

Experts question Renkes' large holding of KFx stock

PORTFOLIO: Shares were the biggest single portion of attorney general's investments.

By PAULA DOBBYN and BILL WHITE
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KFx Inc., a Denver company seeking to convert Alaska's low-grade Beluga coal into a high-energy fuel, represented an unusually large part of state Attorney General Gregg Renkes' investment portfolio, according to independent financial experts.

KFx -- Renkes' most actively traded stock -- was worth \$116,000, about 14 percent of the \$817,458 portfolio at the end of September. That sizable percentage made it the most important holding in the attorney general's account and gave him an "overweighted" position in KFx compared to a typical diversified portfolio, according to investment professionals. The second biggest holding, General Electric, was less than one-third the size of KFx, and at 4.5 percent of the total portfolio it represented a more typical size, the investment experts said.

KFx stands out as an obscure company in a 62-stock account packed with such Fortune 500 firms as Ford Motor Co., Procter & Gamble, Microsoft and McDonald's.

The attorney general's interest in KFx triggered a special investigation this month of whether he had a conflict of interest that pitted his personal finances against his official activities as attorney general.

Former U.S. Attorney Robert Bundy launched his investigation at Gov. Frank Murkowski's request after reports surfaced about Renkes' KFx holdings. The inquiry, which has an initial budget of \$25,000, is expected to focus on possible ethics violations and not insider trading, a question some analysts have considered since the information first came out.

KFx has a coal-drying technology it says could make the undeveloped Beluga coal deposits across Cook Inlet from Anchorage attractive to Taiwanese buyers. Renkes brought KFx to the attention of state trade officials, and he reviewed an agreement the state signed last month with Taiwan to promote the sale of Beluga coal processed with KFx technology.



Renkes (Photo by Marc Lester / Anchorage Daily News)

Besides the stock holdings, it was revealed that Renkes was a former technical adviser and public affairs consultant for KFX and is a business partner with John Venners, brother of KFX's chief executive, Ted Venners.

Renkes has said he did not violate the state's ethics law. That law says in part: "A public officer may not use, or attempt to use, an official position for personal gain."

He said he disclosed his stock ownership in public filings as required by law.

Renkes is a member of Gov. Murkowski's inner circle. The governor, through his spokesmen, has said he had no knowledge of Renkes' holdings in KFX.

The extent of Renkes' stock holdings is disclosed in documents filed with two sources. He files an annual financial statement with the Alaska Public Offices Commission. And, as one of six trustees overseeing the state's \$28 billion Permanent Fund, Renkes must report his buying and selling of stocks and bonds.

The disclosures show Renkes' buying and selling activity from Oct. 23, 2003, through Sept. 28. The documents reveal a busy investor.

During those 11 months, he bought or sold shares on 373 occasions -- more than once a day on average.

KFX was not only the single largest holding by far, Renkes traded no other stock more heavily. He bought or sold KFX shares on 11 occasions during the past year, boosting his holdings to 13,100 shares as of Sept. 28.

Because of the controversy, Renkes said last week, he sold all his KFX stock on Oct. 6 and is donating his profits to charity.

The attorney general has said his broker managed his stock account and bought and sold shares on his own. However, Renkes could trade stocks in his retirement account himself, and the disclosure statements place 12,000 of the KFX shares in that account. The disclosures don't reveal which account his trades were made in. Renkes' Juneau broker, Dale Anderson, has said the retirement account has had virtually no trading activity.

While Renkes and Anderson say the broker did the trading over the past year, some financial experts find that hard to believe.

"It would be highly unusual for a broker to be adding to an overweighted position without the consent of the owner," said David Gottstein, an Anchorage investment adviser and owner of Dynamic Capital Management. "I suspect each one of these trades was directed by Renkes."

Unless a broker has an extraordinary track record, it's unlikely that a client would have given him so much latitude to trade, said Richard Cohen, a University of Alaska Anchorage assistant professor of finance.

"If it were me, I would not let the guy do that much trading" without my input, Cohen said.

Renkes' ties to KFx date back to at least the late 1990s, when he was a consultant to the company.

KFx has a patented coal-drying technology called K-Fuel, designed to upgrade low-grade coal. The company has never commercialized the technology, has no operating plant and has some 20 years of losses. From 2001 through 2003, it posted only \$78,306 in revenue while amassing \$63.4 million in losses.

In October 2001, just over a year before he became Alaska attorney general, KFx gave Renkes 25,000 shares in payment for \$91,250 in professional services, according to filings with the U.S. Securities and Exchange Commission.

By the time he became attorney general in December 2002, Renkes had pared that stake to 12,000 shares, according to his financial disclosures.

But he grew his holdings while attorney general. Between Nov. 14, 2003, and last March 22, Renkes bought and then sold 3,500 shares of KFx.

In the following months, he went on a buying spree: 500 shares on April 6, 200 shares on May 4, 100 more on the same day, 100 shares on June 15 and 200 more on Aug. 3.

Between a rising stock price and the extra shares, the value of Renkes' KFx holdings mushroomed from \$31,000 in late 2002 to \$115,542 a month ago on Sept. 28.

During this last spate of buying, state trade officials who work in the governor's office were negotiating a Taiwanese trade deal that involved KFx's patented coal-drying process, called K-Fuel. The agreement envisioned a \$1 billion project in the Beluga coal field west of Anchorage, including the construction of a \$350 million coal-drying plant that would use K-Fuel.

After Renkes introduced KFx to the state officials, he publicly promoted the company in a news conference, reviewed the trade agreement for the state and appeared at a signing ceremony in Anchorage in late September.

In a Sept. 30 interview, the attorney general said he limited his involvement in the trade discussions because he "didn't think it was appropriate for me to be the deal person. But I'm knowledgeable about Asia. I'm familiar with our resources. I'm trying to help develop that relationship."

"I try to avoid all appearances of impropriety," Renkes said.

Since then, Renkes has declined interview requests. Both Renkes and the governor's office have repeatedly stated that they won't talk about anything related to KFx until Bundy's report is finished.

Financial analysts, including Gottstein, who studied Renkes' portfolio and trading activity at the Daily News' request, say several obvious questions arise.

"What did he know, and when did he know it? Did he have influence on KFx after he came into office, and did he have material, nonpublic information of KFx at any time? In either case, a

submission on a financial report doesn't cut it," Gottstein said.

Noting the five separate KFx buys totaling 1,100 shares during the past six months, finance professor Cohen said, "The timing is interesting since the Taiwanese delegation conferred with Alaska state officials beginning in March."

A person could be liable for insider trading if they misappropriate confidential material information about a company and then use that information to trade in the market, said Richard Painter, a law professor at the University of Illinois and an insider trading expert.

"If the governor's office says 'We want to include you in these negotiations,' and then the person trades on it without informing the source of the information, in this case the governor's office ... then you have misappropriation of information for purposes of trading," said Painter, adding that he doesn't know the details of the Renkes-KFx affair.

"I'm not saying he could be tagged for insider trading," Painter said.

Diane Denis, associate professor of finance at Purdue University, said, "He has to be buying shares while he knows information that the public doesn't know yet that is likely to have a material impact on the price of the stock.

Denis noted that insider trading cases can be hard to prove and that there's lots of "gray area" in the law. It would be up to the federal Securities and Exchange Commission's enforcement unit to investigate and decide whether to bring an action, Denis said.

Given the size of Renkes' KFx position, his past relationship as an adviser and his business ties with at least one KFx insider, he certainly had motivation to try to help the company, Cohen said.

"There's definitely something that doesn't smell good," he said.

Answers to some of the questions surrounding Renkes' activities may lie in a stack of state documents on KFx now under the control of Murkowski chief of staff Jim Clark.

Clark has delayed releasing those documents, sought under an Oct. 6 public records request, until sometime this week while he personally reviews them.

Reporter Paula Dobbyn can be reached at pdobbyn@adn.com or 257-4317. Business editor Bill White can be reached at bwhite@adn.com or 257-4311.