

On Tax—Jonathan Katz of Cravath

Len Teti: Welcome to On Tax—A Cravath Podcast. I'm Len Teti, a partner in the Tax Department of Cravath, Swaine & Moore, a premier U.S. law firm based in New York City.

On each episode of On Tax, I talk to professionals in the Cravath network about their life and work in the world of tax. We focus on the human side of tax law, highlighting the people, connections and stories that make this space such a fascinating and dynamic area of practice. I hope you enjoy this episode.

Today, we're joined by Jonathan Katz. Jon is a partner at Cravath in the Executive Compensation and Benefits group, but he was also a tax associate for a time, which we'll hear about. Jon, welcome to the podcast, and thanks for being here.

Jonathan Katz: Thanks, Len. It's great to be here, and I'm really excited to talk today.

Len: Where do we have to go in your life or development as a lawyer or a legal professional to chart a path into the tax law? Where do you think it starts?

Jon: I think it starts in college. I did not want to be a lawyer. Not that I had anything against being a lawyer, but I did not think I was going to be a lawyer for quite a while. My first goal was to be an economist either in a professional setting or academic setting.

Part of the reason I took that turn at some point was because I like math, but at some point I just decided academia and economics was not for me.

And I'm sort of one of those people that went to law school, because I wasn't quite sure what I was going to do. And while I was there, tax law kind of popped up as something I thought I would be really interested in because I like things with usually clear answers. Civil procedure was my favorite class in law school. Very strict rules, and that's what you get with tax, and you also get some numbers. So, that's how I found my way to tax law.

Len: I want to talk about the decision to go to law school and how you sort of went because you weren't sure what else you were going to do. I seem to recall from many conversations with you that after college, I guess, you were a legal assistant at Cravath, or a paralegal at Cravath. What do you remember about taking that job and the experience you had while you were in it?

Jon: Yeah, when I was in college coming up on graduation, I got an email one day for a resume drop for a firm called Cravath.

So, I dropped my resume and got a call back, and that's how I ended up here.

Len: And how long did you spend in the position?

Jon: About a year and a half. I worked in a mergers and acquisitions group at the Firm. And that's how I really solidified that I think being a lawyer was something I was interested in. I really liked the, I would call it, the frenetic pace of M&A at the Firm. Everyone was busy. They had things to do. Everyone had a task, and they all seemed really excited about the work they were doing. People worked super hard, so I learned a tremendous amount of work ethic from that job.

People were working on matters that ended up on *The Wall Street Journal* front page, and I thought it was very cool to be able to send an article to your family of something that you worked on that was front-page material.

Len: So, now you're going to law school, and you actually have quite a good sense about what the law entails, or at least law at firms like this. And I think that is unusual. I think to have gotten that sense within a short period of time after college and know going into law school about what you expect to be doing when you come out is unusual. And it's unusual among the guests in this podcast.

So, when you were interviewing, and you were looking at jobs—I assume you interviewed at firms other than Cravath—was it your goal at the time or something else?

Jon: I interviewed with many of the top firms in New York. I didn't go to law school thinking that I'm going back to Cravath. That would be a little presumptuous.

And at the end of the day, having the opportunity to come back here, that's where I chose to go, and I'm very happy with the decision.

Len: And you must have split your summer between tax and corporate, I guess?

Jon: Yes. So, I worked for Steve Gordon, who I know has been a prior podcast guest, for half of my summer. And I did the other half of the summer in a corporate finance group, in a bank group. But tax, which I knew was the front-runner going in, solidified that I thought I really would love to be a tax lawyer. And so, that's the decision I made coming out of the summer program.

Len: So, I guess you started in the fall of '07 as a full-time associate?

Jon: That's right.

Len: And I was just about a third-year associate at the time. I was finishing up my second year, and you and I got assigned to work on a massive transaction together, where I was sort of the senior associate and you were the junior associate. It was the Time Warner spin-off of Time Warner Cable, which was already public.

Lauren Angelilli was working on that deal, as I think a senior associate and then a young partner, and Steve as well. There were four people on that transaction in the tax group. All of us became partners.

And I remember being incredibly impressed with you. And I also remember being incredibly impressed with the team. I felt like we were a really, really good team. What do you remember about your early days here, the big transaction—that one and other ones—and how did you feel about the folks you were working with?

Jon: What I remember about that transaction is working with you and working with Steve and with Lauren—really three people who love to teach more junior lawyers. So, I was in very good hands. I remember being taken to a meeting with a client, and the client was super bright as well. Just hearing them throw around ideas for how the deal would be structured. And I frankly had nothing to contribute to the conversation other than sitting there. I think I learned a lot in that first year or two just from pure osmosis, sitting with people who clearly knew what they were doing and knew what they were talking about. Even if I understood a third of what they were saying, probably on a good day, I learned a tremendous amount. And that deal and that experience with that team, I think, is the foundation of my career and how I learned about how to be a lawyer, how to be a lawyer at Cravath, and kind of do this job very well.

Len: It's probably worth pausing here and just reflecting on something. I've been doing a lot of interviewing of law students. And I've gotten a question more than once. And the question is: "What kinds of things can I work on in law school to be a successful associate?" And it's a really good question.

And I think many law students feel like they should just read a lot of law or study a lot of law, because then when they get to wherever they're practicing, they'll have a lot of substantive knowledge. And I think that's wrong, actually. I think that 99% of the tax I currently know I learned at Cravath. And I took four really substantive tax classes in law school. But that kind of learning is sort of academic learning.

And we do not expect associates to show up with a ton of substantive knowledge, and that's true in litigation and corporate, but it is especially true in a specialty practice area like ours.

What we do expect, on the other hand, is people to show up with a good attitude, a good work ethic, as you mentioned, the personal discipline to show up on time with positive energy and a willingness to contribute, and make your views known, and take copious notes if that's what it requires, or otherwise to sort of fill in what the team needs.

And I guess, I wondered if you could give me your thought or sort of answer to this question about how junior lawyers can contribute without having a lot of substantive knowledge.

Jon: I just want to go back one step on that question that you're getting from law students. And I've started telling people that you don't need to take any particular class. If you're going to be a tax lawyer, you probably want to take basic income tax.

But more important than that, I think, is doing some things in school that are uncomfortable. And by that, I mean, doing, for example, a clinical program where you're going to do something out of the box that you haven't done before, you may never do again, but you, by being a hard worker and rolling up your sleeves, can figure it out is a good skill.

When you're a big firm lawyer here or elsewhere, no day is like the day before exactly. You're going to be given projects that are the first thing you've ever done before and maybe anyone on your team has done. And you have to be able to kind of, without knowing what you're doing, figure out what you're doing.

Len: Yes.

Jon: And I think that's a really good skill to have. So, as an example, in my third year of law school, I did a clinical program where I went to court. And I'm not a litigator, and I never wanted to be a litigator. But I did depositions. I did some arguments in New York City Housing Court, and I knew I was never going to probably use those court skills, but I wanted to see if I could do it and what it would be like. And I think there's something to doing things that are different and uncomfortable that gives you a skill that will be useful later in your career when you're thrown into a novel situation.

Len: Now that point about doing something that's uncomfortable, or at least unfamiliar that you don't know how to do: I talk about that feature of the Cravath system all the time, because associates ask about the rotation system and how do you get work, and it's OK to understand the rotation system as a way to assign work. That's fundamental.

But if you think about the effect of the rotation system on a firm full of lawyers who then become partners at the Firm and have experience figuring stuff out over five, 10, 15, however many years. Now you've got a group of people who are sort of fearless in the law: "Oh, I haven't seen this before, but I hadn't seen last year's deal before, and I figured that out."

And so, now you have people who have the confidence, the resilience, the intellectual discipline to stick with something until they've come up with a good solution. And that to me is really the secret sauce about what we are doing in terms of training, developing, and then investing in talented junior lawyers.

Jon: I agree. And maybe we've just had an epiphany that the Cravath system isn't about necessarily getting the skills in different practice areas. It's learning something new every once in a while. And it gives you the ability to cope when you're put into novel situations or figure things out for a client that are new and you haven't really thought about before.

Len: Well, this turns out to be an excellent segue for the next thing I wanted to talk about, because a couple years into your associate tenure, you made a switch from the sort of tax group proper into the growing executive compensation and benefits group, which is a cousin of tax. It's a related area of practice. We all sit on the same floor at Cravath.

But it is different, and it was an opportunity for you to learn something new. Can you talk about what prompted that shift and all these things we've just examined that kind of came to life for you when that happened?

Jon: So, I was in the tax proper group for five years doing all the things that you and the other partners do—corporate, M&A, partnership, transactions, securities offerings, all of that stuff.

And you're right that the executive comp group sits on the same floor as the tax team. And I knew a lot of those people, and we were friendly. But I'll say, frankly, I didn't know exactly what they did. I knew it had to do with stock options and things like that. But I didn't have great knowledge of what they did.

And there came a point where, due to some needs of the group, Steve Gordon, who was the head of the tax group, came over to me one day, knocked on my office door, and said, "You want to go grab some pizza?" And that was an odd thing because he didn't come take me for pizza very often. That was the only time he took me for pizza.

Len: Or ever.

Jon: And I said, "Sure." So, we went out for pizza, and he said that the exec comp group could use another set of fairly senior hands, even though I didn't know anything about the field.

I didn't say yes on the spot, but I said I wanted to think about it and thought about it over the next couple of days and decided that I was ready for a new challenge, and I would at least give it a try.

I wasn't promising I would do it for years or months or any specific period of time, but I would at least help out for the interim period and figure out if it was something I liked. And I liked it. And we're now 11 years later, and I love the field. It was a really good switch for me at the time.

Len: A couple of things strike me about the story. The first is, you had an open mind, but you're a lawyer. So you're careful, you're thoughtful, and you wanted to take a couple of days to think it over, and you were also sort of willing to try it.

But all of this kind of put together, this Cravath experience of trying something new and not being afraid of the unfamiliar. I mean, as a fifth-year associate to cross the line and start a new substantive area of practice must have been exhilarating, but also kind of exhausting and difficult. Do you remember setbacks? What was your experience as you kind of ramped up to speed?

Jon: As I said, I knew a lot of the people in the group, but I really didn't know what they did all that well. And I knew that there were specific areas of law in the Tax Code that the executive comp group was responsible for.

Everyone threw around 409A all the time. All I heard was "409A, 409A, 409A," and I didn't really know what it was. So, I said, "Alright, I'm now in this group. I know everyone's talking about this code section. I'm just going to take out of my loose leaf"—we used the paper copies of the regs at the time—"take out of the binder and bring home all these pages about 409A, and I'm going to read it. And I'm relatively intelligent, so of course I'll figure it out."

And so, that was my first approach to this was read everything you can read.

Len: Well, that's a very Cravath approach, right? To just try and learn everything that's out there.

Jon: Absolutely. So, I read it, and I would say I understood probably 5% of it off the bat. So, that was a good approach, but that was not going to be sufficient to figure this stuff out.

And there were and are a lot of really great people in this group at Cravath. So, whenever I would have one of those moments where, "This is just really new, and I'm being expected to do it at a fifth year or higher-level right off the bat, and I really don't feel comfortable," there were people that I could go to in the group. Eric Hilfers is definitely one of them.

There was another guy who has been on your podcast before, Larry Pasini, who was in the group at the time as one of our senior lawyers. And really, whenever I had a question—and a lot of them were really dumb questions—he was such a nice guy and would always be willing to answer anything or tell me his view on an issue. Whether it was a "how do you negotiate this, what approach do you take on this?" issue or a more technical issue, he was my go-to guy to teach me things that I didn't know. And there were a lot of them.

Len: So, we've talked to a lot of other partners, especially partners at foreign law firms, about the process of becoming a partner. And I don't want to talk about that in your case. I want to take a different perspective on this question and ask, after you became a partner, what struck you as like, "Wow, this is different than I expected," or "This is kind of a different job than just being a really good senior associate"?

Jon: When you're a senior associate, and when I was a senior associate, I certainly had the view that I am being evaluated for partnership. I'm going to do most of the work myself. I'm going to draft things myself. I'm going to do things myself, because I'm the one being evaluated.

And when you're a partner, you need to be more of a manager, not a doer. There's plenty of doing, but there's the importance of becoming a manager and delegating and giving feedback to your team. The initial instinct is, "Well, I'll just do this myself."

And that's the wrong impulse for a partner. And the right approach is delegate, manage, but with the appropriate level of feedback and oversight and mentoring of your team. Because that's how you develop the best team, by having them know how to do all the things that you know how to do.

Len: I think that that's one way of expressing the point that being a good or effective partner is different, very different than being a really good senior associate who's about to become a partner.

The other thing I would say is, just because you become a partner doesn't mean that you're fully formed and stop growing. It is an important part of a partner's career to learn these skills you're talking about: delegating, developing, mentoring, teaching, fixing, staffing, figuring out who's the best person on the team to do this task versus other tasks, making sure that those tasks get done on time, fielding client feedback both positive and negative about the team. All of those things are important parts of growth that as a junior partner you need to practice.

Law firms are a little bit binary. Generally you're an associate or you're a partner. In firms like ours, there's a clear growth trajectory, but within the title and within the experience of being an associate or a partner, there's a growth trajectory all its own that I think is worth appreciating and trying to grow through.

Jon: The other thing I would say is for someone who was I would say a relatively latecomer to the substantive area, because I didn't do this right away, I'm learning the substance and learning all these partner skills at the same time.

I used to ask Eric, who's the head of the group, who had a similar trajectory to mine—did some time in tax before becoming an exec comp lawyer—"When do you feel like you've mastered it?" You just hit the point that you've never really mastered it. You're always learning new things.

And he used to tell me that he felt really comfortable when he had been doing it for about 10 years. And that's a long time to be seeing these things before you feel really comfortable. And I think that's right. That's roughly the timeline on which I started to feel comfortable, starting to see the same questions over and over again, and getting comfortable in the substance.

But there's a similar timeline for getting comfortable in the management part of the job. And so, I'm in year eight now, so I'm getting to that 10-year mark. But it's always a learning process. You're never done, as you said.

Len: It's interesting stuff.

So, one of the things that I've observed over the last 10 years, or 15, is just tremendous growth in the substantive area of executive compensation and benefits. And you and I work together closely a lot. I've seen you develop very close relationships with senior people at our clients, chairmen of the board, with CEOs and CFOs and general counsels. And on certain types of deals, you have a lot of access and also a hugely important role to play. I wonder if you can sort of chart the development of the practice. Why is it like that? What about deal work or M&A deals brings this practice to such a prominent place? And then, how have you adjusted to this reality that you are often a really critical piece of the deal—not just in terms of the legal analysis, but in terms of actually the personalities and getting called forward to solve difficult issues?

Jon: Great question. And this is really one of the things I love about the field. When I moved over—even before I became a partner and we worked on M&A deals—I would sometimes, if I was lucky, get called into the board meeting at clients when they were going to approve an M&A deal, or where they were thinking about a new compensation program.

And I remember one specific story when after the meeting had broken, the chairman of the board of a company that was being purchased came down to the end of the boardroom table, pulled out his chair, and sat down next to me. And I'm kind of looking over my shoulder, like what exactly is about to happen here?

Len: “You want to go for pizza?”

Jon: And he says to me something like, “Young man, I've reviewed your slide deck, and you show on page X that if this transaction goes through, my economic entitlements in the deal get me this amount of dollars.” We'll just say it was a lot of dollars. “Can you explain to me how you get to that number?”

And that moment is one of the key moments in my career when I realized a couple of things. One is that the things that we do in the executive comp field are near and dear to our clients' hearts and pocketbooks. And for that reason, they're extremely interested in what we do in this group and in this field, because they have a very direct link to it.

The other thing that I learned was that I'm often meeting very, very successful businesspeople who are magnates in their fields. And they're experts in what they do, which is running the company, driving operations, making money, making profit for the company.

And I was sort of surprised that they don't have in-depth knowledge necessarily of how the compensation program works at the company. They're doing what they do, and they're doing it extremely well, but they need people who are really good advisors to explain to them how the legal provisions of the company's benefit plans work.

You're a hundred percent right that we and I have developed very close relationships with clients. And it's a combination of—because the things that we're doing directly benefit them in some ways, or they're very important to them as you might expect the compensation area to be. And also, because they're very technical, and they don't necessarily have time to delve into all the new regulations that the SEC is adopting in this area, and they're relying on good, smart advisors to help them.

Len: All very interesting.

So, Jon, in the few minutes we have left I like to talk to our guests about what you like to do outside of the tax realm. I know you are an inveterate Mets fan, so you probably follow the Mets closely on a daily basis. If you want to talk about that, we can. But what else do you like to do when you're not practicing tax?

Jon: So, we'll get to that in a second. I have a great family, amazing wife, Jessica. I have four great kids, who keep me very busy, and they range in ages from 12 to 2.

We're a big sports family, so they all play sports. Jessica and I are at games all the time, usually multiple nights a week, all day on Sunday. That keeps us pretty busy.

I've run a few marathons over the years, although I've gotten a little lax in that recently. We watch a lot of sports. We follow a lot of sports. As you just said, I'm a huge Mets fan. You're a huge Phillies fan, so you give me grief constantly, and it's well warranted this year.

But I tell my kids, “One of these years, they will actually win a World Series, and it's going to feel so amazing having gone through all the down years when they actually do it.” So, we're looking forward to that.

Len: But the Cubs fans had to wait for like over a hundred years. I hope it's not that long for you all.

Well, Jon Katz, an executive compensation and benefits partner at Cravath, and a really good friend, one of my best professional friends and a super close friend within the Firm. It has been a pleasure to have you on the podcast, and I really appreciate you doing this. Thank you.

Jon: It's been a pleasure, and I consider myself now a minor celebrity having appeared on the On Tax podcast, so thank you for having me.

Len: Well, I consider you a major celebrity for having appeared on the podcast, but that's great. Thanks again.

Jon: Thank you.

Len: That's all for this episode of On Tax—A Cravath Podcast. You can find us online at cravath.com/podcast, and don't forget to subscribe on Apple Podcasts, Google Podcasts or Spotify.

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