

Rocky Mountain News

KFx rushes to quench fire rumor

Stock price plunges on speculation of coal shipment fiasco

By Gargi Chakrabarty, Rocky Mountain News
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KFx Inc. scrambled on Thursday to dispel a fast-moving rumor that the company's "clean coal" is problematic.

Wall Street drove the Denver-based company's stock down about 20 percent Wednesday, with a volume that was off the charts. The huge vacillation drew the attention of the Securities and Exchange Commission.

Critics, including short sellers, said there were problems with the coal shipped to First Energy - a utility in Ohio which is commercially testing the Denver company's product. Rumors were that some of the coal of the company's first commercial shipment had "spontaneous combustion" or smoldering fire.

KFx's stock touched a 52-week low of \$10.62 in midday trading Wednesday. That prompted the company to halt trading later in the day, even as the stock rebounded to close at \$11.60, down 18.48 percent from Tuesday.

On Thursday, the stock closed at \$11.44, down 1.38 percent. The stock had hit a high of \$22 in the past year.

"Usually, a multiple of things trigger our interest, and (sharp) fluctuation in stock price is one of them," said Don Hoerl, deputy director of the SEC's Denver office, although he declined to comment about KFx specifically.

KFx Chief Executive Mark Sexton on Thursday said there were two issues with the coal shipment to First Energy, but the company decided those were not material and didn't disclose them earlier. One issue was dust from loading the product from rail to barge. Another was a higher heat content in a few of the delivered cars.

Both were resolved by spraying the fuel with water and a dust suppressor, and the shipment proceeded to the utility as expected.

"I am not aware of even one incident where K-Fuel has spontaneously combusted," Sexton said during a conference call, referring to the refined coal product made by the company. He said the warmer cars were the result of coal being exposed to many hot days near the KFx plant in Gillette, Wyo., this summer.

"It can be easily handled by paying attention to details of packing," Sexton said. "There is a lot of demand for this product, and there are a lot of people who wanted the second shipment. FirstEnergy was willing to step up and take the first one."

The issue of dust, which is common to coal from Wyoming's Powder River Basin, could be resolved by spraying the dust suppressor at the plant before shipping out the refined product.

KFx has been working for years to commercially develop its K-Fuel technology, which reduces moisture and mercury from lower-grade Western coal and makes it comparable in fuel efficiency to more expensive coal from the Eastern U.S.

To demonstrate the commercial viability of its product, KFx shipped a trainload of 14,000 tons to electric utility First Energy in Ohio last month. First Energy, which burned the coal in one of its boilers, has said it is satisfied with the results.

The history of KFx's losses in past years has made it a target of Wall Street short sellers, who gain when a stock is beaten down. Short sellers borrow stock, then sell it, hoping to pay back the shares when they're available at a lower price.

More than 20 percent of its available shares sold short on Aug. 10.

"Clearly KFx's original press release had the effect of being seriously defective," said Manuel Asensio, a New York-based short seller. "They changed the story completely."

Asensio added, "One of the most important points is that KFx has not independently verified that what they shipped in fact was Powder River Basin coal that had been processed at their plant."

KFx said its news releases have been approved by First Energy.

Some analysts agreed KFx could have averted Wednesday's fiasco by simply mentioning those issues in its press release last week.

Paul Clegg, an analyst Natexis Bleichroeder Inc., said the heavy shorting of KFx stock makes it vulnerable to news. But he also noted that short sellers have been proved wrong in the past, when they said KFx would not be able to produce and ship K-Fuel.

KFx said has said it has other customers lined up, although it has not disclosed their identities or delivery schedules.

"I think KFx is going to be cautious with information because people tend to latch on and manipulate the information, and the user of K-Fuel would be suddenly under attack," said Clegg, who has set a \$25 target price on the stock.

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