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FOCUS

President's Message

Zandra Pulis, Deputy General Counsel CPS Energy

Fall greetings! As the sweltering days come to an end, the crisp air and breezy fronts remind me that end-of-year festivities are upon us. The ghosts and goblins are quickly replaced with turkeys and cornucopias, that themselves will be replaced with holly and mistletoe. Another year has quickly passed.

During the first weekend of November, your ACC Board spent a Saturday planning for 2020. Committee chairs talked about 2019 - what went well and what did not. I assure you, there was much more of the former than the latter. Recently at the Association of Corporate Counsel Annual Meeting in Phoenix, our chapter was recognized as a "Gold Chapter of Distinction", meaning we accomplished excellence in the areas of governance/operations; membership; programming; awards/recognition programs; scholarships/pro bono work; and communications. In fact, we have a history of excellence having received the Gold designation since it was established in 2017. Prior to that, we were recognized as Chapter of the Year in 2006, 2010, 2013, and 2015. And our very own Ethics Follies® has earned us the Innovative Programming award. Our strong performance is a testament to the commitment of former and current Board members, but even more so, our remarkable chapter administrator, Amber Clark. Amber is the glue that holds everything, and

I mean EVERYTHING, together. She is and has been critical to our chapter's success since she joined us in October 2002. She tirelessly works to ensure that all of our chapter's functions are successful and our finances and governance are perfectly in order. She is simply amazing and we are extremely fortunate to have Amber as part of our organization. Sincerest thanks the ACC Board, our members, and especially Amber for making our chapter so great!

Also at the Board retreat, incoming President Rode Moore did a wonderful job establishing goals for 2020 that will ensure our membership derives value from ACC. I look forward to the CLE luncheons, as well as the social activities, like family night at the Missions Game, Foodie Fridays, and Wine Down Wednesdays. Recognizing our obligation to give back to our community, we are planning some service activities for you and your families. And of course, the annual golf tournament and Ethics Follies will give us a chance to have fun while raising sizeable donations for the Community Justice Program and other local nonprofits. I look forward to what 2020 has in store and I encourage you to get involved with our chapter! Reach out to any of the ACC Board members if you are interested.



Finally, I want to emphasize the incredible value that is the ACC Annual Meeting. There are literally hundreds of opportunities for CLE, in addition to the massive expo and various social events for networking and making new friends. It was inspiring to learn about

best practices and innovative solutions from other corporate counsel and I hope to use them in my own practice. I highly recommend attending the Annual Meeting to all in-house counsel – maybe I'll see you next October in Philadelphia!

Warmest wishes for a peaceful and joy-filled holiday season. And thank you for allowing me to serve as your chapter President in 2019; it was my extreme honor!

Chapter of
Distinction: Gold
AWARD 2019

ACC Association of
Corporate Counsel

Template for Disaster

By Neil Peretz

“Who knows what evil lurks in the hearts of agreements?” Not you, if you have an over-reliance on templates.

As a former litigator, I have witnessed numerous scenarios where a slavish devotion to template agreements paved the road to disaster. Organizations felt that the template agreement was sacrosanct and dared not contemplate how new facts and situations might require its alteration.

Obeisance to and reliance upon a “template” is not surprising, given the history of the term. The [etymology of “template”](#) traces back to the Latin word “*templum*,” which means not only “plank or rafter,” but also means a “temple, shrine, sacred, or consecrated place.”

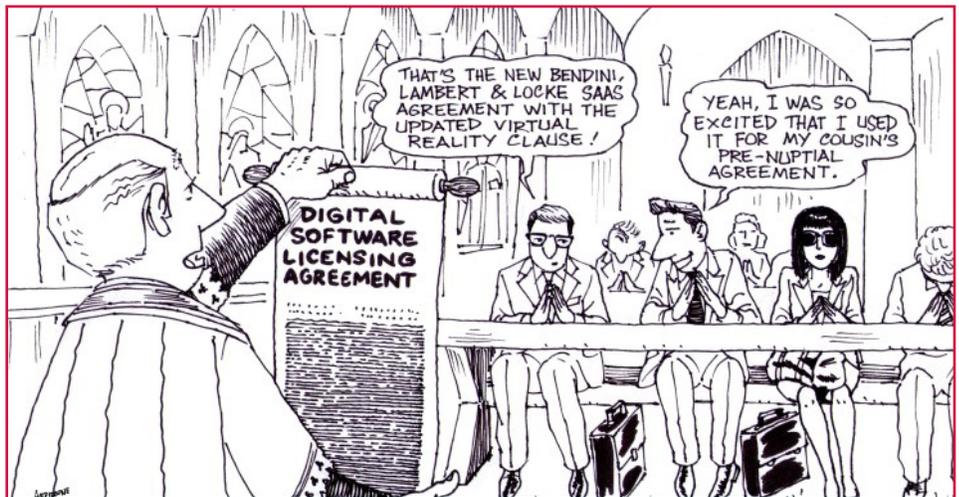
Many cultures have adapted historic religious concepts to today’s mores and practices. For example, in most locales, it is no longer de rigeur to stone people to death for working on the Sabbath. (Indeed, there would be much stoning of lawyers if such a rule were still in place.) Similarly, one cannot rely solely on historic templates as the times change.

When translated into Swedish, one word for “template” is “[mönster](#).” Remove the diacritical marks above the “ö” and you have the perfect English-language descriptor of templates run amuck.

As a former federal trial attorney and financial services regulator, I often encountered situations where companies violated their own agreements with customers. Why? Because they did not know what was in those agreements.

Maybe once upon a time, they read a template customer agreement but never noted when the template changed — or how each version of their template impacted their practices with respect to future customers. Only after class action or regulatory enforcement did they realize that not all customer agreements were the same.

Using templates lulled them into a false complacency around knowing the



content of their customer agreements. In reality, their templates evolved over time, and they should have been reading and implementing each agreement independently.

In the business-to-business context, an over-reliance on templates can lead to even bigger disasters. Businesses are more likely to have attorneys representing them, and business deals are often a higher dollar amount, which means the salespeople pushing the deals are more willing to negotiate in order to get the deal done.

The result is a contract that might look a lot like the standard template agreement yet contains multiple significant deviations from the template that are overlooked during contract implementation ... until it's too late.

For example, a major commercial property manager thought its standard lease template was in place with a tenant. The property manager failed to note that the notice requirements had been renegotiated, and, as a result, missed the opportunity to exercise an option to re-assess and potentially raise the rent.

Many large organizations have grown through acquisition. As a result, even if they deploy their own templated agreements going forward, their day-to-day work relies on implementing agreements created by their predecessors

and acquisitions. Even if all these inherited prior agreements could be changed, the next acquisition just brings in more types of templates.

Large companies may have hundreds of different agreement templates, meaning they need to start reading each agreement, rather than assuming that all agreements of a certain type are the same. The failure to treat each agreement individually can lead to dangerous assumptions.

For example, some inherited templates might not request that the customer opt-in to receive calls via an auto dialer. The company may face substantial [Telephone Consumer Protection Act](#) liability when contacting customers subject to these inherited agreements.

Without careful attention to the contents of each agreement, the use of templates can breed a pernicious complacency throughout the organization. Employees assume that agreements need not be read because they are inviolable and blessed from above.

When a new situation arises where the standard template doesn't fit, the employee chooses to use the template regardless, because doing so creates the least internal organizational friction.

The end result is an agreement that doesn't fit the transaction and cannot be smoothly implemented.

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Surely templates can serve a certain purpose: We cannot afford to write each business agreement from scratch. However, we need to remember that speed in drafting is not the sole benchmark for a successful agreement or successful relationship.

The most successful business relationships are those where both sides receive the benefit of their bargain. This means they need a contract that actually reflects their bargain. And, more importantly, the real relationship work begins after the contract is signed.

Because templates change over time and key terms may be custom-negotiated, implementation of the contract must be based on reading its actual terms, rather than assuming it follows the same format and terms of a mythical template from the past.

As an in-house counsel, you should not assume that the use of a template for a certain type of agreement means that you know the terms of all of your relationships. Start sampling your historic agreements to see how they have changed over time.

If your organization has had acquisitions, sample the agreements of acquired entities as well. And start talking with your business colleagues about how often they need to change agreement terms to conclude a negotiation.

Most importantly, even if you think it's just a standard template that you know by heart, read the key terms of each agreement anyway, because that is what the court and your counterparty will rely upon.

Author:

Neil Peretz has served as general counsel of multiple companies, as well as a corporate CEO, CFO, and COO. Outside of the corporate sphere, he co-founded the Office of Enforcement of the Consumer Financial Protection Bureau and practiced law with the US Department of Justice and the Securities and Exchange Commission. Peretz holds a JD from the University of California, Los Angeles (UCLA) School of Law, an LLM (master of laws) from Katholieke Universiteit Leuven (where he was a Fulbright Scholar), bachelor's and master's degrees from Tufts University, and has been ABD at the George Mason University School of Public Policy. Peretz's most recent technology endeavor is serving as general counsel to Contract Wrangler, which applies attorney-trained artificial intelligence to identify the key business terms in a wide variety of contracts.

ACC News

ACC Xchange: Program Schedule Now Available

Xchange 2020 (April 19-21, Chicago, IL) offers **advanced, practical, interactive, member-driven** education for in-house counsel and legal operations professionals that you won't find at any other conference. By uniting complementary professions to exchange ideas and best practices, this program creates a powerful and unique environment that offers a fresh take on how to deliver your in-house legal services more efficiently and effectively. [Register today.](#)

Are your vendors putting you at RISK under the pending California Consumer Privacy Act (CCPA)?

At the ACC Annual Meeting register for, Untangling Third-Party Data Privacy Privacy & Cybersecurity Risk, and learn

how to ensure you're ready for the CCPA and your third-party vendors aren't putting you at risk. [Save your spot at this session now.](#) Seating is limited.

In-house Counsel Certified (ICC) Designation

The [ACC In-house Counsel Certification Program](#), helps in-house counsel become proficient in the essential skills identified as critical to an in-house legal career. The program includes live instruction, hands-on experience, and a final assessment. Those who successfully complete the program will earn the elite ICC credential. Your law department and your employer will benefit from having a lawyer that returns with global best practices in providing effective and efficient legal counsel. Attend one of these upcoming programs:

- **Dubai, UAE**, March 2-5, 2020

ACC's Top 10 30-Somethings nominations are now open!

This award recognizes in-house counsel trailblazers for their innovation, global perspectives, proactive practice, advocacy efforts, and pro bono and community service work. Self-nominating is acceptable. Nominations are due December 6. [Nominate someone today.](#)

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Don't Miss!

Our 2020 our monthly luncheons will take place at **The Quarry Golf Course!**



444 East Basse Road, San Antonio, 78209

The cost to attend the luncheons is \$15.00 for members and \$25.00 for non-member guests. (In-house counsel and sponsoring firm only, please.) Check out our [Chapter web page](#) for our current calendar of events and registration information.

No other professional organization in San Antonio offers better CLE programs at a more affordable price that is specifically geared to meeting the needs and issues of in-house counsel.

2020 ACC Luncheon Dates

January 2020
Wednesday, January 8th

February 2020
Wednesday, February 5th

March 2020
Wednesday, March 4th

April 2020
Friday, April 3rd
(in connection with our annual golf tournament)

May 2020
Wednesday, May 6th

June 2020
Wednesday, June 3rd

July 2020
Wednesday, July 1st

August 2020
Wednesday, August 5th

September 2020
Wednesday, September 2nd

October 2020
Wednesday, October 7th

November 2020
Wednesday, November 4th

December 2020
Wednesday, December 2nd

For more information, or to register for any of these events, contact Amber Clark at southcentraltx@accglobal.com

Is Your ACC Member Profile Up-To-Date?

You may edit/update your contact or personal information, etc. by logging into www.acc.com and selecting "My ACC." Then click on "My Contact or My Personal Info." Scroll to the bottom of your profile and click on "Edit My Info." It's that easy!

Job Openings?

Is your company looking to fill an in-house position? Do you know about a current in-house job opening? If so, please let us know so that we can advertise the position to our membership.

Send an email to our Chapter Executive Director at southcentraltx@accglobal.com.

ACColades

In connection with the recent merger of South Texas Money Management with CAPTRUST, **Christina Markell-Balleza** will now be leading the legal team as the Senior Director, Legal for CAPTRUST.

Brian C. Hamilton is now chief operating officer at American Roofing & Metal Company.

Have you received a promotion lately? Changed jobs? Do you know of someone who is new to in-house or who deserves a little recognition for a job well done? Please email us at southcentraltx@accglobal.com with your "ACColades" tips.

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HEB	Plunk Smith
Hoblitt Darling Ralls Hernandez & Hudlow, LLP	RSM
Judges for CJP	Schmoyer Reinhard
Judges for CJP (Second Table)	Security Service Federal Credit Union
Kilpatrick Townsend	Southwest Research Institute
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James Avery

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Ethics Follies



Past Events

Board Planning Retreat



Annual Meeting



Favorable Safe Harbor Rule In Jeopardy For Corporations

By Asel Lindsey and Scott Kocienski, Dykema

On September 9, 2019, the Treasury Department and the Internal Revenue Service issued proposed regulations under Internal Revenue Code (the “Code”)¹ Section 382(h), REG-125710-18, which address the treatment of unrealized and realized built-in gains and losses in calculating annual loss limitation amounts pursuant to acquisition of a loss corporation, as defined below (“Section 382 limitation”). If adopted in current form as final, the regulations would limit the amount of losses and other tax attributes that corporations may utilize pursuant to an ownership change and would reduce the value of net operating losses and other tax attributes of loss corporations, which may significantly impact certain investment decisions and corporate acquisitions.

For Federal income tax purposes, if a corporation that has net operating losses (“NOLs”) or certain other tax attributes (a “loss corporation”)² undergoes an ownership change,³ the loss corporation will be subject to Section 382 limitation in the use of its pre-change losses with respect to its post-change income.⁴ This limitation was designed to prevent acquisitions of loss corporations solely for income tax and not substantive business purposes, in that profitable companies could acquire loss corporations solely for purposes of using their NOLs and reducing their own tax liabilities.

Section 382 limitation consists of the base limitation and adjustments. The base limitation amount equals to the product of the loss corporation’s value before the ownership change and the long-term tax-exempt rate (around 2%).⁵ As a general rule, the base limitation amount is small and of insignificant value to the acquiring company. However, the base limitation is subsequently adjusted up or down by various items of income and expense, including built-in gains and losses.⁶ For these purposes, built-in gains or losses are items of income and expense, which are attributable to periods before the ownership change, but which are rec-

ognized during the 5-year period after the ownership change (the “Recognition Period”).⁷ These built-in gains or losses are determined by comparing the values of the company’s assets to the tax basis of such assets. To the extent value exceeds basis, the company has net unrealized built-in gain (“NUBIG”).⁸ To the extent basis exceeds value, the company has net unrealized built-in loss (“NUBIL”).⁹

Thus, if a loss corporation had NUBIG at the time of the ownership change, the Section 382 limitation for any Recognition Period taxable year would be increased by the recognized built-in gains for such taxable year (“RBIG”).¹⁰ On the other hand, if a loss corporation had a NUBIL, the recognized built-in loss (“RBIL”) for any Recognition Period taxable year will be subject to the Section 382 limitation as if such loss were a pre-change loss.¹¹ Historically, adjustment for NUBIG and RBIG provided for significant increases in the annual Section 382 limitation and made certain acquisitions of loss corporations, especially distressed businesses, more attractive.

Because items of built-in gains and losses involved pre-change and post change periods and were subject to timing and acceleration, they were difficult to identify and compute. Thus, in 2003 the Internal Revenue Service issued Notice 2003-65, which provided two alternative safe harbor approaches for identifying built-in items and calculating RBIG and RBIL: the “1374 Approach” and the “338 Approach.” Both methods utilize a hypothetical sale of assets for determining RBIG and RBIL but vary in calculations.

Under the 1374 Approach, NUBIG and NUBIL are computed by determining the amount realized if a loss corporation sold all its assets, including goodwill, at fair market value to a third party that assumed all of its liabilities subject to other adjustments. This approach utilizes accrual method of accounting and does not treat income from built-in gain assets during the recognition period

as RBIG because “such income did not accrue before the change date.”¹² On the other hand, the 338 Approach identifies RBIG and RBIL by comparing the loss corporation’s actual items of income, gain, deduction and loss with items of income, gain, deduction and loss which would result had a section 338 election been made and treats as RBIG any excess of cost recovery deductions that would be allowable for assets pursuant to section 338 election over the loss corporation’s actual allowable cost recovery deduction.¹³ This approach benefits loss corporations with RBIG because it treats certain built-in gain assets as generating RBIG even if such assets were not disposed of during the recognition period. Thus, loss corporations with NUBIL benefit from the 1374 Approach due to its calculation of RBIL, and loss corporations with NUBIG greatly benefit from the 338 Approach, which allows them to increase Section 382 limitation by RBIG based on favorable computation of RBIG as discussed above.

The proposed regulations eliminate the 338 Approach, reversing established guidance and requiring that taxpayers rely exclusively on a modified 1374 Approach. Such change would negatively impact loss corporations with NUBIG in that they will not be able to increase their annual Section 382 limitations as they historically could under the safe harbor provisions of Notice 2003-65. Instead, loss corporations, which would include many distressed businesses, would be significantly limited in the use of their pre-change losses by the Section 382 base limitation amount and would not be able to utilize their NOLs and other beneficial tax attributes, which could reduce the value of these attributes and affect business acquisition and investment decisions.

The regulations are proposed to be effective for ownership changes occurring after they are finalized. Dykema is following these developments and will

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be providing an update regarding the final regulations, if and when they are issued. It should be noted that the calculations of NUBIG/NUBIL and RBIG/RBIL, as well as the application of those calculations to the Section 382 limitation, are fairly complex, and are beyond the scope of this article. For a more detailed explanation of the calculations, the current guidance and the impact of the proposed regulations, please contact the authors of this article or your tax advisor.

Authors:

Asel Lindsey and Scott Kocienski are Members in Dykema's Taxation and Estates. They counsel their clients on business tax planning, partnership tax planning, estate planning, international tax planning, and federal and state tax controversy.

¹Hereinafter, all Section references are to the Code unless otherwise specified.

²Under the statute, a "loss corporation" is defined as a corporation entitled to use a net operating loss carryover or having a net operating loss for the taxable year in which the ownership change occurs. Such term includes any corporation entitled to use a carryforward of disallowed interest under section 381(c)(20) and any corporation with a net unrealized built-in loss, unless otherwise excepted.

³There is an ownership change if, immediately after an owner shift involving a 5% shareholder or any equity structure shift the percentage of the stock of the loss corporation owned by 1 or more 5% shareholders has increased by more than 50 percentage points, over the lowest percentage of stock of the loss corporation (or any predecessor corporation) owned by such shareholders at any time during the testing period. See Code § 382(g). Technical explanation of what constitutes an "ownership change" for purposes of Section 382 is outside of the scope of this article. For additional information, please see Code § 382 and Treasury Regulations thereunder.

⁴See Code § 382(a).

⁵See Code § 382(b).

⁶See Code § 382(h).

⁷See Code § 382(h)(6).

⁸See Code § 382(h)(3)(A)(i).

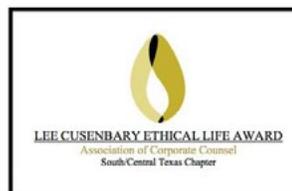
⁹See Code § 382(h)(3)(A)(i).

¹⁰See Code § 382(h)(1)(A).

¹¹See Code § 382(h)(1)(B).

¹²See Notice 2003-65, Section III, The 1374 Approach.

¹³See Notice 2003-65, Section IV, The 338 Approach.



The Association of Corporate Counsel, South/Central Texas Chapter Congratulates the 2019 Ethical Life Award Winners!



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Recipient for In-House Counsel
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- How can we help you make the most out of your ACC membership?
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- Do you have some Corporate Counsel related news you'd like to share?
- Do you know someone who would be interested in becoming a speaker and/or sponsor?
- Would you like to join or lead one of our shared interest groups (running, theatre, dinner, etc.)?

Email your comments to southcentraltx@accglobal.com.

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