



*United States Attorney
Southern District of New York*



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**FORMER LAW FIRM PARTNER SENTENCED IN MANHATTAN FEDERAL
COURT TO THREE YEARS IN PRISON FOR \$17 MILLION
SECURITIES FRAUD**

PREET BHARARA, the United States Attorney for the Southern District of New York, announced that LOUIS W. ZEHIL was sentenced today to three years in prison for his participation in a fraudulent "PIPE" transaction scheme. ZEHIL obtained unregistered, restricted securities, which he then sold under the false pretense that they were registered and freely tradable. As a result of the scheme, he reaped approximately \$17 million dollars in illicit profits. ZEHIL pled guilty to one count of conspiracy and one count of securities fraud in March 2010. The sentence was imposed in Manhattan federal court by U.S. District Judge DEBORAH A. BATTIS.

According to documents previously filed in Manhattan federal court and statements made during court proceedings:

ZEHIL, a former law firm partner, specialized in both representing small companies seeking to become public through reverse mergers and obtaining capital for those companies through private placement transactions. Typically, these companies would enter into a "PIPE" private placement transaction to generate financing for the newly merged public company.

Under the terms of the PIPE transactions, the stock issued to the PIPE investors was not freely tradeable because it was not registered with the United States Securities and Exchange Commission ("SEC"). Consequently, all shares issued in the PIPE transactions were required to bear restrictive legends until such time as those shares were registered with the SEC and the SEC declared 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 the securities they obtained in the PIPE transactions for resale.

Between January 2006 and February 2007, ZEHIL represented the following seven companies that issued 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 invested in each of the Charged Transactions through nominee entities he controlled (the "Entities"). Investors in each of the Charged Transactions, including ZEHIL, and the Entities entered into subscription agreements for each such transaction, pursuant to which they agreed that the shares they received would be issued with 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.

Acting as counsel for the issuers in the Charged Transactions, ZEHIL sent opinion letters to the issuers' stock transfer agents directing the issuance of restricted shares to the PIPE investors. ZEHIL's letters instructed that all of the issued shares should bear restrictive legends except the shares issued to the Entities. ZEHIL's letters stated, falsely, that the shares issued to the Entities satisfied legal criteria permitting them to be issued without a restrictive legend.

As a result, ZEHIL was able to receive shares without restrictive legends. Almost immediately after Zehil obtained these free trading shares of the issuers' stock, he deposited them in securities trading accounts and sold them before the issuers had filed any registration statements with the SEC. By obtaining stock free of the restrictive legends, ZEHIL was able to sell these shares immediately in the open market at a profit, in advance of the other PIPE investors. ZEHIL reaped approximately \$17 million dollars in profit through these illegal sales.

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In addition to his prison term, Judge BATTIS sentenced ZEHIL, 45, of Jacksonville, Florida, to 3 years of supervised release. Judge BATTIS also ordered ZEHIL to forfeit \$17 million which represent the proceeds of the fraud, ordered ZEHIL to pay restitution to the victims of the offense, and imposed a \$10,000 fine.

Mr. BHARARA praised the efforts of the Criminal Investigators of the U.S. Attorney's Office for the Southern District of New York. He also thanked the Securities and Exchange Commission for their assistance in the investigation of this case.

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This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorney EUGENE INGOGLIA is in charge of the prosecution.

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