



*United States Attorney
Southern District of New York*

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**SECURITIES LAWYER ARRESTED IN \$10 MILLION
"PIPE" INVESTMENT FRAUD**

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, announced that securities attorney LOUIS W. ZEHIL was charged today with engaging in a fraudulent scheme through which he obtained unregistered, restricted securities issued in "PIPE" transactions, and immediately sold the shares under the false pretense that they were registered and freely tradable, reaping illicit profits of more than approximately \$10 million. According to the Complaint filed earlier today in Manhattan federal court:

ZEHIL, a partner with the McGuire Woods law firm until he resigned on February 16, 2007, specialized in representing small companies seeking to become public through reverse mergers (transactions in which private companies become publicly-traded via mergers into shell corporations the stock of which is publicly-traded) and obtaining new capital through private placements of stock. In order to generate financing for the newly-merged public company, ZEHIL assisted these companies in offering securities in "PIPE" transactions (private investment in public equity) near the time of their reverse mergers. In such PIPE transactions, investors commonly commit to purchase a certain number of restricted shares from an issuer at a specified price at a discount to the market price (or expected market price after the reverse merger). In turn, the issuer agrees to file a resale registration statement at a later date so that the investors can sell their shares in the public market.

Under the terms of the PIPE transactions at issue in this case, as described in the Complaint, the stock issued to the PIPE investors was not freely tradeable because it was not registered with the United States Securities and Exchange Commission (the "SEC"). Consequently, all shares issued in the PIPE transactions were required to bear restrictive legends until such time as those shares are registered with the SEC and the SEC

declares the registration statements for those securities effective. The PIPE investors typically entered into "registration rights" agreements that allowed them, at a future date, to register for resale the securities they obtained in the PIPE transactions.

Between January 2006 and February 2007, ZEHIL represented the following seven companies in connection with their issuance of stock pursuant to PIPE transactions: Gran Tierra Energy, Inc.; Foothills Resources, Inc.; MMC Energy, Inc.; Alternative Energy Sources, Inc.; Ethanex Energy, Inc.; GoFish Corp.; and Kreido Biofuels, Inc. (collectively, the "Charged Transactions").

ZEHIL personally invested in each of the Charged Transactions through two nominee entities, Chestnut Capital Partners II ("Chestnut") and Strong Branch Ventures IV, LP ("Strong"). Investors in each of the Charged Transactions, including ZEHIL, through Strong and Chestnut, agreed that the shares they received would bear restrictive legends (that would prevent their resale) until such time as the issuers filed registration statements with the SEC and the SEC declared the registration statements effective.

ZEHIL, as counsel for the issuers in the Charged Transactions, sent opinion letters to the issuers' stock transfer agents directing that all of the issued shares should bear restrictive legends except the shares issued to ZEHIL's nominees, Strong and Chestnut. ZEHIL's letters falsely claimed that the shares issued to Strong and Chestnut satisfied legal criteria permitting them to be issued without a restrictive legend. As a result, ZEHIL was able to receive shares without restrictive legends and, almost immediately thereafter, he sold them in the public market. In all cases, he did this before the issuers had filed registration statements with the SEC. By obtaining stock free of the restrictive legends, ZEHIL was able to sell these shares immediately in the public market at a profit in advance of the other PIPE investors. The Complaint alleges that ZEHIL reaped over \$10 million in profit through these illicit sales.

This matter was reported to the United States Securities and Exchange Commission by the McGuire Woods law firm, which is cooperating with the Government investigations.

ZEHIL, 41, is a resident of Jacksonville, Florida. ZEHIL surrendered today and will be presented before a United States Magistrate Judge. If convicted, ZEHIL faces a maximum sentence of 20 years' imprisonment and a fine the greatest of \$5 million, twice the gross gain from the offense, or twice the

gross loss to the victim.

Mr. GARCIA praised the efforts of the Criminal Investigators of the United States Attorney's Office in this investigation, and thanked the Securities and Exchange Commission for its assistance in the investigation of this case. Mr. GARCIA also said the investigation is continuing.

Assistant United States Attorney JOSHUA KLEIN is in charge of the prosecution.

The charges contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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