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Preface

In recent months, the Office of General Counsel has received ethical inquiries, as well as bar grievances, dealing with a lawyer's billing of case expenses and costs to the client. There is apparently some degree of misinformation or a lack of communication between some lawyers and their clients as to what is and what is not considered an "expense" of client representation. The following formal opinion, which was ratified by the Disciplinary Commission of the Alabama State Bar in 2005, attempts to establish parameters for lawyers' and law firms' billing of costs and expenses to their clients. Lawyers who do such client file expense and cost billing should review this opinion to ensure that their billing practices and procedures comply with the mandates of this opinion. If there is an issue not specifically addressed in the opinion, lawyers with questions about this matter should contact the Office of General Counsel at (334) 269-1515 for further advice and direction.

Billing Client for Attorney's Fees, Costs and Other Expenses

The Disciplinary Commission, in RO-94-02, addressed the issues surrounding a lawyer's billing a client for attorney's fees, costs and other expenses incurred during the representation of the client. Basically, the Disciplinary Commission's opinion adopted ABA Formal Opinion 93-379.

The instant opinion reaffirms the Disciplinary Commission's adoption of and adherence to that referenced formal opinion of the ABA.

OPINIONS OF THE GENERAL COUNSEL

Continued from page 209

DISCUSSION:

One of the primary factors considered by a client when retaining a lawyer is the fee to be paid by the client for the lawyer's providing legal representation to the client.

Incidental to the lawyer's fee, for which the client will be responsible, are those expenses and costs incurred by the lawyer during the representation of the client.

Rule 1.4(b) requires that a lawyer explain a matter to the extent reasonably necessary to permit a client to make informed decisions regarding the representation.

Inherent in this initial consultation with a client would be some discussion of the fee to be charged by the lawyer, and possible reimbursement to the lawyer for expenses he or she incurs during the representation of the client.

In those situations where there is no pre-existing lawyer-client relationship, Rule 1.5(b), *Alabama Rules of Professional Conduct*, encourages the lawyer to communicate to the client, preferably in writing, the basis or rate of the fee to be charged by the lawyer for representing the client. The Rule suggests that this communication occur "before or within a reasonable time after commencing the representation." *A.R.P.C.*, 1.5(b).

The Comment to Rule 1.5 encourages that "... an understanding as to the fee should be promptly established." The lawyer is also given an opportunity at the outset of representation to fully discuss and address any concerns which the client may have concerning the total fee, which would obviously include costs and expenses to be reimbursed to the lawyer by the client.

Additionally, Rule 1.5(c) states:

"Rule 1.5—Fees

(c) ... A contingent fee agreement shall be in writing and shall state the method by which the fee is to be determined, including the percentage or percentages that shall accrue to the lawyer in the event of settlement, trial or appeal, litigation and other expenses to be deducted from the recovery, and whether such expenses are to be deducted before or after the contingent fee is calculated."

Rule 1.5(a), *A.R.P.C.*, also prohibits a lawyer from entering into an agreement for, or charging or collecting a clearly excessive fee. In the past, the Disciplinary Commission has reviewed allegations of clearly excessive fees in the disciplinary process. Due consideration is given, in addressing those types of complaints and fee disputes, to the total fee to be charged to the client by the lawyer, which would necessarily include reimbursed costs and expenses.

For that reason, the lawyer should, when assessing the reasonableness of the fee, take into consideration not only the basic attorney fee, but the total amount to be paid by the client, including costs and expenses reimbursed to the lawyer. The primary focus of the assessment should be to determine whether the total charges to the client are reasonable.

The basic costs or expenses incurred by the lawyer in representing the client can be broken down into two basic categories: (1) Those costs which are incurred by the lawyer within the firm itself, e.g., photocopying, postage, audio- and videotape creations, producing of exhibits, and the like; and, (2) Costs incurred external of the law firm or outsourced by the law firm in further representation of the client, e.g., depositions, production of records from a third party, travel and lodging, and the like.

In ABA Formal Opinion 93-379, charges other than professional fees are broken down into three groups, for discussion: (A-1) General overhead, (B-2) disbursements and (C-3) in-house provision of services. With regard to overhead, said opinion states:

"In the absence of disclosure to the client in advance of the engagement to the contrary, the client should reasonably expect that the lawyer's cost in maintaining a library, securing malpractice insurance, renting of office space, purchasing utilities and the like would be subsumed within the charges the lawyer is making for professional services."

Therefore, that opinion does not consider overhead as an expense which is to be passed along to the client independent of the basic fee for professional legal services.

With regard to disbursements (B-2) above, the opinion points out that it would be improper "... if the lawyer assessed a surcharge on these disbursements over and above the amount actually incurred unless the lawyer herself incurred additional expenses beyond the actual cost of the disbursement item." This would include, but not be limited to, litigation expenses such as jury consultants, mock trials, focus groups and the like. The opinion also points out that if a lawyer receives any type of discounted rate or benefit points, then those discounted rates or benefit points should be passed along to the client.

With regard to (C-3) above, the opinion states that "... the lawyer is obliged to charge the client no more than the direct cost associated with the service ... plus a reasonable allocation of overhead expenses directly associated with the provision of the service ...". The obvious reasoning behind this

approach is that the lawyer should not utilize the lawyer-client relationship, beyond the fees for professional services, to "manufacture" a secondary source of income by inflating costs and expenses billed to a client. This approach philosophically agrees with Rule 1.5's prohibition against clearly excessive fees. Since the basic lawyer's fee is governed by a "reasonableness" approach, likewise, all fees and expenses which are charged back to a client during the course of the representation should be reasonable, and not considered as a secondary opportunity for a lawyer to generate additional income from the lawyer-client relationship.

In reviewing this aspect of the lawyer-client relationship, it is also necessary to consider possible abuses by lawyers of a lawyer-client relationship with regard to fees charges for the lawyer's professional services. ABA Formal Opinion 93-379 recognizes two possible scenarios where a lawyer's

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OPINIONS OF THE GENERAL COUNSEL

Continued from page 211

billing practices would contravene the *Rules of Professional Conduct*. In one situation, the lawyer bills more than one client for the same hours spent. If a lawyer appears on behalf of multiple clients for one docket call, with each client being a separate case file and separate lawyer-client relationship, may the lawyer bill each file for the total number of hours spent at the docket call? The obvious answer to this would be no. Otherwise, the lawyer would be guilty of using a multiplier for his time spent on behalf of a client which not only would be misleading, but, in some instances, rise to the level of fraud. The classic example would be a lawyer appointed to represent indigent defendants in criminal cases. The lawyer receives notices that he has three separate clients on the same morning docket. The lawyer

sits and participates throughout the docket which spans some two hours. Upon returning to his office, the lawyer then bills each of the client files the two hours expended in court, totaling hours in multiple of the number of client files presented during that docket.

The situation would develop whereby a lawyer would actually be billing more hours than actually expended by the lawyer, which would contravene not only public policy, but also the *Rules of Professional Conduct*.

A second situation involves a lawyer who performs work for one client while engaged in an activity for which he bills another client. The classic example is the lawyer who flies from one city to another for a deposition on behalf of Client A. The time spent by the lawyer in traveling to and conducting the deposition would be billed to Client A.

However, during the flight, the lawyer works on files for Client B. May the lawyer also charge Client B for the same time for which he is billing Client A? Again, the obvious answer would be no. To allow otherwise would constitute double billing by the lawyer for his or her time.

Lastly, there is a possibility that lawyers "recycle" documents and research on behalf of clients. The classic example arises where a lawyer has done a significant amount of research and drafted memoranda, pleadings or other documents on behalf of a client. The client is billed for this research and these documents.

Later, the lawyer is hired by a new client, but in discussing the case with the new client, the lawyer realizes that he or she may be able to utilize the research and documents created for the predecessor client. May the lawyer now charge the same number of hours billed to the initial client, to this subsequent client, even though the actual time will not be necessary to recreate the research and documents in question? Again, the obvious answer would be no.

The Commission suggests that lawyers review their office practices with regard to fee contracts and letters of engagement to ensure compliance with the above-discussed fee and expense issues. [RO-2005-02] ▲▼▲

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