In The News

Chamberlain Hrdlicka Accused of Exploiting Client Info

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Law360, Dallas (December 23, 2014, 5:21 PM ET) -- A suit filed in Dallas state court alleges Chamberlain Hrdlicka White Williams & Aughtry PC exploited confidential information from an investment adviser client to help investors bring claims against the client related to a tax strategy dispute, costing it millions.

Eight entities affiliated with Gramercy Advisors LLC allege in a suit filed Friday that Chamberlain Hrdlicka never disclosed a conflict of interest that emerged when the firm allegedly helped individual investors bring claims against Gramercy without telling its client. The suit alleges that while Chamberlain was retained to help Gramercy fight the Internal Revenue Service, the firm's attorneys were helping individual investors marshal lawsuits against Gramercy over the failed tax strategy.

Chamberlain's managing partner denies wrongdoing and says the firm will fight the suit.

"Our tax lawyers have read the petition. They maintain that is not only without merit, it is a work of fiction," Chamberlain Hrdlicka managing partner Wayne Risoli said Tuesday. "We will vigorously defend it."

According to the suit, Gramercy's troubles began in 1999, when it was hired by investors to implement "tax-advantaged transactions" designed to offset the investors' income and capital gains by creating a high tax basis in special-purpose investment vehicles that acquired large amounts of highly distressed foreign debt. The transactions, which Gramercy says it did not design or develop, would create a tax loss when the investment vehicles resold the debt.

Gramercy says the IRS ultimately disallowed the income offsets and assessed substantial penalties to the investors and their investment vehicles, which were mostly structured as limited liability companies.

Gramercy claims it retained Chamberlain Hrdlicka to create a steering committee to raise funds to assist the investors and LLCs in pursuing claims against the IRS, but that the firm also represented a number of the investors in trying to negotiate with and potentially litigate against the IRS.

The suit alleges Chamberlain Hrdlicka attorneys then advised the investors they likely held legal and equitable causes of action against their tax strategist and against Gramercy — advice Gramercy claims came only from the attorneys' review of privileged, confidential information. The Gramercy entities allege Chamberlain Hrdlicka owed a fiduciary and professional duty to the LLCs and to Gramercy that precluded the firm from continuing to represent the investors, but that the firm didn't withdraw from any of its representations or disclose the alleged conflict of interest.

The investment adviser claims Chamberlain Hrdlicka made clear Gramercy was a client in correspondence that spanned the better part of the 2000s, and "deliberately cultivated the appearance of undivided loyalties" with Gramercy and the investors.

"While concealing its split loyalties from Gramercy and the investment LLCs, Chamberlain secretly advised the investors of their potential causes of action against Gramercy and counseled them to sue Gramercy, in part to pursue a strategy that would increase the chances that the investment LLCs would prevail in litigation with the IRS at the expense of Gramercy," the suit says.

The Gramercy entities are represented by David Mattka of Munsch Hardt Kopf & Harr PC and by Sean F. O'Shea and Michael E. Petrella of O'Shea Partners LLP.

Counsel information for Chamberlain was not immediately available.

The case is Gramercy Advisors LLC et al. v. Chamberlain Hrdlicka White Williams & Aughtry PC, case no. DC-14-14763, in the 162nd District Court of Dallas County, Texas.

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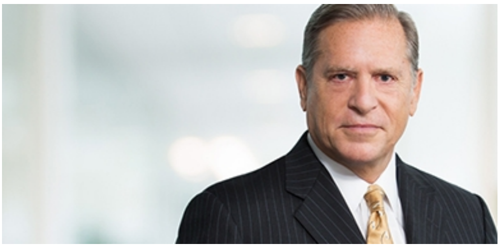

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