BARRON'S

May 19, 2008

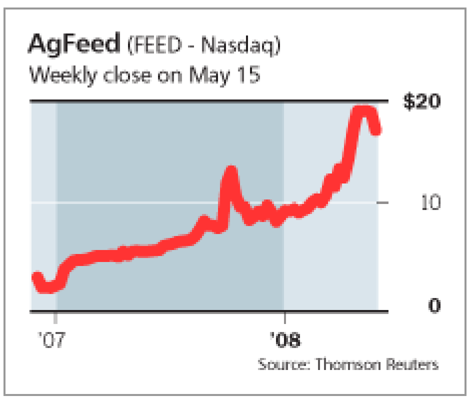
AgFeed Trips on Its Way to the Trough

By LESLIE P. NORTON

AgFeed insiders are no strangers to controversy. But the Chinese hog producer's latest stumble could really land them in the mud.

THE DIZZYING ASCENT OF AGFEED Industries' shares is no big mystery: The company from Jiangxi Province straddles two of today's hottest investment themes -- China and agricultural commodities.

Founded by animal husbandry and nutrition experts, fast-growing AgFeed both supplies feed for and sells hogs; it expects to sell 400,000 of them this year. Pork-hungry China raises some 600 million hogs a year, AgFeed says, about six times the number in the U.S.



Notwithstanding a number of stock sales by management and affiliates, which retain 41%, Nasdaq-traded AgFeed shares (ticker: FEED) are up nearly 100% this year. The company, whose board and advisers include a number of experienced Wall Streeters, sports a $537 million stock-market capitalization and a lofty share valuation of 64 times trailing earnings.

A sky-high valuation like that merits some skepticism and makes the stock vulnerable to any hiccup, something the company did last week. It reported first-quarter earnings of three cents a share, versus the six cents predicted by the one analyst known to follow the stock. Margins fell, and net income grew just 18%, even though revenue jumped 144%. The stock plunged to 16.38 Friday, off 14% on the week, as investors began to wonder whether AgFeed can meet the 96 cents to $1.10 a share in earnings and $135 million in revenue it's projecting.

AgFeed is one of hundreds of small Chinese companies that have come public in the U.S. via reverse mergers, in which a privately held company doing business in China hooks up with a shell company listed in the U.S.

Helping smooth the way for AgFeed, which was listed last August, was Benjamin Wey. In an SEC filing, AgFeed said that it paid Wey and his investment-banking and strategic-consulting company, New York Global Capital, to provide translation services and advice on private placements, public offerings and international business practices.

Given its recent near-doubling and a price-earning multiple of 64, AgFeed's stock is vulnerable to any disappointments. One company consultant has a record of regulatory troubles.

Wey and New York Global have provided stock-promotion and investor-relations services for several emerging Chinese companies, including Bodisen Biotech, another reverse-merger product. In 2007, Bodisen was delisted by the American Stock Exchange for allegedly providing misleading filings; the company also faced securities fraud lawsuits. (The cases are still pending.) Wey's history, detailed by *Barron's* affiliate Dow Jones' Marketwatch in a 2006 story, included a 2002 suspension and fine by the National Association of Securities Dealers, brokers' trade group and regulator, for allegedly maintaining accounts without notifying his firm. Wey told Marketwatch that it was "a technical charge." He was also censured by Oklahoma securities regulators who said he hadn't told clients that he had consulting agreements with companies whose stocks he was selling. Wey's spokesman told Marketwatch that it was "more cost-effective" for him to accept censure since he didn't plan to return to Oklahoma.

People close to Wey and New York Global Capital controlled big chunks of AgFeed stock as of mid-January. One of them was his sister Wei Tianyi, also known as Sarah Wei, who works for New York Global in Beijing. A January registration statement includes a shareholder roster that lists Finchley International Investments as an AgFeed investor. Wei Tianyi previously signed a filing document registering Finchley's sale of Bodisen shares. Another shareholder in January was Strong Growth Capital. According to an SEC filing, Strong's AgFeed shares were controlled by Lee Ming, another New York Global employee. Lee Ming and Wei Tianyi didn't respond to requests for comment.

AT AGFEED, BENJAMIN WEY again came together with Fredric Rittereiser, an independent board member with a reputation for cleaning up troubled companies. He was the former president of institutional stock-trading service, Instinet, which was purchased by Reuters in 1987, and came in to lead now-defunct First Jersey Securities after it had regulatory problems. Rittereiser later ran several companies, and founded Ashton Technology, which made electronic-trading systems. Benjamin Wey worked as a consultant for Ashton from 1998 through 1999 creating a joint-venture company in Hong Kong.

Ashton figured in a scandal in the mid-1990s. Then-Philadelphia Stock Exchange Chairman Vincent Casella, an Ashton investor, was forced to resign after recommending that the exchange sign a contract with Ashton, which subsequently used the contract as a selling point for its IPO.

Also advising AgFeed are Rittereiser's brother Robert, a former Merrill Lynch and E.F. Hutton exec, and Arnold Staloff, a former CEO of the Commodities Exchange.

In an e-mail response to questions from *Barron's*, Jonathan Cohen, a spokesman for AgFeed, said that AgFeed "endeavors to employ best practices" in terms of corporate governance and disclosure. He declined to comment on Benjamin Wey, saying it isn't the company's policy to discuss advisory engagements. Meanwhile, AgFeed has fully disclosed "the shareholders you identified," he said.

In a separate statement, a spokesman for Benjamin Wey said Wei Tianyi and Lee Ming were investing for their own accounts and that Wey "does not have beneficial interest in the shares...nor does he control or represent them." Moreover, "we dispute that there would be anything wrong with a person consulting for and investing in a company at the same time." The spokesman added Wey "has always endeavored to work with companies of the highest caliber...AgFeed is a sound company with a bright future."