

BEFORE THE ARKANSAS SUPREME COURT
COMMITTEE ON PROFESSIONAL CONDUCT
PANEL A

IN RE: **STEPHEN EWING MORLEY**, Respondent
Arkansas Bar ID # 79215
CPC Docket No. 2016-120

CONSENT FINDINGS & ORDER

The formal charges of misconduct upon which this Consent Order is premised, involving respondent attorney Stephen Ewing Morley of North Little Rock, Pulaski County, Arkansas, arose from information brought to the attention of the Committee on Professional Conduct by the Arkansas Department of Finance & Administration in 2015. The facts of the case are complex. The following narrative discusses the entire sequence of events, including matters in which Morley asserts he did not personally participate:

1. The taxpayers, businesses, entities, and people involved in this case, as identified by Assistant Revenue Commissioner John Theis in his February 19, 2015, referral letter to OPC are:

a. Royal Liquor Store ("Royal Liquor" or "Royal"), 117 East Iowa Street, Dermott, Arkansas: the liquor store owned as a Lee sole proprietorship, and operated by the Belser Lee family members from at least the 1970s to 2014. The store permanently closed in mid-2014 and its state alcoholic beverage permits lapsed later in 2014.

b. Mark Ply ("Ply") - long-time bookkeeper/accountant for Royal and the Lees, who at times prepared appraisals or evaluations of Royal's property and assets and prepared tax returns for Royal and the Lees.

c. Perry Wine & Spirits, LLC ("Perry Wine") - an LLC formed January 22, 2008,

by Stephen Morley ("Morley"), with James Shaun Perry ("Perry") as the incorporator and, purportedly, Raymond Block ("Block") as registered agent for service, allegedly to purchase Royal Liquor Store. (Ex. 13) Perry Wine operated under the registered fictitious name of Royal Liquor.

d. Dermott Wine & Spirits, LLC ("Dermott Wine") - the Theis/Dougherty letter (Ex. A at page 2) states this is or was a second LLC formed by Morley to purchase the Perry Wine interest in Royal Liquor. This does not appear to be completely accurate. The records of the Arkansas Secretary of State (ASOS) in an on-line printout, (Ex. 13-C), appear to show Dermott Wine was not initially formed and filed as a new, separate entity, but rather arises from a name change from Perry Wine to Dermott Wine on February 27, 2011, (Ex. 32), after Shawn (sic) Perry (Seller) and Raymond Block (Buyer) entered into the Membership Sale Agreement, (Ex. 28), on May 23, 2010, by which Perry divested himself completely of the 100% ownership/membership in Perry Wine to Block. The records of ASOS show Perry Wine, whose incorporation was filed January 22, 2008, later renamed Dermott Wine, had its corporate status revoked by January 2, 2014. (Ex. 13-D)

e. BJJ Management, Inc. ("BJJ") - a corporation formed by Morley in March-April 2008 (Exs. 17, 18, 19) to manage Royal Liquor on behalf of Perry Wine and later Dermott Wine. The corporate status of BJJ now shows as "revoked." BJJ is believed to stand for Belser J. Lee.

f. Belser J. Lee - long-time owner of Royal Liquor Store and father of Curtis, Dennis, and Shueylin Lee. Belser Lee died in March 2003. (Ex. 3)

g. Edna Lee - assumed ownership of Royal Liquor Store in September 2003 after

the death of her husband, Belser Lee. Ms. Lee died in 2016.

h. Curtis Lee - long-time manager of Royal Liquor Store, the President of BJJ Management, Inc., and a son of Edna Lee. (Exs. 18, 19)

i. James Shaun Perry (a/k/a James Shawn Perry) ("Perry") of McGehee, AR - a retired police officer, and sole member/owner of Perry Wine & Spirits, LLC, until the paper transfer to Raymond Block of membership/ownership in May 2010. (Ex. 28)

j. Raymond E. Block ("Block") of Dermott, AR - listed as a truck driver in May 2010, and sole member and operating manager of Dermott Wine & Spirits, LLC. (Exs. 28, 32)

k. Dennis Lee - son of Edna Lee, brother of Curtis and Shueylin Lee, long-time employee of Royal Liquor Store, and the Vice-President of BJJ Management, Inc. (Ex. 17)

l. Shueylin Lee - son of Edna Lee, brother of Curtis and Dennis Lee, occasional employee of Royal Liquor Store, friend of Shaun Perry, and Secretary of BJJ Management, Inc. (Ex. 17)

m. Joshua Freegard ("Freegard") - of either Dermott, Arkansas or Surprise, Arizona, was reported as a 20-25% shareholder on the 2008 and later years tax returns for BJJ Management, Inc., and appears as the person to whom notice was to be given to purchaser Dermott Wine in the November 2007 Asset Purchase Agreement between Edna Lee and Perry Wine. (Ex. 9, Sec. 9.2) He is believed to possibly be a Lee relative and to possibly have worked in Royal Liquor at times. He has been employed for various financial services businesses over the years in various states, according to his FINA Brokercheck Report.

n. Arkansas Department of Finance & Administration - Revenue Division ("Department" or "DF&A"). Personal and business tax returns filed by some persons and entities

here are confidential records by state law and copies are not made exhibits to this Complaint, although copies provided to OPC by the Department pursuant to OPC subpoena are available in the OPC file if needed for review.

o. Stephen E. Morley (“Morley”) - an Arkansas lawyer licensed in 1979, with offices in North Little Rock (113 highway map miles from Dermott) and Arkansas City (about 18 highway map miles from Dermott). During relevant times here, Morley listed on his letterhead that he was a deputy prosecuting attorney in Desha and Chicot Counties. He also lists his late father, attorney Dean R. Morley (1910-1998), as having been affiliated with the Morley Law Firm. Both Dean Morley and Steve Morley are believed to have practiced extensively in the area of “liquor law” in Arkansas for many years. OPC received no information, documents, or input from or on behalf of Steve Morley during the investigation that led to the preparation of the formal Complaint.

p. Charles Sidney Gibson (Bar #70027) and his son Charles S. “Chuck” Gibson, II (Bar #90030) - have practiced law together as the Gibson Law Office in Dermott for many years.

2. As related by Theis in his February 2015 letter (Ex. A), the Complaint against Steve Morley arises in relation to Morley’s representation of the Dermott business known throughout this narrative as Royal Liquor Store and of its owners, the Lee family, in an audit protest in 2007 and another audit protest in 2014. During the Department’s investigation of the 2014 protest, it became clear to the Department that Curtis Lee and possibly other Lee family members, working though or with Morley, had created and carried out a scheme and sham transfer of ownership of

Royal to defraud the Department, in order to very cheaply resolve for the Lee family the previous 2006 audit assessment and the protest of the audit and assessment in 2007.

3. The material facts were obtained when the Department conducted the second audit of Royal Liquor Store in 2013, to which Morley filed another protest. Morley thereafter provided DF&A the requested documents. Curtis Lee, Shaun Perry, and Raymond Block, Block being a purported owner of Royal Liquor by purchase in 2010 from Perry, were each personally assessed liability. (Exs. 46, 47, 48) Morley requested a protest hearing for Block. (Ex. 43) On June 4, 2014, Perry (Ex. 53), Lee (Ex. 54), and Block (Ex. 55) each requested an appeal in what appear or purport to be separate, personally-prepared letters all faxed at the same time from the same drug store in Dermott by someone. After hearings on October 3, 2014, at which only Lee and Perry appeared, on October 28, 2014, Personal Liability Assessments (liens) were issued against each of the three taxpayers for \$296,650.81. (Exs. H, J & K)

4. The Department complaints involve the gross receipts and alcohol excise tax audits and protests by Royal Liquor in 2007 and 2013. The Theis referral letter lays out in detail the misconduct by attorney Morley in each audit matter. Ex. 1 charts the relationships of the various actors in these matters.

5. Belser Lee operated Royal Liquor, with help from his family, from at least the early 1970s until his death in March 2003. He had a unique hand-tally method of sales record keeping, (Ex. 68), which was maintained by his son Curtis to the end of the business in 2014.

6. After Belser Lee's death in March 2003, his widow Edna Lee, listed as "100% owner," applied for the Royal Liquor Sales and Use Tax Permit in September 2003. (Ex. 4)

7. Although available documents show Edna Lee owned Royal Liquor in 2006 as a sole

proprietorship, her son Curtis Lee was the store manager and dealt with department audit representatives on behalf of Royal during the 2006 audit. (Exs. 1-6)

8. By letter of July 14, 2007, addressed to Curtis Lee, DF&A set up an audit appointment for Royal Liquor for July 25, 2007, for a three year look-back period. (Ex. 5)

9. The 2006 audit resulted in three proposed Notices of Proposed Assessment on Royal, all dated October 23, 2006, addressed to Edna Lee, and totaling \$244,201.78 in tax, penalty, and interest.

10. On April 10, 2007, Dermott attorney Charles Sidney Gibson contacted the Department by letter on behalf of the Lees and Royal Liquor and requested an administrative hearing, an appeal. (Ex. 7)

11. The appeals were docketed, with Edna Lee d/b/a Royal Liquor shown as represented in the matters by Morley. An Order was issued on November 5, 2007, withdrawing the Lee appeal, noting the taxpayer did not dispute the accuracy of the audit figures, and accepted them. (Ex. 8)

12. The 2006 audit of Royal resulted in a total assessment of \$244,201.78 as of November 5, 2007. (Exs. 6, 7)

13. Attorneys Morley and Charles Sidney Gibson were involved in some manner in 2007 for the Lee family and Royal in the 2006 tax assessment matter with the Department. (Exs. 7, 8)

14. On September 20, 2007, a person named Andy Crawford contacted DF&A and discussed the Royal Liquor situation and offered an installment payout plan. (Ex. 10) On November 13, 2007, there was another contact with Crawford, who mentioned there was a buyer for Royal Liquor for \$35,000. (Ex. 10) The Crawford proposal was apparently declined.

15. The name of Andrew Crawford, IV, with the telephone number 501-804-2481, appears on a Power of Attorney form for Dermott Wine, formerly Perry Wine formerly Royal Liquor submitted to DF&A by Morley on October 31, 2013, in connection with the appeal of the proposed Royal assessment of October 2013. (Ex. 43)

16. When 501-804-2481 was called by OPC on January 18, 2017, Andrew Crawford IV answered. He identified himself as the son of Andy Crawford, a liquor industry lobbyist and representative, who the son said died in April 2013, and who very likely was the Andy Crawford in the 2007 emails. (Ex. 10) Mr. Crawford IV stated he was also involved in liquor industry matters, knew Morley, and Crawford IV would have been the Crawford listed on the 2013 POA.

17. Members of the Lee family approached long-time friend James Shaun Perry in late 2007, told him Ms. Lee's bills had gotten out of hand at the business, and asked for his help to implement what was described to Perry as a legal plan by which ownership of Royal would be transferred to Perry "in name only." Ms. Lee would "reorganize" the business, and Curtis Lee would continue to manage Royal. (Exs. 67, G at pages 18-20, 68-69, and I at 52-53)

18. A detailed Asset Purchase Agreement was prepared by Morley or someone acting under his direction and executed on or about November 5, 2007, (Ex. 9, and also the Perry hearing Ex. P-19), for the sale of the assets of Royal Liquor by Edna Lee to an entity called Perry Wine & Spirits, LLC, that was not then in existence and was to be created. The total sales price was to be \$40,623.00 for the real property, inventory and equipment, and intangible personal property/goodwill. (¶ 2.2) The last item was valued at \$4,500.00 (¶ 2.3) and is the only item or asset that could have included any value for the state permits necessary to operate the liquor and beer business. The closing was to take place by December 1, 2007. (¶ 5.1) Seller Lee was to deliver

good and merchantable title to the real property at closing by warranty deed. (¶ 6.1) Mutual indemnification provisions were included. (¶ 7.3) Shaun Perry admitted later that he did sign his name on the last page, but that he did not read the document when it was presented to him by Curtis Lee. (Ex. G at 35-37, Ex. L at ¶ 17)

19. In the Asset Purchase Agreement, "Notices" to the parties were to be addressed, if to purchaser Perry Wine, to Dermott Wine & Spirits, LLC c/o Joshua Freegard, (no address), Dermott, AR 71638, instead of to the principal of the actual purchaser - Shaun Perry. (Ex. 9 at ¶ 9.2) How the names of Freegard and Dermott Wine got into the November 2007 Asset Purchase Agreement as buyer Perry's alleged representative is unknown and unexplained in the available materials.

20. For some reason, Curtis Lee was not asked about the Asset Purchase Agreement in his hearing in October 2014. (Ex. I)

21. Morley prepared, had prepared, or was aware of, and provided to the Department a letter dated November 28, 2007 (Ex. 11), purportedly from Shawn (sic) Perry, which falsely represented that sole owner Edna Lee was selling the real property, furniture, fixtures, equipment, and goodwill of Royal Liquor for a total of \$40,623.00 to an outside party, Perry, who would thereafter own Royal Liquor. BJL Management, Inc., later incorporated by Morley in March 2008 for Curtis Lee, Dennis Lee, and others and filed April 1, 2008, (Ex. 17), would operate Royal Liquor under a Management Agreement executed on or April 8, 2008. (Ex. 19) The "Perry offer" letter included an October 12, 2007, Appraisal from Frank Henry, Jr., a long-time Dermott insurance and real estate person, who stated the 42' x 140' property at 117 E. Iowa Street was owned by Edna Lee and had an estimated market value of \$16,750.00. The letter also included a

one page estimate of values of the Royal Liquor fixtures and inventory prepared by Mark Ply on his business letterhead and dated October 19, 2007. Ply valued the fixtures at \$325.00 and inventory at \$19,373.00. (Ex. 11)

22. Shaun Perry repeatedly and even under oath denies he prepared, signed, sent, or even knew of the Ex. 11 letter until years later. (See Exs. G at 41-44, I at 56, L at ¶ 19)

23. In 2014, Perry testified that he did not write the November 28, 2007, offer letter to Theis and, his name was misspelled in this letter in each place in which it appeared, he did not pay any money to the Department or to anyone else to resolve tax debt or purchase the store, and he received no funds from the business. (Ex. G at 41-44)

24. At his hearing in October 2014, Curtis Lee specifically stated the Ex. 11 letter (also Perry hearing Ex. P-22) and included appraisals sent by Morley to DF&A. (Ex. I at 56-60)

25. Based upon the representations in the "Perry" letter, by its response letter dated December 17, 2007, (Ex. 12), the Department accepted the offer and accepted less than 20% (\$40,623.00) to resolve the outstanding \$244,201 audit debt (tax, penalty, and interest) owed by Royal/Lee and allow transfer of the property and state permits free and clear of tax debt.

26. The Department wrote off about \$203,000 of the Lee/Royal total 2006 assessment as a result. This resolution allowed Shawn Perry/Perry Wine to obtain the necessary Alcoholic Beverage Control ("ABC") liquor and beer permits to operate the store. (Exs. 21, 22, 23, 25)

27. Ex. J at page 8 & footnote 3 on page 6 of Ex. H indicate the total Royal indebtedness in February 2008 could have been or was \$274,513, which if true, would make the Department's write-off approximately \$233,000 on the 2006 audit and assessments.

28. Two days after the DF&A letter accepting the Perry proposal, on December 19, 2007, by Warranty Deed prepared by the Gibson Law Office, Edna Lee deeded the same realty on which Royal Liquor Store was located to her son Dennis Lee, not to Perry Wine. (Ex. 76) The deed has a typed date space on the second page "... on this ___ July, 2007," which is lined out to show a date of execution and notary acknowledgment of December 19, 2007. The clerk's stamp shows the deed was recorded on December 21, 2007, at Record Book 025, Page 239, Gibson Law Office paid the \$25.00 recording fee, and Dennis Lee's name appears as the Grantee certifying the correct amount of documentary stamps have been placed on the deed. (Ex. 76) This deed from Edna Lee to Dennis Lee is crucial when considered against the February 4, 2008, deed from Edna Lee to Perry Wine for the same property. (Ex. 15)

29. Shaun Perry signed an ASOS Articles of Organization form for Perry Wine & Spirits, LLC (Ex. 13, also Ex. P-2, and Ex. L at ¶¶ 21-22), on which someone typed in additional information, and the form was filed on January 22, 2008, as document #8415010002.

30. Also on January 22, 2008, an Application for Fictitious Name (Ex. 13-B), to allow Perry Wine to use the name of Royal Liquor, was filed as document #8415010003. The ASOS consecutive document numbers strongly indicate that both applications were submitted by the same person at the same time. Perry maintains he did not sign this document. (Ex. L at ¶ 21)

31. The filed Perry Wine annual franchise tax reports for 2009 and 2010 in Ex. 13 indicate the same hand, most likely that of Curtis Lee, also signed the "Shawn Perry" signatures on the Application for Fictitious Name and the 2010 franchise tax report.

32. Shaun Perry's name is one which has different common spellings, including Shawn, the spelling used on a number of Royal Liquor documents. Shaun Perry also has a distinctive

signature. At the October 2014 administrative hearing, the Administrative Law Judge (ALJ) verified the spelling of Shaun Perry's name from his driver's license. Perry identified the 2007-2008 documents on which his signature was not made by him - forged - and which ones bore his actual signature. (Ex. G) In his 2016 Affidavit, Perry again identified the documents he signed or did not sign. (Ex. L)

33. Mail addressed to Royal Liquor or anyone at 117 E. Iowa Street in Dermott from 2007-2014 would have generally been received by Curtis Lee, the Royal manager.

34. A Bill of Sale from Edna Lee to Perry Wine for the non-realty assets involved in the sale to Perry Wine of Royal Liquor to Perry Wine was executed by Ms. Lee on February 4, 2008. Since the name of Michelle Linn, Morley's Arkansas City office notary, appears on the document, it is apparent the Bill of Sale was prepared by Morley's office. (Ex. 14, Ex. P-18)

35. On February 4, 2008, by Warranty Deed prepared by the Morley Law Firm (Ex. 15), Edna Lee executed a conveyance to Perry Wine & Spirits, LLC that shows to have been recorded on February 11, 2008, in Record Book 25, at Page 683, with the \$25.00 recording fee shown as paid by Steve Morley. This deed description appears to be for the same realty on which Royal Liquor Store was located, or at least one-half of the same legal description, as in the December 2007 deed to Dennis Lee. (Ex. 76)

36. Based on her recorded December 21, 2007, deed to her son Dennis Lee (Ex. 76), it appears highly unlikely Edna Lee could legally convey good and merchantable title in early 2008 to Perry Wine, as required by their Asset Purchase Agreement executed November 5, 2007.

37. No deed for this Royal Liquor property from Dennis Lee to Perry Wine or to Dermott Wine has been located, or is known at this time by OPC to exist or have been recorded.

38. No deed for this Royal Liquor property from any Lee to anyone else other than Perry, on February 4, 2008, is shown on the Chicot County Assessor's on-line record. (Ex. 66, first page)

39. After the Department approved Perry's offer, Morley wrote Theis a letter dated February 14, 2008, (Ex. 16), stating he would accept service on behalf of Edna Lee at his North Little Rock law office, and enclosed the documents he drafted to effect the Lee-to-Perry Wine sale, including the Asset Purchase Agreement (Ex. 9), the Bill of Sale (Ex. 14), and the Warranty Deed from Lee to Perry Wine (Ex. 15), all of which appeared to actually sell Royal Liquor Store from Edna Lee to Perry Wine & Spirits, LLC.

40. Enclosed with the Morley letter was a cashier's check dated February 15, 2008, for \$40,623.00 payable to "DFA" showing the remitter as "Shawn Perry." (Ex. 16) Morley's letter fails to disclose to the Department that his clients, the Lees, were the sole source of the "buyers" funds that were paid over to the State (see also the ALJ's Curtis Lee decision, Ex. J at page 9), or that Edna Lee had earlier deeded the same Royal Liquor store property to her son Dennis Lee in December 2007.

41. At his hearing in October 2014, Curtis Lee testified that he and Dennis Lee, using their credit cards, obtained the money which they gave to Morley to pay the Royal tax debt. Morley converted their money to a cashier's check. (Ex. I at 57-60) A copy of the check shows that it was issued by Twin City Bank of North Little Rock, a bank down the street from Morley's North Little Rock law office. (Ex. 16)

42. On March 10, 2008, and undisclosed to the Department, Morley, as the incorporator and registered agent, signed the Articles document creating B JL Management, Inc. (BJL) and filed it with the ASOS on April 1, 2008 (Ex. 17) so that the Lee family, and in particular Curtis Lee, the

BJL President, could continue to operate the liquor store pursuant to a management agreement with Perry. Joshua Freeyard (sic - Freegard?) was listed as Treasurer of BJJ.

43. On or about March 28, 2008, and undisclosed to the Department, an Option to Purchase between Perry Wine and Shawn (sic) Perry, as Optionor, and BJJ Management, as Optionee, was created, most likely by Morley, and executed by the parties. (Ex. 18, Ex. L-3) For a \$250 option fee and a \$500 purchase price, BJJ obtained a 24 month option to purchase the membership interest of Shawn (sic) Perry in Perry Wine. In his 2014 Affidavit, Perry admitted he signed the Option document, but did not recall if he signed it in 2008 or 2010. (Ex. L at ¶ 27)

44. On or about the same time as the Option document was created and executed, and also undisclosed to the Department, a Management Agreement between Perry Wine and Shawn (sic) Perry, as Owner, and BJJ Management, as Manager (Ex. 19) was created, most likely by Morley, and executed. BJJ was to manage Royal Liquor, keep all gross income from sales, and pay Perry \$500 per month. In his 2014 Affidavit, Perry admitted he signed the Option document, did not recall if he signed it in 2008 or 2010, and stated he never received any payments. (Ex. L at ¶ 28) Shaun Perry never actually managed or was involved in the operation of the store. In 2014, Curtis Lee testified that he continued to operate Royal Liquor Store after the Perry Wine & Spirits, LLC name was put on it in 2008. (Ex. I at 23-30)

45. The Management Agreement (Ex. 19) contains clauses indemnifying BJJ Management from any debt incurred from the actions of Shawn (sic) Perry and Perry Wine & Spirits, LLC and indemnifying Shawn (sic) Perry from any debt incurred from the actions or omissions of BJJ Management.

46. In 2014, Perry testified (Ex. G at ¶¶ 29-33) that Curtis Lee gave him the sales tax application and the liquor and beer permit applications for Perry Wine & Spirits, LLC, which Perry said he signed in blank. (Exs. 20, 21, 22, 23) Perry testified that Curtis filled out the remaining parts of the forms. On April 21, 2008, Morley sent Perry Wine & Spirits, LLC's sales tax application to the Department with a check for the permit fee drawn from his law firm checking account. (Ex. 20) A new sales tax permit was issued in the name of the Perry Wine & Spirits, LLC. (Exs. 21-22, 25) Both the ABC and tobacco permits were also obtained in the name of Perry Wine & Spirits, LLC. (Ex. 23)

47. Many of the Lee-Perry transaction and permit application documents are notarized. Shaun Perry testified that he did not sign any of these documents in the presence of either of the notary publics whose names are on the various documents, either Stacey Michelle Linn or Clarace Martin, and that he had never met either person. The Department obtained information that Ms. Linn is an assistant at Morley's Arkansas City law office and that Ms. Martin is an assistant at Morley's North Little Rock law office. (Ex. 24) Neither Linn nor Martin was ever called to testify as to their involvement in witnessing the execution of any of the Lee-Perry documents.

48. Curtis Lee testified that he did not recall paying \$500.00 per month to Perry and that he did not sign any checks for that payment. (Ex. I) Curtis testified that he thought Morley took the money out somehow and disbursed it to Perry but he was not sure. (Ex. I) Morley never testified at any hearing on Royal Liquor.

49. In 2014, Perry testified that sometime in 2010, his mother, who had never been comfortable with him owning a liquor store, pushed Perry to get his name off the store. Perry testified that he told Curtis Lee that he wanted out of Royal Liquor. Curtis testified that Raymond

Block, also of Dermott and a long-time friend of Perry and Shueylin Lee, (Ex. G, pages 68-69), wanted to be part of the business, so Block took over the liquor store business from Perry, with Morley's help. (Exs. 28, 29, 30, 31, 33)

50. In 2014, Curtis Lee testified that after he told Morley that Perry wanted his name off the store, Morley took care of it. (Ex. I) Morley prepared Minutes of the Membership of Perry Wine & Spirits, LLC reflecting that the operating manager of Perry Wine & Spirits, LLC, Shaun Perry, authorized the sale of Perry's interest in Perry Wine & Spirits, LLC to Raymond Block. Morley prepared a Membership Sale Agreement (Ex. 28) to transfer the interest in full.

51. Along with the Sale Agreement, Morley prepared a Resignation as Member and Operating Manager of Perry Wine & Spirits, LLC for Shaun Perry, and a Transfer of Ownership Certificate. The Sale Agreement contained cross-indemnity provisions to and from Dermott Wine & Spirits, LLC to Perry Wine & Spirits, LLC. According to the Membership Sale Agreement, the sale closing was to take place at the offices of the Morley Law Firm in Arkansas City on or before May 23, 2010, which was a Sunday. These documents were allegedly signed by "Shawn Perry" in two places. (Ex. 28) Shaun Perry denies he signed his name either place or to the accompanying Transfer of Ownership Certificate and Resignation as Member and Operating Manager of Perry Wine. (Ex. L, ¶ 35) Raymond Block denies he signed his name to the same documents in Ex. 28. (Ex. M, ¶ 15)

52. On May 24, 2010, the day after the Membership Sale Agreement was executed, Morley filed Change of Manager forms with ABC on behalf of Raymond Block/Dermott Wine & Spirits, LLC for both the beer and liquor permits. (Exs. 29, 30) ABC then transferred the liquor and beer permits to the Block entity. The words "change of manager only - no sale" were hand-written on

the back sheet of the applications. These documents were also notarized by Clarace C. Martin, a notary employed in Morley's North Little Rock office as referenced above in para. 47.

53. These May 2010 documents (Ex. 32) were filed with the Arkansas Secretary of State on February 27, 2011, to change the name of Perry Wine & Spirits, LLC to that of Dermott Wine & Spirits, LLC, and to change the name of the registered agent from Perry to Raymond Block.

54. Morley did not file a new sales tax permit application for Raymond Block/Dermott Wine & Spirits, LLC after the Membership Sale Agreement was executed. Shaun Perry/Perry Wine & Spirits, LLC continued as the holder of the sales tax permit. The Department thus continued to send correspondence to the name of Perry Wine & Spirits, LLC at the Royal Liquor Store address. (See Ex. 34)

55. In 2014, Curtis Lee testified that the reality was that after the 2010 sale to Raymond Block/Dermott Wine & Spirits, LLC, Curtis Lee continued to operate the store and file and sign the monthly gross receipts reports with the Department. Curtis continued to sign the remittance checks, which continued to be issued from the same checking account in the same manner as during the period of Perry Wine & Spirits, LLC's ownership. Curtis testified that Raymond Block came in the store sometimes but that Curtis continued to run the store the same way as before. (Ex. 1)

56. In each of the membership sale documents Morley had prepared, Shaun Perry's name is misspelled. (Ex. 28) During his testimony in 2014 (Ex. G), Perry identified his signatures on the "first sale" documents. The signatures on the membership sale documents to Block are not the same in any way, which shows those Perry signatures are forgeries. Perry testified that he did nothing more to get his name off the business than tell Curtis Lee he wanted it done. Perry did not

follow up in any manner or sign any documents. In addition, Perry testified that he had never been to Morley's law office or even ever met Morley. (Ex. L at ¶ 4)

57. Information the Department obtained from ABC indicates that the fee to change the manager name was \$50.00 per permit type but obtaining a new liquor permit after the sale of a store costs \$850.00. A new beer permit costs \$350.00. (Ex. B at ¶ 62, Ex. 32 / B-19) The ABC agent remembered that Morley filed the change of manager applications because Morley handles a number of liquor store clients. (Ex. B at ¶ 60) Morley went the less expensive route on the Perry-to-Block paper ownership transfer.

58. In 2012-2013, the Department audited Royal Liquor Store again, resulting in another large sales and alcohol excise tax assessment, in addition to penalties and interest. (Exs. 34, 35, 36 & 37) During the audit, records were provided to the auditors by Curtis Lee and Mark Ply as the contact persons. (Ex. 38) The auditor, Kenesha Nelson, testified by affidavit that Curtis managed the store. (Ex. E)

59. Royal Liquor Store did not have an electronic point of sale system or ring up sales through the register. Instead, Curtis Lee recorded sales on a sheet of paper without distinction as to the type of item being sold. (Ex. 68) This unreliable sales recording method was important to the audit, resulting in additional excise taxes assessed by statute on the sale of different types of alcoholic beverage products. Auditor Nelson also stated that while she was present in the store Curtis Lee did not record each sale that was made. (Ex. E at ¶¶ 5-6) At the conclusion of the audit, a Notice of Proposed Assessment for \$415,120.75 for the audit period February 2008 to June 2012 was issued to Perry Wine & Spirits, LLC, the taxpayer of record with the Department. (Ex. 39)

The audit assessment consisted of \$296,650.81 in tax, interest of \$88,804.72, and penalty of \$29,665.22.

60. When the Department issued the Notice of Proposed Assessment to Perry Wine & Spirits, LLC, Morley wrote a protest letter dated October 31, 2013, on behalf of Dermott Wine & Spirits, LLC/Raymond Block to request an administrative hearing to dispute the assessment. (Ex. 40) Attached was a power of attorney form for Dermott Wine & Spirits, LLC signed by Raymond Block. Morley did not present a legal argument but wrote only that he represented Dermott Wine & Spirits, LLC, d/b/a Royal Liquor Store. Morley wrote that he had spoken briefly with Mark Ply, and indicated that “there is a question regarding certain elements of record keeping which we believe would justify an adjustment in the proposed assessment.” (Ex. 40)

61. Department attorney Gina Dougherty was assigned the Royal file and began the Department’s usual investigation of the new matter. She discovered that the business had been previously audited during 2006 when Edna Lee was the owner. The 2006 audit documents indicated that Morley, on behalf of Edna Lee, had reached an agreement with John Theis, Assistant Commissioner of Revenue, in December of 2007 in order to very cheaply settle a portion of the tax debt from the audit. Morley asserts DF&A continued its efforts to collect from Edna Lee. The business would be sold to a Shawn Perry, of Perry Wine & Spirits, LLC, and the money for the purchase would be paid to the Department. After reviewing the file, on December 11, 2013, Dougherty contacted Morley by telephone. Morley stated that he had just gotten the audit from his client and was unfamiliar with the business. Having examined the file prior to her initial contact with Morley, Dougherty knew Morley’s statement was false. (Ex. B at ¶¶ 10-12) Morley states this is a misunderstanding or miscommunication. Morley states that he was referring to

unfamiliarity with the particular accounting practices of the business. He was familiar with the general operation of the business and would not have meant for Dougherty to believe otherwise.

62. Dougherty questioned Morley why he filed a protest on behalf of Raymond Block when the Department had no record of Dermott Wine & Spirits, LLC/Raymond Block. Dougherty informed Morley that the sales tax permit was in the name of Shaun Perry. (Ex. B at ¶ 9)

63. Although having previously said that he was unfamiliar with the business known as Royal Liquor, (Ex. B at ¶ 11), Morley then explained to Dougherty that Block purchased Perry's interest in 2010 but that Morley did not know that obtaining a new sales tax permit was required. Morley stated that Perry had a lot of health problems and that running the store stressed him out so he sold it to Block. (Ex. B at ¶¶ 14-15)

64. Dougherty asked Morley why he had filed the protest on behalf of Block and Dermott Wine & Spirits, LLC rather than Perry Wine & Spirits, LLC. Morley stated that Perry had sold his interest in the liquor store to Block some time in 2010. Morley stated that Perry had not really run the business; that Curtis Lee ran the liquor store. Morley stated that Block was an over-the-road truck driver and that he did not work in the business very much because he was on the road most of the time. (Ex. B at ¶ 17)

65. Dougherty asked Morley why Block did not obtain a new sales tax permit when he purchased the business from Perry. Morley stated that he was unaware that a new sales tax permit was needed after a sale of the business. She asked Morley if new liquor and beer permits had been obtained from the ABC for Block. He stated that the existing permits had been transferred to Block. (Ex. B at ¶ 20)

66. Morley told Dougherty that he knew Royal Liquor Store had poor record keeping because of the way Curtis recorded the sales, but that he needed to speak with Mark Ply to obtain more information. Morley stated that he would send the documents he had prepared to transfer Royal Liquor Store from Perry Wine & Spirits, LLC to Dermott Wine & Spirits, LLC. (Ex. B at ¶ 23)

67. After their telephone conversation, Morley sent Dougherty the Perry-to-Block Membership Sale Agreement (Ex. 28) and associated documents he had prepared. (Exs. 41-42) Morley also sent Dougherty the April 2008 Management Agreement (Ex. 19) and Option to Purchase (Ex. 18) he had prepared that was entered into between BJJ Management, Inc. and Shaun Perry/Perry Wine & Spirits, LLC, so that Curtis Lee could continue to manage the store. (Ex. B at ¶ 27)

68. Dougherty told Morley to obtain a power of attorney from Shaun Perry and Morley stated that he would, indicating that he thought he could meet with Perry that weekend when he went to his Arkansas City law office. After several months, Morley did not send a power of attorney for Perry Wine & Spirits, LLC/Shawn Perry so the Department issued a Notice of Final Assessment for \$296,650.81 for the 2012 audit of Perry Wine & Spirits, LLC, one letter being addressed to each of Perry, Block, and Curtis Lee at their home addresses. (Ex. B at ¶¶ 68-69, Exs. 43, 44, 45) The Department, pursuant to statutory procedure, later filed a tax lien against Perry Wine & Spirits, LLC/Shawn Perry in the county circuit clerk's office. Mr. Morley's failure to timely act and respond to the Department thus injured his former clients' interests. (Ex. 73)

69. In early 2014, Dougherty checked records at the Arkansas Secretary of State Office on the corporate status of each of Perry Wine & Spirits, LLC ("Perry Wine"), Dermott Wine & Spirits,

LLC (“Dermott Wine”), and BJJ Management, Inc. (“BJJ”). She found Perry Wine was incorporated in January 2008. It had a name change to Dermott Wine in 2010. By 2014 the corporate status of Dermott Wine showed as being revoked. (Ex. B at ¶¶ 41-45)

70. The BJJ Articles of Incorporation were filed April 1, 2008 by Morley, with Morley as the registered agent. Its corporate status had been revoked by 2014, apparently after the annual franchise tax report was filed on June 12, 2014. (Ex. 17, last page)

71. Dougherty checked the files of the Arkansas Alcoholic Beverage Control Division (“ABC”) and found the current permits for beer and for liquor sales at Royal Liquor were in the name of Raymond Block. The Royal Liquor file contained the initial beer and liquor permit application forms signed by Shawn (sic) Perry and a form to change the manager for the beer and liquor permits to Raymond Block dated May 24, 2010, which was the day after the execution of the Membership Sales Agreement between Perry and Block. (Ex. B)

72. Dougherty contacted the ABC office and asked who filed the Royal Liquor Change of Manager forms. The clerk, Judy Walinski, informed her that Morley filed the forms, stating he represented quite a few clients with their liquor store applications. Walinski stated that the change of manager cost \$50.00 per permit. Walinski wrote that it cost \$850.00 to obtain a new liquor permit and \$350.00 to obtain a new beer permit. (Ex. B at ¶ 62, Ex. 32)

73. Dougherty obtained the income tax returns for Curtis Lee, Perry and Block. She found the returns of Perry and Block showed no income from the operation of Royal Liquor from and after 2008. Lee’s return showed income of \$9,500.00 for each year from the formation of BJJ Management, Inc. in April 2008. (Ex. B at ¶ 63)

74. Morley sent one audit protest letter dated March 6, 2014, stating that he represented Block. (Ex. 49) On the basis of documents in Department files, including those received from Morley, the Department determined that a non-consentable conflict of interest under Ark. R. Prof. Conduct 1.7 and 1.9 existed because of the cross-indemnity clauses in the various agreements. (Ex. B at ¶ 75) The Department sent Morley a letter on May 9, 2014, informing him of its position. (Ex. 51) The Department stated that it would no longer work with Morley on this matter. The Department extended the time in which Perry, Block, and Curtis Lee could file timely protests. Each of them later faxed a separate protest letter to the Department in early June 2014, with each letter apparently being faxed at the same time from the same fax address, Delta Drug-Dermott. (Exs. 53, 54, 55)

75. After receiving the conflict of interest letter, and in spite of knowing the Department's position, on July 2, 2014, Morley came to the Department with attorney Charles S. "Chuck" Gibson, II, of Dermott, to negotiate a deal for other third parties (Lester Pinkus and son Lee Pinkus) to purchase the liquor store from Dermott Wine/Block. Morley and Gibson met with Roberta Overman, Sales Tax Manager, (Affidavit attached as Ex. C), and David Rector, Problem Resolution Officer. (Ex. B at ¶ 78) Gibson stated that he represented the Pinkus third parties and that Morley was with him that day because Morley knew more about the liquor store background than did Gibson. Gibson presented an "Offer and Acceptance" document dated June 23, 2014, (Ex. 56), signed only by the Pinkus third parties as buyers and not by Block as seller, which proposed that the third parties would pay \$101,000.00, "all in cash at closing" to the Department, if the Department and ABC approved the sale. This price represented \$31,000.00 for the building, \$25,000.00 for inventory, and \$45,000.00 for the permit. The purchase price was based upon an

attached undated "personal evaluation" prepared by Mark Ply, who had prepared the "appraisal" for the first "sale" in late 2007 from Lee to Perry. (Ex. 11)

76. The Offer stated that Raymond Block would convey the property by general warranty deed to the buyers. As noted above, Morley filed a general warranty deed transferring the property from Edna Lee to Perry Wine, LLC, which was recorded in February 2008. (Ex. 15) Block had no clear title to the liquor store real property to convey to Pinkus, due to the deed to the same property from Edna Lee to Dennis Lee recorded in late 2007 prior to the recording of the deed from Edna Lee to Perry Wine in early 2008. Dougherty searched the public records in Chicot County and found no record of a deed to the Royal property in the name of Block. (Ex. B at ¶ 30)

77. The Pinkus Offer proposed to purchase the "permit." It is not legal to sell any type of Arkansas state alcohol permit. See A.C.A. § 3-4-217(a) at Ex. 56.

78. In his December 2016 Affidavit given for this Complaint (Ex. O), Lee Pinkus states, among other matters:

a. He has never met or had any business or legal dealings with Steve Morley. (Ex. O at ¶ 7)

b. As buyers, his father and he signed the Offer & Acceptance directed to Raymond Block as seller of Royal Liquor in June 2014 (Ex. 56), after discussions the Pinkuses had with Curtis Lee in which they arrived at an agreed deal and price. (Ex. O at ¶ 9)

c. Pinkus knows nothing about how the Ex. 56 document came into existence, seeing it for the first time when they went to Chuck Gibson's law office, were presented with the document, and signed it there. (Ex. O at ¶ 11)

d. Lee Pinkus was contacted by someone, probably Chuck Gibson, and informed that someone, but not one of the Pinkuses according to Lee Pinkus, was carrying \$5,000 to a Little Rock meeting in early July 2014 as a down payment to close the deal with DF&A on Royal Liquor and obtain necessary clearances and action to allow the permit transfers to the Pinkuses. Lee stated no such funds came from the Pinkuses. (Ex. O at ¶ 15)

79. The day of the meeting at the Department on July 2, 2014, Chuck Gibson wrote and sent an email to Overman referencing an email he received from Morley about the meeting and about Gibson and Morley “trying to get our folks to be able to line up and close a sale of Royal Liquor,”. (Ex. 58)

80. On July 3, 2014, Gibson emailed Overman, (Ex. C at ¶ 12) thanking her for the meeting the previous day, stating Gibson should have \$5,000 delivered to him by someone, for Gibson to deliver to Overman by noon, and that Gibson had also been informed by someone that the permit reinstatement fees were also in hand. (Ex. 58) Lee Pinkus states he and his father were not the source of any such funds. (Ex. O at ¶ 15)

81. Raymond Block states in his 2016 Affidavit (Ex. M, at ¶ 29, 39), that he never saw the June 2014 Pinkus-Block Offer and Acceptance (Ex. 56) before he was shown the document by Ligon in May 2016, and that he knew nothing about any proposed 2014 sale of Royal Liquor to the Pinkuses.

82. OPC asserts from the facts and circumstances surrounding the June 2014 Offer and Acceptance that Morley, on behalf of the Lees, working through Chuck Gibson, who represented the Pinkuses, was attempting to arrange a sale of Royal Liquor by the Lees, through their “strawman” Block, to the Pinkuses for a price of \$101,000.00, of which \$56,000.00 would be for

tangible assets (building, realty and inventory) and \$45,000.00 would be for permit(s), that by state law cannot be "sold." Morley denies involvement in the negotiation or drafting of the Pinkus Offer and Acceptance. Morley notes that in his practice he would use the term Memorandum of Agreement. Morley also denies "working through Gibson", but asserts Gibson is here an independent lawyer exercising his own professional judgment. The "seller," most likely the Lees, was trying to gather a \$5,000.00 down payment in early July 2014 to get the Department to request ABC to keep the Royal licenses or permits in force. It appears the Department would possibly receive a maximum of \$101,000.00 in the 2014 sale, to offset an audit assessment of \$296,650.81 in unpaid taxes alone, not including substantial penalty and interest, caused by the Lees' continued operation of Royal Liquor since the 2006 audit and late 2007 purported sale to a third party, Perry, engineered by Morley.

83. Dougherty made a further investigation (Ex. B at ¶ 81), and determined that these new Pinkus "outside third parties" were also involved in an entity known as Dermott Investment Group, LLC, filed in 1997 by attorney Chuck Gibson, which included Gibson, Lester Pinkus, Lee Pinkus, and Dennis Lee among its members. (Ex. 70)

84. OPC contacted Gibson by email in late September 2016 about the Pinkus-Block Offer and Acceptance. (Ex. 85) Gibson first responded that he had a signed copy of the O&A, but did not think he prepared it and could not find a copy in his computer. A week later Gibson replied that he did not see the O&A on his file server and thought the document was delivered to him in completed form. If true, this means someone other than Gibson or the Pinkuses was responsible for creation of the O&A. (Ex. 56) Although OPC believes the most likely person is Morley, who had the long-standing relationship with Curtis Lee, with whom the Pinkuses were dealing in mid-

2014, Morley denies creating the Pinkus Offer and Acceptance. Morley states he had no professional relationship with the Pinkuses.

85. For what appears to be a promised payment from Pinkus of up to the \$101,000.00 sale price, the Department was being asked to compromise a total taxpayer assessed indebtedness of \$296,650.81, or a loss or write-off of at least about \$150,000 on unpaid sales taxes alone. This would be in addition to the Royal write-off of somewhere between about \$203,000 and \$233,000 in early 2008 from the 2007 audit.

86. The Department's 2012 audit four-year profit and loss spreadsheet for Royal (Ex. 37), resulted in numbers for store income and profit-loss that were not credible and indicated the liquor store had been operating on paper at a substantial loss each of the four years audited.

87. In his findings from the Curtis Lee October 2014 hearing, discussing the liquor store's financial history, the ALJ stated the evidence presented what he called spurious figures in reports, led to an inevitable conclusion of fraud, and also possible criminal practices by taxpayer Curtis Lee regarding inaccurate sales tax reports and corporate income/personal income tax returns that were filed. The ALJ also mentioned in the same language the sham sale of Royal Liquor by Edna Lee to Perry in 2007-2008, and Morley's receipt of the funds from Curtis and Dennis Lee (\$40,623.00) which Morley converted into a cashier's check showing Perry as the purported remitter to the Department in the 2007-2008 sham transfer. (Ex. J at pages 7-9)

88. Administrative hearings for the personal liability assessments were set. When the Department filed its "Answers to Information Request" with the Administrative Law Judge setting forth the facts of the three personal liability assessments, (Exs. 59, 60, 61), attorney Chuck Gibson contacted the Department and stated that he would be representing Curtis Lee, Shaun Perry, and

Raymond Block. He submitted a power of attorney for Shaun Perry. He asked for a continuance of the hearings which the Administrative Law Judge granted. (Ex. 62)

89. On August 12, 2014, three days before the hearings were set to be held, by a deed prepared by the Gibson Law Office, Raymond Block and wife conveyed their home in Dermott to their son Trenzel Block. (Ex. 77) Raymond Block, for some reason, decided it was suddenly advantageous to move record title to his residence from the names of Block and his wife to that of their son prior to the DF&A hearing and any decision that would be rendered.

90. Based upon the same consideration of the cross-indemnity clauses and his relationship with Morley in the matters, on August 14, 2014, the Department sent Gibson the same type of letter sent to Morley relating to the non-consentable conflicts of interest with these three taxpayers. (Ex. 64)

91. The administrative hearings were rescheduled from August 15, 2014, to October 3, 2014. Shortly before that date, Shaun Perry contacted Dougherty to talk to her about the matter. Dougherty informed Perry that Gibson represented him so she would not be able to speak with Perry directly. Perry stated that he wanted to revoke his power of attorney for Gibson so that he could represent himself. He sent in the revocation form. (Ex. B at ¶ 87) Perry appeared for his hearing without counsel. (Ex. L at ¶ 53)

92. On September 23, 2014, by a quitclaim deed prepared by Gibson Law Office, Curtis Lee transferred property in Dermott, including what is believed to be his residence at 217 Crenshaw, to his wife Toma Lee, for what appears to be no monetary consideration. (Ex. 78) On or about December 18, 2014, by Warranty Deed prepared by the Gibson Law Office, with Curtis Lee signing off as her husband, Toma Lee conveyed the same property to Larry Jones for a stated

price of \$61,000.00. (Ex. 79) A Deed of Release in the Lee-Jones sale shows a 2002 mortgage on the Lee property was paid in full. (Ex. 79)

93. On March 30, 2015, Charles Sidney Gibson filed a suit for separate maintenance for Curtis Lee against Toma Lee in Chicot County, Case No. 09DR-15-36. The docket reflects no activity in the case since the Complaint was filed, and no return of service has been filed, now almost two years later. (Ex. 80) On the same day, Toma Lee received title by deed to a residential property she purchased from the Arringtons in Monticello for \$168,000.00. (Ex. 81) Toma Lee's 2015 tax statement from Drew County shows she assessed two vehicles and two ATVs in her name. (Ex. 81)

94. The evidence as set out in paragraphs 93 and 94 above show a plan by Curtis Lee to divest record ownership by him in various real and personal assets shortly prior to the DF&A hearing continued to October 3, 2014.

95. Perry filed a detailed Statement with the hearing ALJ in late September 2014, prior to his hearing (Ex. F, received at the Department on or about September 29, 2014). He set forth facts surrounding his involvement with Royal Liquor Store, Curtis Lee, Shucylin Lee, Chuck Gibson, and Steve Morley. He testified in support of his statement at his hearing. (Transcript at Ex. G) He also testified to reiterate those facts at Curtis Lee's hearing. (Transcript at Ex. I)

96. Perry's hearing was the first hearing on October 3, 2014. He testified that when he received the proposed personal liability assessment, he took it to Morley, who told Perry not to worry, that he would take care of it. Morley stated that he was used to handling these types of situations. Perry said that Morley told Perry that the Department was the "boogie man" and it was just using "scare tactics." Perry testified that Morley indicated that his plan was to "swoop in" and

make a settlement and then everybody could go on just like before. Perry testified that when he received the Notice of Final Assessment for the audit of Royal Liquor Store, Morley then told him that he had a conflict of interest and couldn't represent him. Perry stated Morley told Perry that Curtis Lee would pay Chuck Gibson to represent Perry. (Ex. G at pages 56-57) Morley denies Perry's allegations.

97. Perry testified that when he received the Department's Answers documents prior to the hearing, he took them to Chuck Gibson, as instructed to do by Morley. Perry testified that Gibson told him that Morley had "dumped" the files on him. Perry testified that is when he began to realize that he should represent himself because neither attorney was going to assist him. (Ex. G at pages 56-57)

98. Shueylin Lee testified for Perry, stating Perry, Block, and Lee grew up together, went to high school together, and were good friends. Lee's brother Curtis got Shueylin's good friends to sign papers to try to help the Lee family with Royal Liquor. Shueylin stated they trusted brother Curtis when maybe they should not have. (Ex. G at pages 68-71) Morley agrees that he also had misplaced trust in Curtis.

99. Curtis Lee's hearing was the second hearing on October 3, 2014. (Transcript at Ex. I) Chuck Gibson appeared as his counsel, but the transcript does not show him asking any questions of his client or offering any evidence. Lee testified that when Royal Liquor Store was audited the first time, Morley advised Edna Lee's family how to go about setting up the sham sale of the business to Perry. The facts set forth herein detailing the setup of the first "sale" of the business, the second "sale" of the business, and the proposed third "sale" of the business were verified by Curtis Lee's testimony. (Ex. I)

100. During Curtis Lee's hearing, the Administrative Law Judge asked Curtis how he paid Morley for his legal services. Curtis testified that he never paid Morley for legal services in cash or by check, but he paid him in product from the liquor store. Whenever Morley wanted product, Curtis would just fix up his order and take it to his law office. When Morley had functions at his office, Royal Liquor Store would supply whatever product was needed. When questioned how Morley was being paid to handle this particular matter, Curtis testified that Morley told Curtis that they would wait and see how the current case went and when everything was over he would tell him how much Curtis owed him for his representation. (Ex. I)

101. After Perry testified at Curtis's hearing (Ex. I at pages 51-56), about Perry's involvement in the first "sale," Curtis went back on the record (Ex. I at pages 57-70), to stress that he had never paid Morley anything for his services. He also stated Chuck Gibson had nothing to do with the 2007-2008 Lee-to-Perry transaction. (Ex. I at pages 59-60)

102. In late October 2014, and after the hearings on October 3, 2014, Chuck Gibson emailed Gina Dougherty about the Royal Liquor permit that was to expire the next day, October 28, 2014. Gibson stated Royal Liquor had been closed since July 1, 2014, and offered to have Curtis Lee pay the Department \$6,000.00 to get a DF&A clearance letter to ABC so the permit would be renewed, so unnamed buyers would follow through, presumably to buy the business. This \$6,000.00 was characterized by Gibson as a Curtis Lee payment on the debt he owed the Department and not an offer to resolve Lee's tax issues there in the entirety. Dougherty replied that the Lee offer was unacceptable. (Ex. 86)

103. When the assessment was not paid before it was time to renew the alcohol permits, the Department did not issue the necessary tax clearance letter to ABC. Royal Liquor Store was

without liquor permits and remained closed. Once again, Morley's actions and inactions injured his Lee clients' interests.

104. Dougherty prepared the referral letter that Theis sent to OPC in February 2015. (Ex. B at ¶ 106)

105. Curtis Lee's credibility in these matters may be examined by comparing his actions described herein with his conduct that led to his being charged with felony hot check violations on March 30, 2015, in Chicot County Circuit Court No. CR-15-24, involving four checks totaling \$8,978.22 in May-June 2014 he wrote on the Royal Liquor account to MK Distributors, a liquor/beer supplier to Royal. Curtis Lee entered a guilty plea and received a 120 month suspended sentence and restitution order on a felony hot check charge on April 25, 2016, where he was represented by Charles Sidney Gibson and Chuck Gibson. (Ex. 82)

106. Dennis Lee, who had also worked at Royal Liquor, wrote three Royal Liquor checks totaling \$3,874.08 to MK Distributors in June 2014, and was charged with felony hot check violations, and entered his felony plea with the Gibsons as his lawyers on April 25, 2016, in Case No. CR-15-25, and received a 72 month suspended sentence and restitution order. (Ex. 83)

107. Shaun Perry appears to be the only one among Curtis Lee, Raymond Block, and Perry who did not take steps shortly prior to the ALJ hearings on October 3, 2014, on the Royal Liquor matter and the resulting \$296,664.81 final personal assessments to transfer significant personal assets to others to avoid the possibility of a DF&A lien attaching to his property.

108. After his adverse hearing decision, Perry engaged legal counsel at an eventual cost in excess of \$18,000. (Ex. L at ¶ 56 and Ex. 74) On November 12, 2014, a request for revision of administrative decision letter was sent to the Department. The Department replied by letter on

January 2, 2015, denying Perry any relief. (Ex. 75)

109. The conduct charged and admitted or that could be proven herein is “serious misconduct” as defined in Section 17.B of the Procedures and merits the sanction there called for, either termination (disbarment) or restriction (suspension) of law license.

110. Morley submits under seal as Ex. M-1 for consideration confidential information regarding his health.

Following Respondent Attorney’s receipt of the formal complaint, the attorney entered into discussion with the Executive Director which has resulted in an agreement to discipline by consent pursuant to Section 20.B of the Arkansas Supreme Court Procedures Regulating Professional Conduct of Attorneys at Law (2011). Upon consideration of the formal complaint and attached exhibits, admissions made by the respondent attorney, the terms of the written consent, the approval of Panel A of the Committee on Professional Conduct, and the Arkansas Rules of Professional Conduct, the Committee on Professional Conduct finds:

I. RULE VIOLATIONS CONDITIONALLY ADMITTED

As part of the consent agreement, Mr. Morley conditionally admits his conduct violated the following Rules:

A. The conduct of Stephen E. Morley violated Rule 1.1, to wit:

1. The real property on which the Royal Liquor store in Dermott was located was conveyed from Edna Lee to her son Dennis Lee by a Warranty Deed executed by Edna Lee on December 19, 2007, and filed for record in Chicot County, Arkansas on December 21, 2007. (Ex. 76) The same liquor store real property was later conveyed by Edna Lee to Perry Wine & Spirits, LLC by Warranty Deed prepared by the Morley Law Firm of Arkansas City, executed by

Edna Lee on February 4, 2008, and filed for record in Chicot County, Arkansas on February 12, 2008. (Ex. 15) The DF&A investigation in the records of Chicot County located no recorded deed transferring title ownership of the real property on which Royal Liquor store is situated out of Perry Wine & Spirits, LLC to another owner. (Ex. B at ¶ 30). In preparing the 2008 deed from Edna Lee to Perry Wine, Morley failed to find and take into account the December 2007 deed from Edna Lee to Dennis Lee for the same property, thereby failing to provide competent representation to Morley's clients Perry and later Block, who had a legitimate expectation each would receive a valid deed and good title to the Royal Liquor store real property in their respective transactions.

Arkansas Rule 1.1 requires that a lawyer shall provide competent representation to a client. Competent representation requires the legal knowledge, skill, thoroughness and preparation reasonably necessary for the representation.

C. The conduct of Stephen E. Morley violated Rule 1.7(a), to wit:

1. In 2014 Morley attempted to represent Curtis Lee, Shaun Perry and Raymond Block at the same time and in the same matter, the Royal Liquor store tax assessment, while knowing he had non-consentable conflicts of interest in representing more than one of the three clients due to cross-indemnification provisions Morley had placed in sales agreement contracts between each client. The clients, whose interests in the Royal Liquor tax assessment matter were adverse, never gave informed consent, confirmed in writing, to Morley's representation of the other clients.

Arkansas Rule 1.7(a) requires that, except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent

conflict of interest exists if: (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer, (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing.

D. The conduct of Stephen E. Morley violated Rule 1.9(a), to wit:

1. In 2014 Morley attempted to represent Curtis Lee, Shaun Perry and Raymond Block, all either current or former clients, at the same time and in the same matter, the Royal Liquor store tax assessment, while knowing he had non-consentable conflicts of interest in representing more than one of the three clients due to cross-indemnification provisions Morley had placed in sales agreement contracts between each client. The clients, whose interests in the Royal Liquor tax assessment matter were adverse, never gave informed consent, confirmed in writing, to Morley's representation of the other clients.

Arkansas Rule 1.9(a) requires that a lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.

E. The conduct of Stephen E. Morley violated Rule 1.9(b), to wit:

1. In 2014 Morley attempted to represent Curtis Lee, Shaun Perry and Raymond Block at the same time and in the same matter, the Royal Liquor store tax assessment, while knowing he had non-consentable conflicts of interest in representing more than one of the three clients due to cross-indemnification provisions Morley had placed in sales agreement contracts between each client. The clients, whose interests in the Royal Liquor tax assessment matter were adverse, never gave informed consent, confirmed in writing, to Morley's representation of the other clients.

Arkansas Rule 1.9(b) requires that a lawyer shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client: (1) whose interests are materially adverse to that person; and (2) about whom the lawyer had acquired information protected by Rules 1.6 and 1.9(c) that is material to the matter; unless the former client gives informed consent confirmed in writing.

F. The conduct of Stephen E. Morley violated Rule 1.9(c), to wit:

1. In attempting to represent Curtis Lee in 2014 in the Royal Liquor store tax assessment matter, in which former Morley clients Shaun Perry and Raymond Block also were being held jointly liable with Curtis Lee for the same tax assessment of about \$295,000, Morley put himself in the position where he would have a conflict due to Morley having to agree that Lee was not liable for the liquor store taxes and that either or both of Perry and Block should be liable for the taxes.

Arkansas Rule 1.9(c) requires that a lawyer who has formerly represented a client in a

matter or whose present or former firm has formerly represented a client in a matter shall not thereafter: (1) use information relating to the representation to the disadvantage of the former client except as these Rules would permit or require with respect to a client, or when the information has become generally known; or (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.

M. The conduct of Stephen E. Morley violated Rule 8.4(d), to wit:

1. Morley attempted to, or did, engage in conduct that is prejudicial to the administration of justice when he attempted to represent three co-responsible parties, Lee, Perry and Block, in the same tax assessment challenge proceeding before the DF&A Office of Hearings & Appeals, a tribunal, in 2014.

Arkansas Rule 8.4(d) provides that it is professional misconduct for a lawyer to engage in conduct that is prejudicial to the administration of justice.

II. RULE VIOLATIONS WHICH ARE NOT CONTESTED

As part of the consent, Mr. Morley, while not specifically agreeing with the substance of the allegations of violation of the following Rules, concedes there is sufficient evidence on which a fact-finder could find a violation:

G. The conduct of Stephen E. Morley violated Rule 4.1(a), to wit:

1. In the course of representing client Edna Lee and her Royal Liquor store in 2007-2008, Morley falsely represented to the Arkansas DF&A and other state agencies that Lee was selling the liquor store business and the real property on which it was located to Shaun Perry and his Perry Wine & Spirits, LLC, for \$40,623 to be paid by Perry, and that Perry would then own the liquor store business, when Morley knew that the transfer was a sham and that the Lee

family put up the \$40,623 in funding and would continue to operate the business.

2. In the course of representing Raymond Block in 2010, Morley falsely represented to the Arkansas DF&A and other state agencies that Perry was selling his ownership interest in Royal Liquor store to Raymond Block and his Dermott Wine & Spirits, LLC, when documents filed by Morley for Block showed the transaction was a “change of manager” only, and not a sale, but Lee family members continued to operate but not own the business.

Arkansas Rule 4.1(a) requires that in the course of representing a client a lawyer shall not knowingly make a false statement of material fact or law to a third person.

I. The conduct of Stephen E. Morley violated Rule 4.3, to wit:

1. Morley led Shaun Perry, an unrepresented person, to reasonably believe that Morley was also representing Perry in the Lee-Perry transaction involving Royal Liquor when Morley advised Perry that there was nothing wrong or illegal about the plan by which Perry would purchase Royal solely to assist the Lee family in “restructuring” the debt of the Lee business.

Arkansas Rule 4.3 requires that, in dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding. The lawyer shall not give legal advice to an unrepresented person, other than the advice to secure counsel, if the lawyer knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.

J. The conduct of Stephen E. Morley violated Rule 8.4(a), to wit:

1. Morley used two notaries in his law offices to notarize documents allegedly signed by Shaun Perry, knowing Perry had never been to any law office of Morley, had never been present before either notary, and did not sign documents that were notarized. (Ex. L)

2. Morley used two notaries in his law offices to notarize documents allegedly signed by Raymond Block, knowing Block had never been to any law office of Morley, had never been present before either notary, and did not sign documents that were notarized. (Ex. M)

Arkansas Rule 8.4(a) provides that It is professional misconduct for a lawyer to violate or attempt to violate the rules of professional conduct, knowingly assist or induce another to do so, or do so through the acts of another.

L. The conduct of Stephen E. Morley violated Rule 8.4(c), to wit:

3. Morley directed and engaged in a plan by which \$40,623 was provided to him by members of the Lee family to fund the Shaun Perry purchase of Royal Liquor from the Lee family in late 2007-early 2008, and Morley then represented to Arkansas DF&A, the state regulatory agency, that the buyer, Perry, was the source of the funds, (see Ex. 11 letter prepared and sent to DF&A by Morley or his staff at his direction, and Exs. 12, 16) Morley asserts DF&A continued its collection efforts against Edna Lee for the balance of the full \$244,201 final tax assessment.

4. Morley directed the preparation and delivery of the Ex. 11 letter dated November 28, 2007, from “Shawn” Perry to Assistant Revenue Commissioner John Theis, as well as including the two appraisals possibly gathered by Mark Ply and attached to the letter, submitting the \$40,623 “Perry” purchase offer to DF&A, and had Perry’s name signed to the

letter without Perry's knowledge or authorization. Morley's actions were an effort to misrepresent to DF&A the true nature of the sham transaction for the purpose of assisting the Lee family to compromise and evade and avoid responsibility for and payment of the full \$244,201 final tax assessment against Edna Lee resulting from the 2006 audit of her Royal Liquor business.

5. In January 2008, Morley created Perry Wine & Spirits, LLC for owner Shaun Perry, supposedly and publicly as the business entity by which Perry would own Royal Liquor store which Perry would purchase from the Lee Family and obtain required state permits and approvals. At the same time, Morley created other non-public documents and contracts between and among Perry and BJL Management, LLC (Curtis and Dennis Lee) by which actual management and operation of Royal Liquor remained with the Lee family and Perry would receive \$500 per month, which was never paid to Perry. Morley provided to DF&A a copy of the Management Agreement executed in April 2008. (Ex. 19) These actions by Morley were a successful subterfuge directed at DF&A to obtain the sale of Royal Liquor to a supposed independent third-party new owner, Perry, and compromise payment liability by the Lee family of \$40,623 of a final 2006 audit tax assessment against Edna Lee of \$244,201.

6. Morley's successful plan in the 2008 Lee to Perry sale, coupled with his similar sale and transfer of Royal Liquor from Perry to Block in 2010, while allowing the Lee family to remain in operational control of Royal Liquor throughout, allowed Royal to defeat and evade and cost the State of Arkansas an additional \$296,650 in taxes, plus penalty and interest that brought the final assessment in 2014 to \$415,120, as shown by the DF&A audit of 2008-2012. (Exs. 36, 37, 39)

7. The Membership Sales Agreement between Perry and Block prepared by Morley in May 2010 and used purports to represent a sale of the Royal Liquor store business from Perry to Block (Ex. 28), yet change-of-manager application forms Morley had prepared and filed for the liquor and beer permits of Royal Liquor state only that the transaction represent a “change of manager - no sale” (Exs. 29, 30, 31), yet in a December 2013 email to Gina Dougherty of DF&A Morley clearly stated that Perry sold his membership interests in the Perry Wine LLC that supposedly owned Royal Liquor to Block, (see also Exs. 45, 51), which is conduct by Morley involving dishonesty, fraud, deceit or misrepresentation toward Arkansas DF&A.

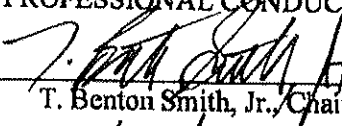
Arkansas Rule 8.4(c) provides that it is professional misconduct for a lawyer to engage in conduct involving dishonesty, fraud, deceit or misrepresentation.

Morley denies all other Rules charged in the Complaint and not specifically set out herein.

WHEREFORE, in accordance with the consent to discipline presented by Mr, Morley and his counsel and the Executive Director, it is the decision and order of the Arkansas Supreme Court Committee on Professional Conduct that the Arkansas law license of Respondent Stephen Ewing Morley, Arkansas Bar No. 79215, be, and hereby is, **SUSPENDED for FORTY-TWO (42) MONTHS**, for his conduct in this matter. He is also assessed and ordered to pay costs of \$500.00. The suspension shall become effective on the date this Findings and Order is filed of record with the Clerk of the Arkansas Supreme Court. The costs assessed herein shall be payable by cashier’s check or money order payable to the “Clerk, Arkansas Supreme Court” delivered to the Office of Professional Conduct with thirty (30) days of the date this Findings and Order is

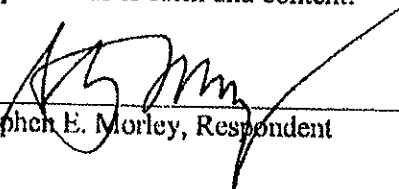
filed of record with the Clerk of the Arkansas Supreme Court.

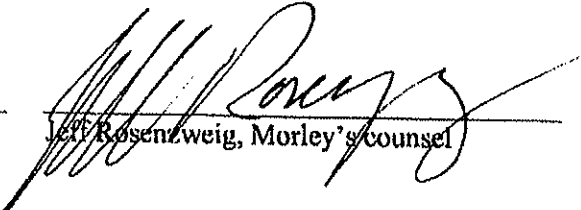
ARKANSAS SUPREME COURT COMMITTEE
ON PROFESSIONAL CONDUCT - PANEL A

By 
T. Benton Smith, Jr., Chairperson, Panel A

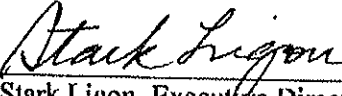
Date 9/20/19

Approved as to form and content:


Stephen E. Morley, Respondent


Jeff Rosenzweig, Morley's counsel

Concur:

 9/6/19
Stark Ligon, Executive Director