

Decision

The eight members¹ of the Disciplinary Commission by a majority of six² adopt the Hearing Officer's findings of fact and conclusions of law in their entirety but modify *de novo* the recommended sanction to reflect disbarment and the costs of these disciplinary proceedings.

Discussion

The Disciplinary Commission's standard of review is set forth in Rule 58(b). The Commission applies a clearly erroneous standard to findings of fact and reviews questions of law *de novo*. The Commission gives great deference to the Hearing Officer's Report and Recommendation. *Matter of Pappas*, 159 Ariz. 516, 768 P.2d 1161 (1989).

Respondent is an experienced patent lawyer who represented TASER, the stun gun manufacturer, in various proceedings beginning in January 2001 and continuing through January 2005. Respondent was first retained to defend a patent infringement suit. As part of his fee for that work Respondent was given stock options valued at \$75,000. At the time those options were issued they were worth \$75,000 and they were issued in lieu of paying Respondent \$75,000 in fees. At his direction, one-third of those options, valued at \$25,000, were given to his paralegal. Respondent did not advise TASER to consult with independent counsel prior to entering into the stock option transaction with Respondent. Years later when the options were exercised, Respondent realized a profit of \$970,000 and his paralegal realized a profit of \$464,801.

Respondent asserts that in April 2002, while still representing TASER as an attorney,

¹ Commissioners Katzenberg and Osborne did not participate in these proceedings. Former Commissioner Steve Nelson, M.D., participated as an ad hoc member.

² Commissioner Atwood and former Commissioner Nelson would have adopted the Hearing Officer's recommendation. See Commissioner Atwood's dissenting opinion below.

he independently invented a new power source for use in stun guns. Respondent contends that he explained his invention to Max Nerheim, TASER's Vice President of Research and Development. Respondent testified he never intended to give his invention to TASER gratuitously. Respondent met with TASER's management in August 2002 to discuss a proposed new stun gun called the X26. During that meeting Mr. Nerheim represented he had developed the technology for the X26, which included the invention Respondent claims he invented.

Respondent did not dispute Mr. Nerheim's statement at that time or disclose his claim that he had invented a portion of the X26 technology to TASER's management. Instead, he allowed TASER to hire him to review the X26 technology and determine whether it could be patented. Respondent maintains he had no duty to disclose his claim of invention to TASER (or the fact that Mr. Nerheim was lying to TASER management) because he did not believe he could satisfy the burden of proof required under patent law to establish that claim.

Respondent ultimately advised TASER that the X26 technology could be patented and TASER hired him to prepare a patent application. Respondent thereafter, prepared and filed the application, which included Mr. Nerheim's declaration identifying Mr. Nerheim as the sole inventor of the X26 technology. Respondent also drafted and had Mr. Nerheim sign a document assigning that patent to TASER. Again, that document identified Mr. Nerheim as the sole inventor. Respondent filed those documents with the United States Patent and Trademark Office ("USPTO") in February 2003. He prepared and filed subsequent documents identifying Mr. Nerheim as the inventor in May and July 2003. TASER then spent approximately \$1 million developing and promoting the X26 device based on its belief

that Mr. Nerheim, as sole inventor, had assigned all his patent rights to TASER.

Respondent testified that he was aware that all of the documents, which identified Mr. Nerheim as the sole inventor, were false when he filed them with the USPTO. According to Respondent, he owed no duty of candor to the USPTO because he believed he could not prove his claim of invention.

In December 2004, after Respondent and his paralegal had exercised and received the benefit of their stock options, TASER hired Respondent to prosecute a false advertising claim against a competitor. Respondent testified it was only in the course of preparing the false advertising case that he realized that he could satisfy the burden of proof needed to establish his claim that he was a joint inventor of the X26 technology. Respondent argues it was only then that a conflict between his interests and those of TASER arose. Respondent first disclosed his claim that he was a joint inventor of the X26 patent to TASER in January 2005, 27 months after TASER had hired him to review the X26 technology and apply for a patent showing Mr. Nerheim as the sole inventor. Ultimately, Respondent demanded TASER pay him \$10 million to relinquish his claim that he was a joint inventor of the X26 technology. When TASER refused, he filed an application with the USPTO to have himself declared a joint inventor of the X26 patent.³

The Hearing Officer concluded these facts established that Respondent violated ERs 1.4, 1.6, 1.7(a)(2), 1.8(a), 1.8(b), 1.9(b), 1.13(b), 1.16(a)(1), 3.3(a), 3.4(b), 5.4(a), 8.4(a), 8.4(c), and 8.4(d). The Commission agrees. The majority's only disagreement with the Hearing Officer is with regard to the recommended sanction.

³ TASER subsequently filed a civil action against Respondent in Superior Court and obtained summary judgment on the conflict of interest issue. That ruling is not binding here as the Superior Court action carried the lower preponderance of evidence burden of proof rather than the clear and convincing evidence standard applicable in disciplinary actions.

The ABA *Standards for Imposing Lawyer Sanctions* (“Standards”) provides a useful guideline for determining the appropriate sanction for attorney misconduct. *In re Kaplan*, 179 Ariz. 175, 877 P.2d 274 (1994). Under the *Standards*, we must consider the duty violated, the lawyer’s mental state, and the actual or potential injury caused by the misconduct. The Hearing Officer found Respondent intentionally violated four separate duties, three of which carry a presumptive sanction of disbarment. The fourth carries a presumptive sanction of suspension. See *Standard 4.31* (Failure to Avoid Conflicts of Interest); *Standard 4.61* (knowingly deceiving client with intent to benefit lawyer); *Standard 6.11* (Lack of Candor to tribunal); *Standard 7.2* (Violation of duty to the profession).

Respondent’s defense rests on his assertion that because he did not think he could prove his claim of invention, he did not owe his client, TASER, a duty to disclose the existence of that claim. Further, Respondent asserts that because he did not think he could prove his claim, he was free to file sworn statements he believed to be false with the USPTO and not disclose their falsity to his client. The Hearing Officer correctly rejected those assertions. The issue is not, as Respondent argues, whether he could prove his claim of invention. His duty to disclose extended to potential as well as actual conflicts. E.R. 1.7(a)(2) (“A concurrent conflict of interest exists if: . . . (2) there is a significant risk that the representation of one or more clients will be materially limited by . . . a personal interest of the lawyer.”).

As this case demonstrates, a lawyer’s duty of undivided loyalty cannot depend on whether changing circumstances make the lawyers’ adverse claim stronger or weaker. It is the client’s decision whether a conflict should be waived, not the lawyer’s. If Respondent had told TASER in 2002 that Mr. Nerheim was lying and Respondent was, in fact, a co-inventor of the X26 technology, TASER could well have decided that it wanted to retain

independent counsel. It might have decided to challenge Respondent's claim of invention before it spent \$1 million to develop and market the X26. Alternatively, it might have decided to try to write the patent application so as to eliminate Respondent's claim. TASER might have attempted to negotiate with Respondent before the X26 had become a commercial success, or it might have decided to pursue an alternative technology. TASER did not get to make any of those decisions in this case because Respondent failed to disclose the conflict and deceived his client.

Equally important, a lawyer's duty of candor to a tribunal does not depend on whether the lawyer can prove the evidence being submitted is false. The fact that the lawyer believes it is false means it cannot be submitted. See E.R. 3.3(a) ("A lawyer shall not knowingly: . . . (3) offer evidence that the lawyer knows to be false."). Essentially, Respondent argues that a lawyer is free to present what he actually knows to be false, perjured testimony as long as the lawyer cannot prove it to be false. That has never been and should never become the rule governing a lawyer's duty of candor to a tribunal.

Although somewhat less serious than his conflict of interest and lack of candor violations, Respondent's fee splitting with his paralegal also violated his duty to his client. The prohibition on sharing legal fees with non-lawyers, ER 5.4, is intended to prevent a non-lawyer from obtaining a vested interest in an attorney's disposition of a case that could take preeminence over a client's best interest. See *Anonymous Member of S.C. Bar*, 295 S.C. 25, 367 SE2d 17 (1988). The non-lawyer's compensation cannot be a percentage of or otherwise contingent on the lawyer's revenue in an individual matter. *Id*; *In re Bass*, 227 B.R. 103, 110 (ED Mich 1998) (Profit sharing arrangement is permissible if it relates to business performance of the firm, rather than receipt of particular fees); *State Bar of Texas v.*

Faubion 821 S.W.2d 25 203 (App 1991); *Gassman v. State Bar*, 18 Cal 3d 125, 553 P.2d 1147, 132 Cal Rptr 675 (1976).

Here Respondent entered into an agreement under which TASER hired him to represent it in a patent infringement suit for \$40,000 in cash and \$75,000 in stock options. At Respondent's request, TASER paid one-third of the stock options to his paralegal. That was a percentage of Respondent's revenue in that particular case. More importantly, it gave the paralegal an interest in minimizing the effort expended in the suit (as she was in essence working for a fixed fee). This is exactly the type of interest condemned by ER 5.4. The record does not establish any actual injury resulted from this violation so the presumptive sanction is suspension under *Standard 7.2*, rather than disbarment under *Standard 7.1*.

When, as here, multiple violations are present, the ultimate sanction generally should be consistent with the sanction for the most serious violation. The other violations are treated as aggravating factors. *See Standards* at page 6; *In re Redeker*, 177 Ariz. 35, 868 P.2d 318 (1994). The most serious violations in this case involve Respondent's failure to disclose his conflict of interest to his client and his lack of candor to that client and the USPTO. All three violations carry a presumptive sanction of disbarment.

The Hearing Officer correctly found three aggravating factors: selfish or dishonest motive (9.22(b)), refusal to acknowledge wrongful nature of misconduct (9.22(g)), and substantial experience in the practice of law (9.22(i)). In mitigation, the Hearing Officer, also correctly, found an absence of prior discipline. (9.32). The Hearing Officer gave great weight to the sole mitigating factor in recommending a four-year suspension rather than the presumptive sanction of disbarment.

It is on that last point that a majority of the Commission disagree with the Hearing Officer. The majority does not think that the absence of prior discipline, standing alone, is

sufficient to justify a departure from the presumptive sanction of disbarment in this case. The Hearing Officer relied, in part, on *Virginia State Bar, ex rel. v. Lynt*, Chancery No. CH04-001593 (2004), in which a two-year suspension was imposed based on the lawyer's violation of client confidences for the lawyer's own advantage. *Lynt* arose out of a patent application and does bear some similarity to this case, but it involved only a single violation.

The Hearing Officer found Respondent's conduct in this case was intentional, involved multiple violations, was ongoing, undertaken for Respondent's personal profit, and caused his client actual harm in the form of increased attorneys fees and serious potential harm in that it might result in the loss of valuable intellectual property rights. The Hearing Officer specifically found Respondent's conduct was intentional, in bad faith and undertaken in hopes that he would receive millions of dollars. The nature and extent of Respondent's misconduct and his complete disregard for his ethical obligations in the service of his own greed serves to distinguish this case from those cited below. A majority of the Commission, therefore, concludes that the presumptive sanction of disbarment is appropriate in this case.

Conclusion

Lawyer discipline is intended to deter the individual respondent from re-offending and other attorneys from engaging in similar unethical conduct. *In re Kleindienst*, 132 Ariz. 95, 644 P.2d 249 (1982). It also serves to instill public confidence in the bar's integrity. *Matter of Horwitz*, 180 Ariz. 20, 29, 881 P.2d, 352, 362 (1994). The sanction in each case should be imposed with an eye towards maintaining the integrity of the legal system. *In re Fioramonti*, 176 Ariz. 182, 187, 859 P.2d 1315, 1320 (1993). In order to fulfill those goals in light of the Hearing Officer's findings and conclusions and its own analysis of the

Standards, the Disciplinary Commission recommends that Respondent be disbarred and ordered to pay the costs of these disciplinary proceedings.

RESPECTFULLY SUBMITTED this 8th day of February, 2007.



J. Conrad Baran, Vice-Chair
Disciplinary Commission

Commissioner Atwood dissenting:

After a full hearing, the Hearing Officer determined that a four-year suspension was adequate to protect the public and was an appropriately severe sanction for the misconduct in question. The Hearing Officer gave particular weight to the fact that Respondent has had a long career in the legal profession without any disciplinary infractions. Under the circumstances, I agree that the absence of prior discipline over several decades of practice is a significant factor in mitigation and justifies a lesser sanction than disbarment.

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Copy of the foregoing mailed
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