

October 03, 2007

Issues far larger than LDK.

LDK Solar Co. Ltd's (NYSE Symbol: LDK) stock fell \$20.10 to \$51.65 from yesterday's intra-day high of \$71.75. The company has 111 million shares outstanding. LDK has lost approximately \$2.2 billion, 28%, of market value in two trading days.

During today's trading session Piper Jeffrey issued a report stating "LDK's financial controller recently left the company; some concerning allegations raised – may pressure stock and reveal better entry point. Allegations from Former Controller: We have confirmed that the LDK financial controller recently left the company. We are also aware of the former controller's allegations of poor financial controls and a 250MT inventory discrepancy, allegations were made to both the SEC and the external auditor KPMG. We have spoken to the LDK CFO about these claims and have found no reason/proof to dispute management's claim of 100MT of polysilicon in inventory/WIP. News of the departure may pressure the stock near term."

At December 31, 2006 LDK had \$132.6 million in Inventories and Prepayments to suppliers. These numbers were included in the May 2007 prospectus for LDK's Morgan Stanley IPO. At June 30, 2007 LDK reported inventory and prepayments to suppliers of \$303.7 million. Suffice to say that LDK's earnings are entirely dependent on the valuation technique and accounting policies used to create these two numbers.

The June 30th numbers were not filed as part of a customary Form 10Q quarterly statement. They are found in two single sheets attached to a August 1, 2007 press release. There is no cash flow statement, management's discussion and analysis of financial results or an officer's certification. Apparently LDK plans to treat its shareholders similarly in the third quarter.

LDK has been reporting far greater margins and lower expense ratios than its established peers despite being essentially a recent start-up. This is particularly alarming for a company that buys the same commodity its peers buy, converts the commodity and then sells it to the same market using essentially the same processes. This clearly raises questions of exactly where and how LDK differentiates itself so dramatically from its peers.

Piper Jeffrey claims to "have found no reason/proof to dispute management's claims" without any mention of how well they looked. It also stated that the controversy may reveal a "better entry point." The recommendation contains no discussion about a normalization of margins or write-downs, or even a question about valuation.

Piper's analyst rating is OUTPERFORM. I could be wrong but does that mean the entry point Piper refers to is to short LDK stock on a bounce?