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Koch brothers vs. Cato: Charles Koch Institute e-mails alumni

By Allen McDuffee
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In response to an apparent flood of questions, the Charles Koch Institute sent an e-mail to hundreds of alumni of the organization's job training and placement programs to address the Koch brothers' lawsuit to gain control of the Cato Institute.

The e-mail portrays a side of the argument that insists Charles and David Koch did everything in their power to find an alternative to the ongoing dispute, but it finally came to a head in November.

According to the e-mail, "Charles Koch and David Koch, mindful of how this dispute could be a distraction to Cato and its mission at this critical time, sought to resolve the issue, or alternatively, to table the issue for a year or longer."

The e-mail said that upholding the shareholder agreement is a step in ensuring that Cato does not fall from its mission. "As champions of the rule of law, voluntary agreements, and property rights, Charles and David believe that upholding the shareholder agreement is crucial to protecting Cato's principled mission in the future from the path of the Ford Foundation, Pew, and others that have strayed when they deviated from their founding principles."

According to the Web site, "The Charles Koch Institute, through its internship program, the Koch Associate Program and Liberty@Work, educates and trains professionals on the importance of economic freedom and how it increases well-being for the overwhelming majority of people."

The full e-mail after the jump:

From: CGK Alumni [mailto:ALUMNI@charleskochinstitute.org]

Sent: Tuesday, March 06, 2012 2:54 PM

To: CGK Alumni

Subject: Statement on the shareholders' agreement with Cato

Dear Alumni,

Thank you for bringing your inquiries forward regarding the shareholders' agreement with Cato. We'd like to take this opportunity to respond and provide some additional context. Please continue to let us know what questions you have from here.

Since the time of its founding, when the original Charles Koch Foundation changed its name to the Cato Institute, Cato has been envisioned as a committed force to advance free societies. Shortly after the renaming of the Charles Koch Foundation to Cato Institute, affirmative steps were taken to convert Cato from a non-stock corporation to a stock based corporation. That was done intentionally, not by accident. It was done because Charles, as principal donor and founder of the Charles Koch Foundation and Cato, wanted to keep oversight of Cato in the hands of a few shareholders who could be relied on to maintain the original intent and vision for the organization, even if the composition of the board changed over time. That was and is the reason for the restrictions on the shareholders' ability to transfer Cato stock to other people; and each shareholder agreed to be bound by the terms of the shareholders' agreement. Cato has been operating under this structure for more than 35 years.

As active donors contributing tens of millions to Cato, Charles Koch and David Koch want to see it fulfill this mission well into the future. This disagreement over the shareholders' agreement, donor intent, and the actions of Cato's leaders that are inconsistent with the organization's principles does nothing to change that.

Why now for such a dispute?

We can all agree that the timing is extremely unfortunate and that at this critical time our efforts should be directed to advancing the principles that allow a free society to prosper. And Charles Koch and David Koch went to great lengths to avoid this dispute. Their efforts were numerous, sincere, and went literally up to the last minute.

The disagreement over the shareholders' agreement has been going on for years with Charles Koch and David Koch receiving several proposals from Cato's officers to dissolve the agreement. Charles and David consistently declined these proposals because they feel the shareholder structure is important to preserve donor intent. At the unfortunate passing of one of the four shareholders, Bill Niskanen, some issues came to the forefront with discussions about how his shares should rightfully be disposed.

Charles Koch and David Koch, mindful of how this dispute could be a distraction to Cato and its mission at this critical time, sought to resolve the issue, or alternatively, to table the issue for a year or longer.

· They proposed a standstill agreement to delay any discussion on the shareholders agreement, and to delay any shareholder meetings and maintain the current board of directors, for one year or longer.

· They proposed third party mediation.

· They proposed alternative corporate structures for the other side to consider.

All of these efforts were rejected, and Cato's other shareholder demanded that a shareholders' meeting be held on March 1 where a new party (Ms. Washburn – Bill Niskanen's widow) would be named a shareholder and new directors would be named.

The court action, filed immediately before the shareholders' meeting, was a last resort to ask the court for help in confirming the meaning of the governing documents and the shareholders' agreement.

What do the Kochs hope to accomplish?

As you may have read, Charles Koch said recently, “We support Cato and its work. We are not acting in a partisan manner, we seek no ‘takeover,’ and this is not a hostile action.” He added, “We want to ensure that Cato stays true to its fundamental principles of individual liberty, free markets, and peace into the future, and that it not be subject to the personal preferences of individual officers or directors.”

Charles and David are absolutely committed to libertarian principles and the libertarian issues Cato works on. They merely want the integrity of the shares, the original structure that all parties agreed to, upheld and for Cato’s officers and directors to act in a manner consistent with the principles the organization was founded on. As you know, a key principle of libertarianism is recognizing and respecting the rule of law. The founders of the Cato Institute reached an agreement and agreed to be bound by it. And that is what Charles Koch and David Koch are seeking here – that the parties stand by what they voluntarily agreed to when they founded Cato.

When former President George Bush said, “I’ve abandoned free-market principles to save the free-market system,” we all know how disastrous the consequences were for free markets and the economy. Principles are not what you abandon in difficult times. Rather they serve as the foundation for action in challenging times. And like President Bush, if Cato’s leaders are willing to abandon a key libertarian principle – adhering to voluntary agreements – when they feel it’s convenient, the organization has lost its way as an advocate of these principles. Cato can’t save libertarian principles by its leaders abandoning its principles any more than President Bush could save the free market by abandoning free market principles.

Charles Koch and David Koch believe in Cato, its mission, and its principles. As champions of the rule of law, voluntary agreements, and property rights, Charles and David believe that upholding the shareholder agreement is crucial to protecting Cato’s principled mission in the future from the path of the Ford Foundation, Pew, and others that have strayed when they deviated from their founding principles. For Cato to do otherwise would represent a violation of the fundamental principles it was founded on.

We will be in touch with future updates as we have new information. In the meantime, please feel free to reach out to us with any questions you may have, and please know that we are always here and available to help you.