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Cato, Koch Brothers Settle Suits Over Control of Think Tank

By Andrew Harris - Jun 25, 2012 3:28 PM ET

The Cato Institute settled two lawsuits brought by Charles and David Koch vying for influence over the Washington-based free-markets advocacy group.

The two sides disclosed the accord, which includes the replacement of retiring Cato Chief Executive Officer Edward H. Crane with former BB&T Corp. (BBT) chairman John A. Allison, in a joint statement issued today.

Cato backed litigation challenging President Barack Obama's 2010 health-care reform legislation. The brothers, principals of the closely held refining and chemical company Koch Industries Inc., have been active in Republican Party fundraising. The U.S. Supreme Court didn't rule on the health-care law today, pushing the decision to June 28.

"For a majority of Cato's directors, the agreement confirms Cato's independence and ensures that Cato is not viewed as controlled by the Kochs," both sides said in the statement.

"For Charles Koch and David Koch, the agreement helps ensure that Cato will be a principled organization that is effective in advancing a free society," Cato and the Kochs said.

Charles Koch, a Cato co-founder, and his brother sued the organization, Crane and the widow of Chairman Emeritus William Niskanen in state court in Kansas in March, seeking enforcement of an agreement that they said required Niskanen's estate to offer his stock back to the institute and then to its surviving shareholders -- the brothers and Crane.

Voting Power

In an April lawsuit, the Kochs accused Chairman Robert Levy, Crane and seven other directors of improperly adding four directors to Cato's board to dilute the brothers' voting power. Before Niskanen's death in October 2011, the institute had four shareholders -- Niskanen, Crane and the Koch brothers.

Crane, in a March statement, said the brothers were trying by "hostile takeover" to transform the organization he founded with Charles Koch in 1977 from one that is non-partisan to one that is overtly political.

Under the terms of the agreement, Cato will cease to be a stockholder corporation and instead will be governed by the members, who will double as institute directors and who will elect their own successors, the parties said.

The initial Cato board will include 12 long-term directors including David Koch, three other Koch designees and Allison, who holds the option to nominate one or two additional directors.

Crane, Charles Koch and Niskanen's widow, Kathryn Washburn, won't be on the board. Crane will step down from his post after a transition period of up to six months, according to the statement, after which he will work as a consultant on fundraising and other matters.

Koch Industries based in Wichita, Kansas.

The March case is Koch v. Washburn, 12-cv-01749, and the April case is Koch v. Cato Institute, 12-cv-2830, Johnson County, Kansas, District Court (Olathe).

To contact the reporter on this story: Andrew Harris in Chicago at aharris16@bloomberg.net

To contact the editor responsible for this story: Michael Hytha at mhytha@bloomberg.net