Changing Horses in Midstream: Modifying Fee Agreements

By Mark J. Fucile
Fucile & Reising LLP

Regardless of the compensation method used, lawyers often spend considerable time before taking on representations negotiating their fee agreements with clients. In most instances, the lawyer and the client reach agreements that both understand and are performed without event. Sometimes, however, lawyers later attempt to modify fee agreements in their favor. The reasons are many and range from rates increasing during the duration of the matter involved to fundamental changes in the assumptions upon which the representation was predicated. In still others, the lawyers simply conclude they didn't negotiate a very good deal at the beginning and would like a bigger piece of the “pie.”

In this column, we'll first briefly survey the law governing fee modifications. We'll then turn to practical steps that can be taken in the beginning to anticipate and provide for contingencies which may develop over the course of a matter. We'll conclude with some cautionary notes about what can happen when lawyers simply try to impose unilateral modifications later.

Fee Modifications Generally

Washington’s law of lawyering sets a very high bar for enforceable fee modifications. Division 1 of the Court of Appeals summarized these standards in
"Review of an attorney’s fee agreement renegotiated after the attorney-client relationship was established requires particular attention and scrutiny. . . Such modification is considered to be void or voidable until the attorney establishes ‘that the contract with his client was fair and reasonable, free from undue influence, and made after a fair and full disclosure of the facts upon which it is predicated.’

. . .

“A fee agreement modified to increase an attorney’s compensation after the attorney is employed is unenforceable if it is not supported by new consideration.”

(Citations omitted.)

Washington’s rigorous approach rests on three legs. First, once formed, an attorney-client relationship is a fiduciary one as a matter of law. Second, the Rules of Professional Conduct, including RPC 1.7(a)(2), impose parallel duties when there is a conflict between the business interests of the lawyer and client. Third, fee agreements—and subsequent amendments—are subject to standard contract principles.

Ward was a contingent fee case. The standards noted, however, apply with equal measure to all fee agreements regardless of the particular compensation method involved. In Simburg, Ketter, Sheppard & Purdy, L.L.P. v. Olshan, 109 Wn. App. 436, 988 P.2d 467 (1999), amended, 109 Wn. App. 436, 33 P.3d 742 (2000), for example, Division 1 used these principles in an hourly fee context to decide whether there had been “full revelation” necessary for an accord and satisfaction when billing rates were changed without notice to the
client. Similarly, these standards apply to modifications beyond the dollar terms of a fee agreement. In Valley/50th Ave., L.L.C. v. Stewart, 159 Wn.2d 736, 153 P.3d 186 (2007), for example, the Supreme Court applied these principles when addressing foreclosure of a trust deed that had been added by way of modification to secure unpaid fees in an ongoing matter.

**Practical Steps to Avoid Problems**

*Ward* and its companion cases don’t say that lawyers may never renegotiate fees—just that any resulting modifications will be closely scrutinized and may be unenforceable if they don’t meet the high standards noted. Given that risk, the practical point for anticipating and addressing possible change is in the original fee agreement. When contingencies for change are wired into the original fee agreement, they aren’t “modifications.” Rather, they are circumstances that were disclosed, bargained-for and supported by consideration before the fiduciary duties inherent in the attorney-client relationship attached.

Providing a mechanism for periodic hourly rate adjustments or for a higher contingent fee on appeal are ready examples of monetary provisions that can be anticipated and included at the outset. Reserving an advance fee deposit for later in a case, such as 90 days before trial, is an equally ready example of a non-monetary provision that can also be included in an original agreement. The key is that these provisions were agreed by the client and the lawyer at the
beginning of the representation rather than imposed unilaterally by the lawyer later.

Like all contracts, ambiguity in fee agreements is generally construed against the drafter—which is usually the lawyer. When including contingencies in a fee agreement, therefore, they need to be clear in both their scope and triggering events. Beyond formal rules of construction, lawyers also need to be sensitive to the practical consideration that a reviewing court may not cut much slack for a lawyer-drafter who failed to address an ambiguity. In examining ambiguity in a fee agreement concerning the percentage applicable upon post-trial settlement, for example, Division 3 in Forbes v. American Bldg. Maintenance Co. West, 148 Wn. App. 273, 288, 198 P.3d 1042 (2009), commented pointedly: “If she had intended to provide herself a specific contingency for settlement after a trial on the merits and judgment, she could have drafted appropriate language clearly indicating that the parties agreed to that contingency.”

**Consequences**

Cotton v. Kronenberg, 111 Wn. App. 258, 44 P.3d 878 (2002), is an extreme but useful example of the range of consequences possible when a lawyer falls short of the standards discussed. The lawyer in Cotton took on a criminal case at an hourly rate, with the fee secured by land and a trailer the client owned. A few days later, however, the lawyer changed the agreement to a flat fee and took the land and the trailer in exchange. There was no new
consideration for the amendment. The lawyer was later disqualified after he paid
the prosecution’s key witness for his silence and bought the witness a one-way
ticket out of town (both apparently unbeknownst to the client). Despite his
disqualification, the lawyer refused to refund the fee. The client sued. Following
cross-motions for summary judgment, the case went to Division 1 of the Court of
Appeals.

The Court of Appeals found that the lawyer’s modification breached his
fiduciary duty to the client and violated the RPCs. It also noted the lack of new
consideration. As a result, the Court of Appeals held that the modification was
unenforceable. It also concluded that the trial court had the discretion to direct
the lawyer to return all fees collected under the circumstances rather than
allowing the lawyer to retain a portion under quantum meruit (see generally *Eriks

Because the agreement involved the business aspects of the lawyer’s practice,
the client also brought a Consumer Protection Act claim against the lawyer (see
generally *Short v. Demopolis*, 103 Wn.2d 52, 691 P.2d 163 (1984) on CPA
claims relating to law practice) and sought fees in the refund litigation under the
CPA. Although the Court of Appeals found that fact issues precluded summary
judgment on that claim, it did not reject the legal basis for that potential additional
remedy and remanded the CPA claim for further proceedings. The lawyer was
eventually disbarred for the witness-tampering in the underlying criminal case (In re Kronenberg, 155 Wn.2d 184, 117 P.3d 1134 (2005)).

Not every fee modification will involve Cotton’s toxic stew. Cotton does, however, offer a stark example of the range of remedies potentially available to clients when fee modifications are disputed. Those remedies, moreover, are equally available to a client contesting a fee collection action by a lawyer as they are in the context of a lawsuit by a client against the lawyer.

**Summing Up**

Fee issues can become flashpoints in an attorney-client relationship. The simplest way to avoid potential problems from modifications is to incorporate likely contingencies into the original fee agreement using terms that are clear in their scope and triggering events.

**ABOUT THE AUTHOR**

Mark J. Fucile of Fucile & Reising LLP focuses on legal ethics, product liability defense and condemnation litigation. In his legal ethics practice, Mark handles professional responsibility, regulatory and attorney-client privilege matters and law firm related litigation for lawyers, law firms and legal departments throughout the Northwest. He is a past member of the Oregon State Bar’s Legal Ethics Committee, is a past chair of the Washington State Bar Rules of Professional Conduct Committee, is a member of the Idaho State Bar Professionalism & Ethics Section and is a co-editor of the OSB’s Ethical Oregon
Lawyer and the WSBA’s Legal Ethics Deskbook. Mark also writes the monthly Ethics Focus column for the Multnomah (Portland) Bar's Multnomah Lawyer, the quarterly Ethics & the Law column for the WSBA Bar News and is a regular contributor on risk management to the OSB Bar Bulletin, the Idaho State Bar Advocate and the Alaska Bar Rag. Mark’s telephone and email are 503.224.4895 and Mark@frlp.com.