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Former McGuireWoods Partner Arrested on Fraud Charges

Anthony Lin
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A former New York law firm partner who allegedly made almost \$18 million trading in the securities of his clients has been arrested on fraud charges.

Louis W. Zehil, until Feb. 16 a partner in the New York office of Richmond, Va.'s McGuireWoods, allegedly used his position as issuer's counsel in seven private placement transactions occurring between January 2006 and last month to accumulate millions of discounted shares, absent the sale restrictions such discounts generally entail. He allegedly sold the stocks at a vast profit.

Zehil, 41, now faces up to 20 years in prison and millions in fines on fraud charges brought by the Southern District U.S. Attorney's Office. He is also facing a civil suit brought by the Securities and Exchange Commission, which is seeking disgorgement of his allegedly ill-gotten gains.

The ex-partner was arraigned Wednesday before Southern District of New York Magistrate Judge Henry Pitman but not required to enter a plea. He was released on a \$250,000 personal recognizance bond. Andrew M. Lawler, Zehil's lawyer, declined to comment on the case Wednesday.

The case has unfolded swiftly. According to the criminal complaint issued Wednesday, Zehil's actions were first uncovered by a McGuireWoods associate, who reported them to firm management on Feb. 9. The firm then conducted an internal investigation, contacted clients, sought Zehil's resignation and referred the matter to the SEC.

"The actions described in today's filings are totally inconsistent with the high standards of ethics and integrity that are the very foundation of our firm," McGuireWoods chairman Richard Cullen said in a statement Wednesday. He added that Zehil had apparently acted on his own benefit and that the 750-lawyer firm would continue to cooperate with authorities in the matter.

A onetime Navy lieutenant, Zehil joined McGuireWoods' 35-lawyer New York office as a partner in 2004. He had previously been an associate in the New York office of Jones Day. A 1995 Columbia Law School graduate, Zehil also



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previously worked in New York for Hale and Dorr and White & Case.

Zehil specialized in representing small companies in so-called reverse mergers and PIPE (private investment in public equity) transactions. In the former, small companies go public by merging into publicly traded shell corporations. Reverse mergers are often financed through PIPE transactions in which investors in the new entity are allotted blocks of discounted shares, the sale of which are restricted for a period of time.

Such shares are supposed to bear a restrictive legend. But Zehil, hired as counsel to seven companies participating in PIPE transactions, allegedly sent opinion letters to the companies' stock transfer agents directing them to issue shares without such legends to two investment groups, Strong Branch Ventures IV and Chestnut Capital Partners II.

According to prosecutors, the sole shareholders in these two entities were Zehil and his wife. When confronted by McGuireWoods, Zehil allegedly admitted issuing the opinion letter but denied ownership of either the Strong or Chestnut groups. But prosecutors say Zehil was the only person authorized to trade their securities and that he had personally directed the transfer of millions of dollars for his personal benefit, including the purchase of real estate and jewelry, the services of an interior decorator and a country club membership.

Through Strong and Chestnut, Zehil allegedly purchased large blocs of discounted shares, which he was then free to sell immediately. According to the SEC, the partner netted about \$17.8 million from a series of stock sales, the most recent of which took place earlier this month. The SEC claims Zehil still had almost 3 million unsold shares at the time he was caught.

The seven small companies Zehil was representing were Gran Tierra Energy Inc.; Foothills Resources Inc.; MMC Energy Inc.; Alternative Energy Sources Inc.; Ethanex Energy Inc.; GoFish Corp.; and Kreido Biofuels Inc. Most were involved with either energy exploration or the development of renewable energy sources. GoFish operates a video Web site similar to the more well-known YouTube.

McGuireWoods spokesman William Allcott said Wednesday that the firm had discussed the matter at length with all of the companies.

"We have been very gratified by the support of our clients who recognize this was a complete aberration," he said.

Though previously listed on the firm's Web site as a partner in its New York office and only admitted to practice in New York, Zehil was a resident of Ponte Vedra Beach, Fla., who also frequently worked out of McGuireWoods' Jacksonville, Fla., office.

The SEC charges that the Strong and Chestnut investment groups both used Zehil's Florida address.