

UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF TENNESSEE
NASHVILLE DIVISION

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2011 OCT 18 PM 3:52

U.S. DISTRICT COURT
MIDDLE DISTRICT OF TN

[REDACTED], on Behalf of Himself and)
All Others Similarly Situated,)

Plaintiff,)

v.)

AGFEED INDUSTRIES, INC.,)
GERARD DAIGNAULT,)
EDWARD PAZDRO,)
SONGYAN LI, and)
JUNHONG XIONG,)

Defendants.)

Case No. **3 - 1 1 0 9 9 2**

CLASS ACTION

CLASS ACTION COMPLAINT FOR
VIOLATION OF SECTIONS 10(b) AND
20(a) OF THE SECURITIES EXCHANGE
ACT OF 1934 AND JURY DEMAND

Plaintiff, by his attorneys, submits this Class Action Complaint against the defendants named herein.

NATURE AND SUMMARY OF THE ACTION

1. This is a securities class action brought by plaintiff on behalf of all persons who purchased or otherwise acquired the securities of AgFeed Industries, Inc. ("AgFeed" or the "Company") between March 16, 2009 and August 2, 2011, inclusive (the "Class Period"), against AgFeed and certain of its officers and/or directors for violations of the Securities and Exchange Act of 1934 (the "Exchange Act").

2. Defendant AgFeed is an international agribusiness that deals in animal nutrition products and commercial hog production in the United States and China. AgFeed's animal nutrition business serves hog producers throughout southeastern China through five feed mills where AgFeed produces additive premix, concentrates, and complete feed.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company's financial health, especially with regard to its animal

nutrition business. As a result of defendants' false statements, AgFeed's stock traded at artificially inflated prices during the Class Period, reaching a Class Period high price of \$7.71 per share.

4. During this time period, AgFeed repeatedly touted its recurring record revenue and operating income. AgFeed also reported large accounts receivable and low allowances for doubtful accounts. AgFeed affirmed the reliability in these reported results by communicating the adequacy of the Company's internal controls for collecting customer payments and maintaining appropriate reserves for potential bad debts

5. As expected, these materially false and misleading statements excited investors and analysts alike, which caused the Company's stock to trade at artificially inflated prices during the Class Period. In turn, analysts at the investment bank of Rodman & Renshaw, LLC ("Rodman & Renshaw") responded to the positive forecasts by reiterating their "Buy" rating and maintaining a rising price target.

6. Many of AgFeed's customers at the time, however, faced a challenging operating environment and had difficulty meeting their payment terms. AgFeed was aware of this issue and extended the payment terms for its customers. Defendants avoided correctly reporting the Company's bad debt levels by relying on their broad "formula-based analysis." This method of assessing bad debt did not take into consideration the individual characteristics of its struggling customers. The Company's false assessment of its customers' credit risks allowed AgFeed to report artificially high accounts receivable and prolong the Company's denial of its rising bad debts expense. Then on May 10, 2011, AgFeed filed its Form 10-Q with the U.S. Securities and Exchange Commission ("SEC"), announcing that it had replaced its broad "formula-based analysis" with a system that relies on "individual customer assessment."

7. Transitioning to the "individual customer assessment" method of calculating bad debts forced the defendants to finally reveal the true health of the Company. AgFeed's actual performance in collecting its purportedly recurring record revenue and accounts receivable fell woefully short of defendants' false statements. On August 2, 2011, AgFeed issued a press release announcing disappointing preliminary second quarter fiscal 2011 financial results, as well as some major surprises in the Company's financial health. AgFeed disclosed that it expected to post a loss of more than \$17 million as it added \$5 million in allowances of its bad-debt provision. AgFeed also stated that it needed to take a \$9.2 million charge for the collection of outstanding accounts receivable in its animal nutrition business. As this news hit the market, shares of AgFeed declined by more than 32% in one day, closing at just \$1.34 per share on August 2, 2011. The ensuing Form 10-Q filed on August 9, 2011 with the SEC further exposed the Company's deficiencies. In stark contrast to its prior representations less than three months earlier, AgFeed reported significantly reduced accounts receivable and strikingly higher allowances for doubtful accounts. Furthermore, the release of these disappointing results was accompanied by the Company's announcement that it would withdraw its Registration Statement intended to take part of the Company, AgFeed Animal Nutrition Holdings, Inc., public. This development caused the Company's stock price to further decline.

8. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) AgFeed's collection efforts and credit dealings with its animal nutrition customers were not working;

(b) The "formula-based analysis" the Company relied on in determining accounts receivable and reserves for doubtful accounts did not take into consideration the individual repayment abilities of its struggling customers;

(c) The Company's allowances for doubtful accounts were wildly undervalued;

(d) AgFeed's accounts receivable were overvalued and bad debts were undervalued, causing reported asset values to be overstated and expenses to be understated; and

(e) The Company exaggerated its market edge as the combination of overstated assets and understated expenses resulted in creating an illusion of heightened profitability and failed to provide a "long-term picture" of AgFeed's value. As a result, financial guidance was grossly overly-confident, false, and misleading.

9. As a result of defendants' false statements, AgFeed stock traded at artificially inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down over 72% from their Class Period high.

JURISDICTION AND VENUE

10. The claims asserted herein arise under section 10(b) and section 20(a) of the Exchange Act, 15 U.S.C. section 78j(b) and section 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. section 240.10b-5.

11. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. section 1331 and section 27 of the Exchange Act.

12. This Court has jurisdiction over each defendant named herein because each defendant is an individual who has sufficient minimum contacts with this District so as to render

the exercise of jurisdiction by the District Court permissible under traditional notions of fair play and substantial justice.

13. Venue is proper in this Court pursuant to 28 U.S.C. section 1391(a) and section 27 of the Exchange Act because: (i) one or more of the defendants resides in this District; (ii) a substantial portion of the transactions and wrongs complained of herein, including the defendants' primary participation in the wrongful acts detailed herein, and aiding and abetting and conspiracy in violation of fiduciary duties owed to AgFeed, occurred in this District; and (iii) defendants have received substantial compensation in this District by doing business here and engaging in numerous activities that had an effect on this District.

PARTIES

14. Plaintiff [REDACTED] purchased securities of AgFeed during the Class Period as set forth in the attached certification hereto and was damaged as a result of defendants' wrongdoing as alleged in this Complaint.

15. Defendant AgFeed is a Nevada corporation that engages in the animal nutrition premix, concentrate, and complete feeds business and commercial hog production business in the United States and China through its three principal operating units: Animal Nutrition, Hog Production, and Harvesting. AgFeed's animal nutrition business serves hog producers throughout southeastern China through five feed mills where AgFeed produces additive premix, concentrates, and complete feed. AgFeed has exclusive distribution arrangements with nearly 1,400 independently owned retail stores and serves over 780 commercial farms. The principal executive offices of AgFeed are located at 744 Horizon Court, Suite 350, Grand Junction, Colorado. Throughout the Class Period the principal executive offices were located at 100 Bluegrass Commons Boulevard, Suite 310, Hendersonville, Tennessee.

16. Defendant Gerard Daignault ("Daignault") is AgFeed's Chief Operating Officer ("COO") and has been since August 2008. Daignault is also President and Chief Executive Officer ("CEO") of AgFeed's animal nutrition business and has been since at least November 2010.

17. Defendant Edward Pazdro ("Pazdro") is AgFeed's Chief Financial Officer ("CFO") and has been since February 2011. Pazdro is also CFO of AgFeed International Protein Technology Corp., a joint venture focusing on enhancing hog production systems for Chinese and other Pan Asian clients, and the hog division of AgFeed. Pazdro was AgFeed's Acting CFO from November 2010 to February 2011.

18. Defendant Songyan Li ("Li") was AgFeed's Executive Chairman and Chairman of the Board of Directors (the "Board") from December 2006 to February 2011 and a director from October 2006 to February 2011. Li was also AgFeed's Chief Technology Officer from April 2009 to at least August 2010. Following his departure as Executive Chairman and Chairman of the Board, Li remained with AgFeed as Vice Chairman of the Company's hog production business.

19. Defendant Junhong Xiong ("Xiong") was AgFeed's CEO and a director from November 2006 to February 2011. Xiong also held various other positions at AgFeed between November 2006 and February 2011, including Vice Chairman and President. Following his departure as CEO, Xiong remained with the Company as Chairman of the animal nutrition business.

20. The defendants named in ¶¶15-19 are sometimes collectively referred to herein as the "Defendants." The defendants named above in ¶¶16-19 are sometimes collectively referred to herein as the "Individual Defendants."

21. The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of AgFeed's quarterly reports, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, i.e., the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material, non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

22. Defendants are liable for: (i) making material false statements; and (ii) failing to disclose material, adverse facts known to them about AgFeed. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of AgFeed securities was a success, as it: (i) deceived the investing public as to AgFeed's business prospects and operations; (ii) artificially inflated the price of AgFeed securities; and (iii) caused plaintiff and other members of the Class (as defined herein) to purchase AgFeed securities at inflated prices.

BACKGROUND

23. AgFeed is engaged in the animal nutrition business and commercial hog production business in the United States and China through its operating subsidiaries. AgFeed's animal nutrition business consists of the manufacture, marketing, and sale of premix, concentrate, and complete feed for use in the Chinese animal husbandry markets, focusing almost exclusively for hog production. Premix is an animal feed additive that is used in

commercial animal production worldwide. AgFeed entered the hog breeding and production business in China in November 2007. In this business, the Company mainly produces hogs for processing and sells breeding stock. AgFeed entered the hog breeding and production business in the United States in September 2010, with the acquisition of M2P2, LLC.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS

24. On March 16, 2009, AgFeed filed its Form 10-K with the SEC touting the Company's internal controls for maintaining appropriate reserves for potential bad debts. The Form 10-K stated in part:

The Company maintains reserves for potential credit losses on accounts receivable. *Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.*

25. On March 16, 2009, AgFeed issued a press release announcing "record financial results" for the year of 2008. AgFeed credited "long term annual supply agreements" with its customers as one of the factors driving heightened earnings. The release stated in part:

AgFeed reported premix and blended feed related income from operations of \$7.78 million on revenue of \$51.75 million and net income on hog sales of \$16.92 million on hog sales of \$91.92 million, prior to the cost of the holding company of \$6.66 million. These results reflected 23.97% gross profit margin for the company. *Premix and blended feed earnings were driven by efficient cost management, increased economies of scale on raw material purchases, and long term annual supply agreements.* AgFeed's income from hog operations was driven by the phasing-in of 30 producing hog farms starting in late 2007.

26. On May 11, 2009, AgFeed filed its Form 10-Q with the SEC describing the Company's procedures for accounting for doubtful accounts. In addition, the Company reported \$11.9 million in accounts receivable, net of a \$282,958 allowance for doubtful accounts as of March 31, 2009. The Form 10-Q stated in part:

We continually monitor customer payments and maintain a reserve for estimated losses resulting from our customers' inability to make required payments. In determining the reserve, we evaluate the collectability of our accounts receivable based upon a variety of factors. *In cases where we become*

aware of circumstances that may impair a specific customer's ability to meet its financial obligations, we record a specific allowance against amounts due. For all other customers, we recognize allowances for doubtful accounts based on our historical write-off experience in conjunction with the length of time the receivables are past due, customer credit worthiness, geographic risk and the current business environment.

27. On August 10, 2009, AgFeed filed its Form 10-Q with the SEC which included several consolidated balance sheets. One balance sheet stated that the Company had \$14.6 million in accounts receivable, net of a mere \$69,660 allowance for doubtful accounts as of June 30, 2009.

28. On August 11, 2009, AgFeed issued a press release announcing its second quarter 2009 financial results, touting their accomplishments in meeting projections and setting expectations of successful future prospects. The release stated in part:

In discussing AgFeed's animal nutrients business, Junhong Xiong, AgFeed's Chief Executive Officer, provided "our revenues in this business were \$11.1 million in the second quarter and \$21.2 million for the first six months of 2009. Our pre-mix, condensed, complete and fine feed sales totaled 43,500 metric tons for six months. *We were able to meet our earlier projections in this business in spite of the down hog market and we are poised to meet our goal of 100,000 metric tons to be sold in 2009.* We also added significant numbers to our distribution network, including more than 200 independently owned, AgFeed-exclusive feed distribution chain stores and over 100 large-size commercial hog farms to our network in the last six months for totals of 1,239 stores and 712 farms, respectively. *We believe that all of these signs are indicative of an increasing recognition of our brand and the quality of our 'green-certified' feed products and signal a rise in both production and sales going forward."*

29. November 10, 2009, AgFeed issued a press release announcing its third quarter 2009 financial results, touting a "strong balance sheet" and promising extraordinary growth in their animal nutrition business. The release stated in part:

Dr. Songyan Li, AgFeed's Chairman, commented that, "I am pleased to report that nine months into our transition year we are accomplishing much of what we set out to do. I am happy with the operating results in both of our business segments in spite of a number of market challenges that we faced in the hog industry and in our regional economy. Our operating income for the third quarter was a commendable \$3.71 million. We finished the quarter with a *strong balance sheet* and \$36.5 million in cash to fund our operations and growth. *Our animal nutrients business performed exceptionally well in the third quarter,* aided by

the recent implementation of the Food Safety Laws and the Green-Certified label on our products."

* * *

In discussing AgFeed's animal nutrients business, Junhong Xiong, AgFeed's Chief Executive Officer, asserted, "Our revenues of \$17.1 million in the third quarter of 2009 were significantly higher, reaching approximately 80% of the revenues we posted for the first half of 2009. *We expect that our animal nutrients business segment will remain strong through the end of 2009, meeting and exceeding our projections of 100,000 metric tons sold in 2009.*" Mr. Xiong added, "AgFeed is responding to the market demand for "complete" feed with plans to upgrade and expand our production capabilities in this key market segment. We believe this will provide an opportunity for us to *triple our animal nutrient business revenues by the end of 2011.*"

30. On March 8, 2010, AgFeed filed its Form 10-K with the SEC which included several consolidated financial statements. In this Form 10-K, AgFeed reported a mere \$196,005 in bad debt expense for the year of 2009.

31. On March 9, 2010, AgFeed issued a press release announcing record revenues for 2009. The release stated in part:

AgFeed Industries, Inc., one of the largest independent hog production and animal nutrient companies in China, today announced *record levels of revenue in both of its operating units: hog production and animal nutrition.* Production volumes increased by 66% in the company's hog division and 56% in the animal nutrition division.

32. Rodman & Renshaw responded to these positive forecasts by reaffirming its "Buy" ratings. Rodman & Renshaw had a price target of \$7 per AgFeed share between mid-August 2009 and mid-April 2010.

33. On May 10, 2010, AgFeed filed its Form 10-Q with the SEC which included several consolidated balance sheets. One balance sheet stated that the Company now had \$22.9 million in accounts receivable, net of a mere \$498,612 allowance for doubtful accounts as of March 31, 2010. The doubtful accounts allowance increased only 20% over what the Company set for the entire year of 2009, which had 60% less accounts receivable. AgFeed presented these figures in the same filing as it touted the Company's internal controls for accounting for doubtful accounts. The Form 10-Q stated in part:

We continually monitor customer payments and maintain a reserve for estimated losses resulting from our customers' inability to make required payments. In determining the reserve, we evaluate the collectability of our accounts receivable based upon a variety of factors. *In cases where we become aware of circumstances that may impair a specific customer's ability to meet its financial obligations, we record a specific allowance against amounts due.* For all other customers, we recognize allowances for doubtful accounts based on our historical write-off experience in conjunction with the length of time the receivables are past due, customer credit worthiness, geographic risk and the current business environment.

34. On May 11, 2010, AgFeed issued a press release announcing its first quarter 2010 financial results, touting increased revenues. Defendant Xiong, AgFeed's President, noted that many animal nutrition customers were struggling so the Company decided to extend their payment terms. Xiong also stated that the Company was able to accommodate its "credit worthy customers" and "sell hogs at relatively advantageous prices." Thus, the financial results that AgFeed was communicating to the market included accounts receivable from these "struggling," yet purportedly "credit worthy customers." The release stated in part:

AgFeed Industries, Inc., one of the largest independent hog production and animal nutrient companies in China, today announced its results for the first quarter of 2010. Revenue for the first quarter reached \$52.9 million an increase of 58% compared to the first quarter of 2009. Production volumes increased by 24% in the Company's hog division and 119% in the animal nutrition division, as compared to the same period in 2009.

* * *

Mr. Junhong Xiong AgFeed's President observed, "We are pleased with the results we achieved in a challenging operating environment. During the quarter, the average hog price was 11% less than the first quarter of last year. *Many of our customers are struggling to withstand the combined challenge of low hog prices and increased feed prices due to the high cost of corn. In order to support our animal nutrition customers and cement our market position, AgFeed has chosen to exploit its relative financial strength by extending payment terms to its customers. Facing similar pressures in our Hog Division, we were able to sell hogs at relatively advantageous prices by accepting payment terms from certain longstanding and credit worthy customers.*"

35. On August 10, 2010, AgFeed issued a press release announcing its first half of 2010 financial results, once again publicizing increased revenues, even in "an extremely difficult

operating environment." During the second quarter the Company faced a series of severe floods throughout its area of operations. Defendant Daignault, AgFeed's COO, stressed that AgFeed could no longer continue to extend payment terms to its struggling customers. Although the amount of accounts receivable declined during the quarter and reflected this sentiment, the true state of the Company and its dealing with its customers was not fully disclosed to its investors. A majority of the Company's bad debts were still unaccounted for. The release stated in part:

Mr. Gerry Daignault, AgFeed's COO emphasized, "***While AgFeed has supported its customers with extended payment terms from time to time, in light of the industry wide operating pressures we limited this practice during the quarter and reduced accounts receivable by over \$5.6 million from March 31st.*** We also reduced our payables by approximately \$3.4 million while also continuing our capital investment program to support of expansion in an amount over \$3.3 million."

36. On October 11, 2010, AgFeed issued a press release announcing the filing of a Registration Statement for an Initial Public Offering of shares in its subsidiary AgFeed Animal Nutrition Holdings, Inc. Defendant Li touted the value and benefits that AgFeed shareholders would reap from this public offering. The release stated in part:

Dr. Songyan Li, AgFeed's Chairman, stated, "We believe that ***the carve out of AANI will be a positive development for our shareholders*** and for the business prospects of AANI. Establishing a public market for AANI will provide an independent valuation of one of our business units that we feel has been overlooked by the market, thus ***unlocking value for AgFeed's shareholders.*** As a public company in its own right, AANI will have a sharp strategic focus and will have independent access to both debt and equity capital to support its pursuit of a myriad of growth opportunities."

37. On November 9, 2010, AgFeed filed its Form 10-Q with the SEC once again touting the Company's internal controls for maintaining appropriate reserves for potential bad debts. The Form 10-Q stated in part:

The Company maintains reserves for potential credit losses on accounts receivable. ***Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.***

38. That same day, AgFeed issued a press release announcing its third quarter 2010 financial results, touting recurring record revenue and operating income. The release stated in part:

AgFeed reports continued record results in its animal nutrition business segment with revenue and operating income increasing 59% and 37% respectively for the first three quarters of 2010 as compared to the same period in 2009 and achieving new record levels. AgFeed's U.S. hog production system, which commenced through its acquisition of M2P2 late in the third quarter generated results in line with the Company's plans.

39. Rodman & Renshaw responded to these positive reported results by reaffirming its "Buy" ratings. Rodman & Renshaw had a price target of \$6 per AgFeed share between mid-November 2010 and mid-February 2011.

40. On March 16, 2011, AgFeed filed its Form 10-K with the SEC once again touting the Company's internal controls for accounting for doubtful accounts. The Form 10-K stated in part:

We continually monitor customer payments and maintain a reserve for estimated losses resulting from our customers' inability to make required payments. In determining the reserve, we evaluate the collectability of our accounts receivable based upon a variety of factors. *In cases where we become aware of circumstances that may impair a specific customer's ability to meet its financial obligations, we record a specific allowance against amounts due.* For all other customers, we recognize allowances for doubtful accounts based on our historical write-off experience in conjunction with the length of time the receivables are past due, customer credit worthiness, geographic risk and the current business environment.

41. On March 17, 2011, AgFeed issued a press release announcing its 2010 financial results, touting record-setting revenues and reinforcing the accuracy of the Company's financial statements, especially in regards to reported "asset values." The release stated in part:

AgFeed Industries, Inc., an international agribusiness company with operations in the U.S. and China and one of the large independent hog producers and manufacturers of animal nutrients in China *announced record levels of revenue in both its animal nutrition and U.S. hog production units for the fourth quarter of 2010 and for the full year 2010. The Company's 2010 fourth quarter and year-end revenues were the highest in company history representing an*

increase over revenues for the same periods in 2009 of 77.2% and 40.7%, respectively.

* * *

The Company's Chief Financial Officer, Edward Pazdro, said, "We have worked closely with outside consultants, auditors and our new management team to thoroughly assess the long-term viability and profitability of our legacy Chinese hog farms, and based on current market conditions, ***believe that our asset values are appropriate and present a long-term picture of the value of our legacy farms.***" Mr. Pazdro stated further, "The combination of M2P2's operating discipline with our management information systems will allow us to monitor and execute our strategic plan."

42. On that same day, AgFeed filed its Form 8-K with the SEC which included several consolidated balance sheets. One balance sheet stated that the Company had \$21.8 million in accounts receivable, net of a mere \$707,968 allowance for doubtful accounts as of 2010.

43. On May 10, 2011, AgFeed filed its Form 10-Q with the SEC which included several consolidated balance sheets. One balance sheet stated that the Company had \$28.6 million in accounts receivable, net of a \$1.9 million allowance for doubtful accounts as of March 31, 2011.

44. In that same Form 10-Q, AgFeed once again touted the Company's internal controls for maintaining appropriate reserves for potential bad debts. Furthermore, the Company noted an adjustment it made to its normal protocol for assessing bad debt. All of a sudden, the Company replaced its broad "formula-based analysis" and started relying instead on an "individual customer assessment." The 10-Q stated in part:

Accounts receivable are carried at original invoice less an estimate for doubtful accounts. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

The Company's accounts receivable and reserves for doubtful accounts are substantially representative of its credit dealings with animal nutrition

customers. The Company ages its receivables into traditional 30-day buckets and monitors the customers and balances on a regular basis. *Generally the Company uses a formula-based analysis to more broadly assign collection risk to its aging groups primarily over 90 days past due, subject to specific customer review.* This formula-based approach applies a declining percentage of collectability to each bucket-aging category at least 90 days past due as the past due days increase. *For the current quarter, however, the Company placed greater reliance on individual customer assessment and then applied an overall factor of collection as it believes the Company is experiencing a new set of market dynamics exacerbated by the reorganization of its animal feed nutrition segment, cash constraints of its long-standing customers related to increasing feed raw material costs and herd expansion initiatives.*

THE TRUTH IS REVEALED

45. On August 2, 2011, AgFeed issued a press release announcing disappointing preliminary second quarter fiscal 2011 financial results, as well as some major surprises in the Company's financial health. AgFeed disclosed that it expected to post a loss of more than \$17 million as it added \$5 million in allowances of its bad-debt provision. AgFeed stated that it would take a charge of \$9.2 million for the collection of outstanding accounts receivable in its animal-nutrition business. The release stated in part:

For the second quarter of 2011, the Company expects to report revenues of approximately \$84.0 million and a net loss of approximately \$17 million for the three months ended June 30, 2011. This loss includes an expense of \$9.2 million related to the collection of outstanding accounts receivable in the Company's Chinese animal nutrition business and an additional \$5.0 million of bad debt allowance to increase its bad debt provision from \$1.9 million to \$7.0 million. Accordingly, we expect accounts receivable to decrease by approximately \$14.2 million. The operating pressures facing the Company's customers has led management and the board to be aggressive in establishing reserves due to concerns regarding credit quality. The Company's leadership remains committed to pursuing every available remedy to collect all amounts due.

46. As news began to leak into the market on August 2, 2011, AgFeed's shares sank from \$1.99 to a closing price of \$1.34 at the end of the day on August 2, 2011. This represented a one-day decline of over 32% on volume of over 63 million shares.

47. On August 9, 2011, AgFeed filed its Form 10-Q with the SEC which included several consolidated balance sheets. One balance sheet stated that the Company only had \$13.2

million in accounts receivable, net of a \$7 million allowance for doubtful accounts as of June 30, 2011. These figures were in stark contrast to AgFeed's May 10, 2011 Form 10-Q in which the Company reported \$28.6 million in accounts receivable, net of a mere \$1.9 million allowance for doubtful accounts as of March 31, 2011.

48. On that same day, AgFeed sent a letter to the SEC announcing that it would withdraw its Registration Statement, that intended to take part of the Company, AgFeed Animal Nutrition Holdings, Inc., public. As this news leaked into the market, AgFeed's shares continued to plummet.

49. On September 29, 2011, the Company issued a press release announcing that its Board had established a special committee to conduct an investigation into the accounting practices of its Chinese operations. The release stated in part:

AgFeed Industries, Inc. announced today that its Board of Directors has established a special committee to *investigate the accounting relating to certain of the Company's Chinese farm assets (acquired during 2007 and 2008) used in its hog production business, as well as the validity and collectability of certain of the Company's accounts receivables relating to its animal nutrition business in China* and any other issues that may arise during the course of the investigation.

50. The day after this news was released, AgFeed stock further plummeted, closing at \$0.52 on September 30, 2011. This was a 73% decline from its \$1.99 price per share that existed just two months earlier, before the truth about AgFeed's financial health leaked into the market.

51. AgFeed's deteriorating accounting practices and incomplete filings forced the NASDAQ Stock Market ("NASDAQ") to temporarily halt all trading of AgFeed stock on October 3, 2011. NASDAQ would not resume trading of AgFeed stock until it received "additional information" from the Company.

52. The true facts, which were known by the Defendants but concealed from the investing public during the Class Period, were as follows:

(a) AgFeed's collection efforts and credit dealings with its animal nutrition customers were not working. The "formula-based analysis" the Company relied on in

determining accounts receivable and reserves for doubtful accounts did not take into consideration the individual repayment abilities of its struggling customers;

(b) Allowances for doubtful accounts were wildly undervalued;

(c) Accounts receivable were overvalued and bad debts were undervalued, causing reported asset values to be overstated and expenses to be understated; and

(d) The Company overstated its market edge as the combination of overstated assets and understated expenses resulted in creating an illusion of heightened profitability and failed to provide a "long-term picture" of AgFeed's value. As a result, financial guidance was grossly overly-confident, false, and misleading.

53. As a result of Defendants' false statements, AgFeed's stock traded at artificially inflated levels during the Class Period. However, after the above revelations seeped into the market on August 2, 2011, the Company's shares were hammered by massive sales, sending them down over 72% from their Class Period high. AgFeed stock continues to plummet, closing at \$0.40 on October 3, 2011. This is a 91% decline from their Class Period high.

LOSS CAUSATION

54. During the Class Period, as detailed herein, the Defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of AgFeed securities and operated as a fraud or deceit on Class Period purchasers of AgFeed securities by misrepresenting the Company's financial health. Later, when the Defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of AgFeed securities fell precipitously, as the prior artificial inflation came out of the price over time. As a result of their purchases of AgFeed securities during the Class Period, plaintiff and other members of the Class suffered economic loss, i.e., damages, under the federal securities laws.

FRAUD-ON-THE-MARKET DOCTRINE

55. At all relevant times, the market for AgFeed securities was an efficient market for the following reasons, among others:

(a) AgFeed securities met the requirements for listing, and was listed and actively traded on NASDAQ, a highly efficient and automated market;

(b) AgFeed filed periodic public reports with the SEC and NASDAQ; and

(c) AgFeed regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services.

56. As a result of the foregoing, the market for AgFeed securities promptly digested current information regarding AgFeed from all publicly available sources and reflected such information in the prices of the securities. Under these circumstances, all purchasers of AgFeed securities during the Class Period suffered similar injury through their purchase of AgFeed securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

57. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of AgFeed who knew that the statement was false when made.

CLASS ACTION ALLEGATIONS

58. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired AgFeed securities during the Class Period (the "Class"). Excluded from the Class are Defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

59. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. AgFeed has over 63 million shares of stock outstanding, owned by hundreds if not thousands of persons.

60. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) whether the Exchange Act was violated by Defendants;
- (b) whether Defendants omitted and/or misrepresented material facts;
- (c) whether Defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) whether Defendants knew or deliberately disregarded that their statements were false and misleading;
- (e) whether the price of AgFeed securities was artificially inflated; and
- (f) the extent of damage sustained by Class members and the appropriate measure of damages.

61. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from Defendants' wrongful conduct.

62. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

63. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

Against Defendants for Violation of Section 10(b) of the Exchange Act and SEC Rule 10b-5

64. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

65. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

66. Defendants violated section 10(b) of the Exchange Act and SEC Rule 10b-5 in that they:

(a) employed devices, schemes, and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of AgFeed securities during the Class Period.

67. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for AgFeed securities. Plaintiff and the Class would not have purchased AgFeed securities at the prices they paid, or at all, if they had been

aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

COUNT II

Against Defendants for Violation of Section 20(a) of the Exchange Act

68. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

69. Defendants acted as controlling persons of AgFeed within the meaning of section 20(a) of the Exchange Act. By reason of their positions with the Company, Defendants had the power and authority to cause AgFeed to engage in the wrongful conduct complained of herein. Defendants controlled AgFeed and all of its employees. By reason of such conduct, Defendants are liable pursuant to section 20(a) of the Exchange Act.

70. As a direct and proximate result of Defendants' wrongful conduct, plaintiff and members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to Rule 23 of the Federal Rules of Civil Procedure and certifying plaintiff as a representative of the Class;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- C. Awarding plaintiff reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: October 18, 2011

Respectfully Submitted,

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