

AHEAD OF THE TAPE

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\* At Market Close  
Losing Heat

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KFx Inc. is a company that aims to make low-quality coal burn better. Lately, its shareholders might be feeling burned.

The Denver company processes coal from Wyoming's Powder River Basin, home to one of the world's largest coal deposits. The commodities boom has gotten investors agog with energy plays. Since 2002, KFx's share price has more than quadrupled.

KFx's coal is low in sulfur and ash, meaning it can potentially burn cleaner than more expensive Eastern coals. But it's hard to process because it is dusty and has high water content, which prevents it from throwing off much heat and makes it hard to transport. The key for the company is proving its process solves those problems. Wall Street is starting to wonder.

On Sept. 1, KFx shares fell 5% after Pacific Growth Equities analyst Michael Horwitz said he'd heard that one of KFx's industrial customers had rejected a delivery of coal because it didn't produce enough heat and its dust content was high and unsafe.

The company fired back with a press release saying Mr. Horwitz's report was an "apparently malicious attempt to damage our stockholders" without "any attempt to verify the facts." The company said it had notified the Securities and Exchange Commission and that it would "seek appropriate remedies."

Mr. Horwitz said in a research note he tried to contact KFx's management prior to his comment. He wouldn't comment. In an email, KFx director of investor relations Karli Anderson says the company is "at a loss" to explain Mr. Horwitz's actions.

Then last week, KFx's share prices fell even more after it announced a test run at a different customer, utility operator FirstEnergy. Investors felt the release was short on details, then in a follow-up, KFx said there had been excess dust in a delivery to FirstEnergy and that a few of the coal cars it shipped arrived with "elevated heat content."

Short-sellers -- who make bets that shares will fall -- are smelling blood. One critic, Manuel Asensio, has posted videos and pictures on the Web purporting to document KFx problems. Right or not, it's a sign, perhaps, that the commodities boom is losing heat.

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