniques.

The Company's marketable securities are classified as available-for-sale and are reported at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive income. To the extent that the cost basis of the Company's marketable securities exceeds the fair value and the unrealized loss is considered to be other than temporary, an impairment charge is recognized and the amount recorded in accumulated other comprehensive income or loss is reclassified to earnings as a realized loss. The specific identification method is used in computing realized gains or losses.

Mortgage securities - available-for-sale. As discussed above and in Note 4 to the consolidated financial statements, the Company's mortgage securities – available-for-sale, are measured at fair value. These securities are valued at each reporting date using significant unobservable inputs (Level 3) by discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment.

The Company uses the discount rate methodology for determining the fair value of its residual securities. The fair value of the residual securities is estimated based on the present value of future expected cash flows to be received. Management's best estimate of key assumptions, including credit losses, prepayment speeds, forward yield curves and discount rates commensurate with the risks involved, are used in estimating future cash flows.

An independent entity has been engaged to prepare projected future cash flows of the Company's mortgage securities for each reporting period (quarterly) used by management to estimate fair value. The Company's internal finance and accounting staff reviews and monitors the work of the independent entity, including an analysis of the assumptions used, retrospective review of prior period assumptions, and preparation of an overall conclusion regarding the value and valuation process. All other fair value analysis, consisting of simple cash flow estimates and discounting techniques, is conducted internally by the Company's internal financial staff. The Company's fair value process is conducted under the supervision of the Chief Financial Officer.

The following table presents certain quantitative information about the significant unobservable inputs used in the fair value measurement for items measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Description	Valuation Techniques	Significant Unobservable Inputs	Range
Assets:			
Mortgage securities – available-for-sale	Present value analysis	Prepayment rates	8.0% – 11.5%
		Weighted average life (years)	2.0

The significant unobservable inputs used in the fair value measurement of mortgage securities – available-for-sale are prepayment rates and the weighted average life for the underlying mortgage loan collateral. Using a faster (higher) estimated prepayment rate would decrease the value of the securities. The Company uses a weighted average life of 2 years from the reporting date for the expected future estimated cash flows. The future cash flows are highly-dependent upon the performance of the underlying collateral of mortgage loans. The nonperformance risk associated with the collateral is the key reason the Company utilizes such a short weighted average life in its calculation. Assuming a shorter weighted average life would decrease the estimated value of the mortgage securities. Alternatively, assuming a longer weighted average life would increase the estimated value of the mortgage securities.

The following table provides a reconciliation of the beginning and ending balances for the Company's mortgage securities – available-for-sale which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2015 and 2014 (dollars in thousands):

	For the Year Ended December 31,	
	2015	2014
Balance, beginning of period	$ 3,381	$ 3,728
Increases (decreases) to mortgage securities – available-for-sale:		
Accretion of income (A)	528	713
Proceeds from paydowns of securities (A)	(685)	(656)
Mark-to-market value adjustment	(1,213)	(404)
Net increases (decreases) to mortgage securities – available-for-sale	(1,370)	(347)
Balance, end of period	$ 2,011	$ 3,381

(A) Cash received on mortgage securities with no cost basis was $5.6 million and $6.5 million for 2015 and 2014, respectively.

Adjustments to assets and liabilities measured at fair value on a recurring and nonrecurring basis did not have a material impact on the earnings of continuing operations for any period presented.

The following disclosure of the estimated fair value of financial instruments presents amounts that have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimation methodologies could have a material impact on the estimated fair value amounts. The fair value of short-term financial assets and liabilities, such as service fees receivable, notes receivable, and accounts payable and accrued expenses are not included in the following table as their fair value approximates their carrying value.

The estimated fair values of the Company's financial instruments are as follows as of December 31, 2015 and 2014 (dollars in thousands):

	As of December 31, 2015		As of December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Restricted cash	$ 598	$ 435	$ 597	$ 450
Marketable securities	18,897	18,897	43,057	43,057
Financial liabilities:				
Senior notes	$ 88,385	$ 18,331	$ 85,937	$ 15,189

For the items in the table above not measured at fair value in the statement of financial position but for which the fair value is disclosed, the fair value has been estimated using Level 3 methodologies, based on significant unobservable inputs that are supported by little or no market activity, such as discounted cash flow calculations based on internal cash flow forecasts. No assets or liabilities have been transferred between levels during any period presented.

Restricted cash. The fair value of restricted cash was estimated by discounting estimated future releases of the cash from restriction.

Senior notes. The fair value is estimated by discounting future projected cash flows using a discount rate commensurate with the risks involved. The value of the Senior Notes was calculated assuming that the Company would be required to pay interest at a rate of 1.0% per annum until January 2016, at which time the Company would be required to start paying the Full Rate of three-month LIBOR plus 3.5% until maturity in March 2033. The three-month LIBOR used in the analysis was projected using a forward interest rate curve.

Note 9. Earnings Per Share

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share include the effect of conversions of stock options and nonvested shares. The computations of basic and diluted earnings per share for 2015 and 2014 (dollars in thousands, except share and per share amounts) are as follows:

	For the Year Ended December 31,	
	2015	2014
Numerator:		
Net loss from continuing operations	$ (2,765)	$ (1,906)
(Loss) Income from discontinued operations	(25,964)	32,845
Net (loss) income	$ (28,729)	$ 30,939
Denominator:		
Weighted average common shares outstanding – basic	91,138,068	90,926,211
Weighted average common shares outstanding – diluted:		
Weighted average common shares outstanding – basic	91,138,068	90,926,211
Stock options	—	—
Nonvested shares	—	—
Weighted average common shares outstanding – diluted	91,138,068	90,926,211
Basic earnings per share:		
Net loss from continuing operations	$ (0.03)	$ (0.02)
(Loss) Income from discontinued operations	(0.29)	0.36
Net (loss) income	$ (0.32)	$ 0.34
Diluted earnings per share:		
Net loss from continuing operations	$ (0.03)	$ (0.02)
(Loss) Income from discontinued operations	(0.29)	0.36
Net (loss) income	$ (0.32)	$ 0.34

The following weighted-average stock options to purchase shares of Common Stock were outstanding during each period presented, but were not included in the computation of diluted earnings (loss) per share because the number of shares assumed to be repurchased, as calculated was greater than the number of shares to be obtained upon exercise, therefore, the effect would be antidilutive (in thousands, except exercise prices):

	For the Year Ended December 31,	
	2015	2014
Number of stock options	10,549	9,859
Weighted average exercise price of stock options	$ 0.62	$ 0.66

During 2015, the Company granted approximately 1.4 million options to purchase shares of common stock at a weighted average exercise price of $0.51. The weighted average impact of approximately 0.7 million of the options granted during 2015 is included in the table above for 2015.

During 2014, the Company granted 3.7 million options to purchase shares of common stock at a weighted average exercise price of $0.51. The weighted average impact of approximately 1.6 million of the options granted during 2014 is included in the table above for 2014.

During 2015 the Company granted approximately 1.3 million nonvested shares to its non-employee directors. These shares vest one year from the date of grant. The weighted average impact of approximately 0.5 million of the nonvested shares granted during the current year were not included in the calculation of earnings per share for 2015, because they were anti-dilutive.

As of December 31, 2015 and 2014, respectively, the Company had approximately 1.4 million and 0.5 million nonvested shares outstanding. While the nonvested shares granted during 2015 vest one year from the date of grant, the nonvested shares granted in prior years vest ratably over their original term of six years. The weighted average impact of approximately 0.8 million and 0.6 million nonvested shares were not included in the calculation of earnings per share for 2015 and 2014, respectively, because they were anti-dilutive.

Note 10. Income Taxes

The Income tax benefit from both continuing and discontinued operations was not material during the 2015. This is due primarily to continued losses from operations and the full valuation allowance against the Company's deferred tax assets, which is discussed further below. During 2014, the Company recorded an income tax benefit from continuing operations of approximately $1.7 million. The majority of this benefit relates to operating losses from continuing operations and the utilization of a portion of the Company's deferred tax assets to offset the income tax expense from discontinued operations. For 2014, the income tax expense from discontinued operations totaled approximately $2.0 million, arising primarily from the gain on the sale of StreetLinks, offset by the operating losses of Corvisa. The components of income tax benefit from continuing operations for 2015 and 2014 were as follows (dollars in thousands):

	For the Year Ended December 31,	
	2015	**2014**
Current:		
Federal	$ (13)	$ (227)
State and local	(15)	3
Total current	(28)	(224)
Deferred:		
Federal	—	(1,306)
State and local	—	(192)
Total deferred	—	(1,498)
Total income tax benefit	$ (28)	$ (1,722)

A reconciliation of the expected federal income tax expense using the federal statutory tax rate of 35% to the Company's actual income tax benefit and resulting effective tax rate for 2015 and 2014 were as follows (dollars in thousands):

	For the Year Ended December 31,	
	2015	**2014**
Income tax at statutory rate	$ (977)	$ (1,270)
State income taxes, net of federal tax benefit	(96)	(226)
Valuation allowance	2,519	(2,740)
Change in state tax rate	—	(85)
State tax credits	488	—
Adjustment to deferred tax asset	(1,965)	162
Expiration of loss carryforward	—	3,007
Uncertain tax positions	(87)	(504)
Other	90	(66)
Total income tax benefit	$ (28)	$ (1,722)

Prior to 2014, the Company concluded that it was no longer more likely than not that it would realize a portion of its deferred tax assets. As such, the Company maintained a full valuation allowance against its deferred tax assets as of both December 31, 2015 and 2014.

The Company's determination of the realizable deferred tax assets requires the exercise of significant judgment, based in part on business plans and expectations about future outcomes. In the event the actual results differ from these estimates in future periods, the Company may need to adjust the valuation allowance, which could materially impact our financial position and results of operations. The Company will continue to assess the need for a valuation allowance in future periods. As of December 31, 2015 and 2014, the Company maintained a valuation allowance of $281.5 million and $268.6 million, respectively, for its deferred tax assets. During 2015, there was an increase in the valuation allowance of approximately $12.9 million, of which $2.5 million was attributable to continuing operations, while $10.4 million was attributable to discontinued operations.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2015 and 2014 were as follows (dollars in thousands):

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Basis difference – investments	$ 18,043	$ 20,049
Federal net operating loss carryforwards	239,003	227,519
State net operating loss carryforwards	20,168	16,922
Other	4,882	5,102
Gross deferred tax asset	282,096	269,592
Valuation allowance	(281,548)	(268,592)
Deferred tax asset	548	1,000
Deferred tax liabilities:		
Other	548	1,000
Deferred tax liability	548	1,000
Net deferred tax asset	$ —	$ —

As of December 31, 2015, the Company had a federal net operating loss of approximately $682.9 million. The federal net operating loss may be carried forward to offset future taxable income, subject to applicable provisions of the Internal Revenue Code (the "Code"). If not used, this net operating loss will expire in years 2025 through 2035. The Company has state net operating loss carryovers arising from both combined and separate filings from as early as 2004. The state net operating loss carryovers may expire as early as 2017 and as late as 2035.

The activity in the accrued liability for unrecognized tax benefits for the years ended December 31, 2015 and 2014 was as follows (dollars in thousands):

	For the Year Ended December 31,	
	2015	2014
Beginning balance	$ 475	$ 731
Gross increases – tax positions in current period	19	300
Lapse of statute of limitations	(126)	(556)
Ending balance	$ 368	$ 475

As of December 31, 2015 and 2014, the total gross amount of unrecognized tax benefits was $0.4 million and $0.5 million, respectively, which also represents the total amount of unrecognized tax benefits that would impact the effective tax rate. The Company anticipates a reduction of unrecognized tax benefits of less than $0.1 million due the lapse of statute of limitations in the next twelve months. The Company does not expect any other significant change in the liability for unrecognized tax benefits in the next twelve months.

It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense. The benefit for interest and penalties recorded in income tax expense was not significant for 2015 and 2014. There were accrued interest and penalties of less than $0.1 million as of both December 31, 2015 and 2014.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and local jurisdictions. Tax years 2011 to 2015 remain open to examination for both U.S. federal income tax and major state tax jurisdictions.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the federal securities laws, including this report, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

The Company’s principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(d)) as of the end of the period covered by this report and, based on such evaluation, concluded that the Company's disclosure controls and procedures were effective as of such date.

Internal Control over Financial Reporting

Management’s Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. This internal control system has been designed to provide reasonable assurance to the Company’s management and board of directors regarding the preparation and fair presentation of the Company’s published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2015 based on the framework set forth in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation and its assessment, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2015.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 is included under the captions “Corporate Governance and Related Matters,” “Director Compensation for 2015,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Proposal 1 - Election of Directors,” in our Proxy Statement, filed or to be filed in connection with our 2016 Annual Meeting of Stockholders (our “2016 Proxy Statement”), which information is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item 11 is included under the caption “Executive Compensation” in our 2016 Proxy Statement, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is included under the captions “Beneficial Ownership,” and “Equity Compensation Plan Information,” in our 2016 Proxy Statement, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is included under the captions “Related Party Transactions,” and “Corporate Governance and Related Matters - Director Independence,” in our 2016 Proxy Statement, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is included under the captions “Proposal 2 - Ratification of the Selection of the Independent Registered Public Accounting Firm,” and “Audit Committee Report” in our 2016 Proxy Statement, which information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statements Schedules

Financial Statements and Schedules

(1) The financial statements as set forth under Item 8 of this report on Form 10-K are included herein.
(2) The required financial statement schedules are omitted because the information is disclosed elsewhere herein.

Exhibits

We describe the exhibits filed as part of, or incorporated by reference into, this 2015 Form 10-K in the attached Exhibit Index.

EXHIBIT INDEX

Exhibit No.	Description of Document
2.1	Membership Interest Purchase Agreement, dated as of December 21, 2015, by and among Novation Companies, Inc., Corvisa Services LLC and ShoreTel, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on December 21, 2015).
3.1	Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q filed on August 7, 2015).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 6, 2015).
3.3	Amendment to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2.1 to the Current Report on Form 8-K filed on March 16, 2009).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Quarterly Report Form 10-Q filed on August 5, 2005).
4.2	Registration Rights Agreement, dated March 15, 2011, between the Company and W. Lance Anderson (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 21, 2011).
4.3	Registration Rights Agreement, dated June 23, 2011, among NovaStar Financial, Inc., Jefferies Capital Partners IV L.P., Jefferies Employee Partners IV LLC, JCP Partners IV LLC and Massachusetts Mutual Life Insurance Company (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 29, 2011).
4.4	Rights Agreement, dated as of September 15, 2011, by and between NovaStar Financial, Inc. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on September 21, 2011).
4.5	First Amendment to Rights Agreement, dated June 20, 2014, by and between the Company and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.2 to Form 8-A/A filed on June 20, 2014).
4.6	Second Amendment to Rights Agreement, dated August 24, 2015, by and between the Company and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.3 to the Form 8-A12G filed on August 28, 2015).
4.7	Series 1 Senior Notes Indenture, dated as of March 22, 2011, by and among NovaStar Financial, Inc. and The Bank Of New York Mellon Trust Company, National Association (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed under Form 425 on March 22, 2011).
4.8	Series 2 Senior Notes Indenture, dated as of March 22, 2011, by and among NovaStar Financial, Inc. and The Bank Of New York Mellon Trust Company, National Association (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed under Form 425 on March 22, 2011).
4.9	Series 3 Senior Notes Indenture, dated as of March 22, 2011, by and among NovaStar Financial, Inc. and The Bank Of New York Mellon Trust Company, National Association (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed under Form 425 on March 22, 2011).
10.1	Employment Agreement, dated as of January 7, 2008, by and between NovaStar Financial, Inc. and Rodney E. Schwatken (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K/A filed on January 10, 2008).*
10.2	Employee Non-Qualified Stock Option Agreement, between the Company and Rodney Schwatken, dated August 18, 2015 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 20, 2015).*
10.3	Form of Indemnification Agreement for Officers and Directors of NovaStar Financial, Inc. and its Subsidiaries (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 16, 2005).*
10.4	Novation Companies, Inc. 2015 Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report Form 10-Q filed on August 7, 2015).*
10.5	Amended and Restated Employee Non-Qualified Stock Option Agreement, dated as of March 2, 2015, by and between Novation Companies, Inc. and Rodney E. Schwatken (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on March 3, 2015).*
10.6	Amended and Restated 2004 Incentive Stock Plan (as amended May 29, 2014) (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 30, 2014).*

10.7	First Amendment to the Company's Amended and Restated 2004 Incentive Stock Plan (incorporated by reference to Appendix A to Form DEF 14A filed on April 25, 2014).*
10.8	Form of Stock Option Agreement under NovaStar Financial, Inc. 2004 Incentive Stock Plan (incorporated by reference to Exhibit 10.25.1 to the Current Report on Form 8-K filed on February 4, 2005).*
10.9	Form of Restricted Stock Award for Non-Employee Directors under the Novation Companies, Inc. 2015 Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report Form 10-Q filed on August 7, 2015).*
10.10	Form of Option Award for Key Executives under the Novation Companies, Inc. 2015 Incentive Stock Plan (incorporated by reference to Exhibit 10.3 to the Quarterly Report Form 10-Q filed on August 7, 2015).*
10.11	Form of Option Award for Corvisa Employees under the Novation Companies, Inc. 2015 Incentive Stock Plan (incorporated by reference to Exhibit 10.4 to the Quarterly Report Form 10-Q filed on August 7, 2015).*
10.12	Form of Restricted Stock Award Agreement under NovaStar Financial, Inc. 2004 Incentive Stock Plan (incorporated by reference to Exhibit 10.25.2 to the Current Report on Form 8-K filed on February 4, 2005).*
10.13	Second Amended and Restated Stock Option Agreement, dated August 14, 2015, between the Company and W. Lance Anderson (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 14, 2015).*
10.14	2011 Compensation Plan for Independent Directors (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 15, 2011).*
10.15	Employment Agreement, dated as of March 2, 2012, by and between NovaStar Financial, Inc. and Matthew Lautz (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on March 9, 2012).*
10.16	Second Amended and Restated Employee Non-Qualified Stock Option Agreement, by and between Novation Companies, Inc. and Matthew Lautz (incorporated by reference to Exhibit 10.15 to the Form 10-K/A filed on April 30, 2015).*
10.17	Employee Non-Qualified Stock Option Agreement, between the Company and Matthew Lautz, dated August 18, 2015 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on August 20, 2015).*
10.18	Employment Agreement, dated as of March 1, 2012, by and between NovaStar Financial, Inc. and Brett Monger (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on March 9, 2012).*
10.19	Employee Non-Qualified Stock Option Agreement, dated March 8, 2012, by and between NovaStar Financial, Inc. and Brett Monger (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed on March 9, 2012).*
10.20	Amended and Restated Restricted Stock Award Agreement to Non-Employee Director, by and between the Company and Gregory T. Barmore, dated March 2, 2015 (incorporated by reference to Exhibit 10.19 to the Form 10-K/A filed on April 30, 2015).*
10.21	Amended and Restated Restricted Stock Award Agreement to Non-Employee Director, by and between the Company and Art. N. Burtscher, dated March 2, 2015 (incorporated by reference to Exhibit 10.20 to the Form 10-K/A filed on April 30, 2015).*
10.22	Amended and Restated Restricted Stock Award Agreement to Non-Employee Director, by and between the Company and Edward W. Mehrer, dated March 2, 2015 (incorporated by reference to Exhibit 10.21 to the Form 10-K/A filed on April 30, 2015).*
10.23	Amended and Restated Restricted Stock Award Agreement to Non-Employee Director, by and between the Company and Howard M. Amster, dated March 2, 2015 (incorporated by reference to Exhibit 10.22 to the Form 10-K/A filed on April 30, 2015).*
10.24	Amended and Restated Restricted Stock Award Agreement to Non-Employee Director, by and between the Company and Barry A. Igdaloff, dated March 2, 2015 (incorporated by reference to Exhibit 10.23 to the Form 10-K/A filed on April 30, 2015).*
10.25	Form of Employee Non-Qualified Stock Option Agreement under the Company's Amended and Restated 2004 Incentive Stock Plan (incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-Q filed on August 7, 2014).*
10.26	Transaction Bonus and Release Agreement, dated December 20, 2015, by and between the Company and Matthew Lautz.*
10.27	Agreement, by and among Novation Companies, Inc. a Maryland corporation, Lone Star Value Investors, LP, Lone Star Value Investors GP, LLC, Lone Star Value Management, LLC and Jeffrey E. Eberwein, dated April 22, 2015 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 27, 2015).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Grant Thornton LLP.
31.1	Chief Executive Officer and Chief Financial Officer Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer and Chief Financial Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	The following financial information from Novation Companies, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Consolidated Balance Sheets as of December 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the years ended December 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015 and 2014, (iv) Consolidated Statements of Shareholders' Deficit for the years ended December 31, 2015 and 2014, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014, and (vi) the Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVATION COMPANIES, INC.

DATE: February 16, 2016	/s/ RODNEY E. SCHWATKEN
	Rodney E. Schwatken, Chief Executive Officer and and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and dates indicated.

DATE: February 16, 2016	/s/ RODNEY E. SCHWATKEN
	Rodney E. Schwatken, Chief Executive Officer and Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)
DATE: February 16, 2016	/s/ BRETT A. MONGER
	Brett A. Monger, Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
DATE: February 16, 2016	/s/ HOWARD M. AMSTER
	Howard M. Amster, Director
DATE: February 16, 2016	/s/ ART N. BURTSCHER
	Art N. Burtscher, Director
DATE: February 16, 2016	/s/ JEFFREY E. EBERWEIN
	Jeffrey E. Eberwein, Director
DATE: February 16, 2016	/s/ CHARLES M. GILLMAN
	Charles M. Gillman, Director
DATE: February 16, 2016	/s/ BARRY A. IGDALOFF
	Barry A. Igdaloff, Director
DATE: February 16, 2016	/s/ ROBERT G. PEARSE
	Robert G. Pearse, Director