Washingtonian

June 2012

The Battle for Cato

By Luke Mullins

Charles Koch and Ed Crane were once allies in the libertarian movement. Now the former friends are facing off in a fight for control of the **Cato Institute,** the think tank they founded together 35 years ago.

Ed Crane lumbered into Capitol Hill's Christ Church on a rainy morning in October 2011. He walked the creaky floors in the 19th-century nave and found a seat in the paint-chipped pews. Mourners crowded the interior as the choir began singing.

William Niskanen's death, at age 78, hadn't come as a shock. His health had been in decline for two years before his stroke four days earlier. But to Crane, Niskanen's passing meant more than the loss of a friend and colleague.

"Crane was devastated," said one observer. "He looked as though it was his own family member who had died."

For 26 years, Crane and Niskanen had shared a secret: They weren't just top executives at the **Cato Institute**, the nation's most prestigious libertarian think tank. Along with two others, they had quietly signed a document in 1985 providing each with shares of Cato's stock-giving them collectively 50-percent control of the think tank. Few outside Cato's inner circle knew about the unusual arrangement.

For many years, the shares had seemed unimportant. But as Crane's relationship with Cato's other shareholders-billionaire brothers Charles and David Koch-turned combative, the stock became crucial. And because the document didn't specify what would happen to a shareholder's stock upon his death, Crane worried that Niskanen's passing would set off a knife fight for control of Cato.

Since its founding in 1977, Cato has evolved from a band of roguish scholars to a first-tier Washington think tank that cuts across party lines to further its libertarian agenda. Its scholarship became the intellectual spine of President George W. Bush's unsuccessful effort to privatize Social Security. And its work has helped make once-heretical libertarian positions such as legalizing gay marriage and decriminalizing marijuana more credible.

"Cato has made the case that libertarians aren't just a bunch of pot-smoking weirdos," says Martin Wooster, an expert on foundations and a senior fellow at the Capital Research Center. "It has helped make libertarianism a respectable public-policy position."

As the funeral ended, the crowd filed into an adjacent hall for refreshments. Old friends and coworkers greeted one another with smiles. But Crane was in no mood to catch up.

Crane, whom critics describe as a swaggering autocrat, sees Cato's success as a validation of his 35-year reign. Show me, he says, who else could have built this place-from scratch-into an institution so highly regarded in Washington and around the world.

He wasn't about to let Charles Koch rob him of his life's work. No way.

Just before midnight on February 29, Crane was awakened by a phone call at his Northern Virginia home. It was *Politico* reporter Mike Allen.

Allen told Crane that Charles and David Koch had filed a petition in a Kansas court staking claim to Niskanen's Cato shares. If successful, the maneuver would allow the Koch brothers to accumulate two-thirds of Cato's outstanding stock and take over the think tank.

The prospect of Koch control sent chills through Cato headquarters. Although Charles Koch, 76, had once been a die-hard libertarian, he has emerged as a major financial champion of Republican causes. He and his brother plan to direct more than $200 million to conservative groups before Election Day, according to *Politico.*

Cato staffers were terrified that Koch would turn their beloved think tank into a factory for GOP talking points. "We fear that a Koch takeover would change our mission from one of winning hearts and minds for the libertarian cause over the long run to one of winning elections and legislative battles for the conservative movement in the short run," says Jerry Taylor, a Cato senior fellow.

Crane issued a statement shortly after the lawsuit was filed: "We view Mr. Koch's actions as an attempt at a hostile takeover and intend to fight it vehemently."

The outbreak of civil war at Cato stunned Washington. Libertarian bloggers expressed outrage; Cato staffers pledged to resign.

The Kochs' motivations were a mystery even to libertarian insiders. After all, Charles Koch himself had recruited Crane to launch Cato in the late 1970s. Through $30 million in donations, the Kochs had bankrolled Cato's ascent. Along the way, Charles Koch and Crane had become friends. And though Koch had become a conservative activist, Cato's support for lower taxes and less regulation aligned neatly with his business interests.

Behind the scenes, though, the relationship between Crane and Koch had been souring for years. Personal acrimony-over Koch's management philosophy and Crane's handling of a conference in Moscow-led in the early 1990s to the breakup of their friendship. After Crane criticized Koch in a 2010 *New Yorker* article, it was all-out war.

Ed Crane was first drawn to libertarian ideals as a boy growing up in Los Angeles. The son of a doctor, he began reading the complete works of Ayn Rand in high school. Arriving at the University of California, Berkeley, in 1963, he subscribed to underground libertarian newsletters. The more Crane learned about libertarianism, the more sense it made.

Libertarians believe you should be able to do whatever you want-bundle mortgage-backed securities, sleep with a prostitute-so long as you don't deprive others of those same rights. Like conservatives, libertarians tend to back gun rights and fewer regulations on businesses. But their non-interventionist foreign policy and support for civil liberties can align them with liberals.

"Libertarianism is a skepticism of government in the bedroom, in the boardroom, and abroad," says Brink Lindsey, a former Cato scholar.

The philosophy resonated for Crane. During his junior year at Berkeley, he launched a campaign for the student senate on a platform of abolishing it. He lost.

Although he had been active in California libertarian politics, Crane didn't appreciate the movement's diversity until he attended the Libertarian Party's first national convention in 1972. At the Radisson Hotel in Denver, Crane mingled with anarchists dressed all in black and Ayn Rand devotees carrying long cigarette holders. "It was like a *Star Wars* bar scene," he says. Wearing a jacket and tie, Crane stood out. Three years later, he gave up a career in finance and moved to Washington to manage the 1976 presidential campaign of Libertarian candidate Roger MacBride.

By then, Charles Koch had spent a decade at the helm of a booming oil conglomerate. The second of four boys from a rowdy Wichita household, Koch acquired a strict work ethic from his father, Fred Koch, who had founded Koch Industries in 1940. "By the time I was eight, [my father] made sure work occupied most of my spare time," Koch once wrote.

While doing business in the Soviet Union in the 1930s, Fred Koch witnessed the brutality of Joseph Stalin's regime. He returned to the United States a free-market evangelist. "[My father] was constantly speaking to us children about what was wrong with government," David Koch told author Brian Doherty in *Radicals for Capitalism,* a history of the libertarian movement. "It's something I grew up with-a fundamental point of view that big government was bad."

When his father died in 1967, Charles Koch inherited a large fortune and became CEO of the family business. Today Koch Industries-which produces everything from fertilizer to Dixie cups-is the nation's second-largest private company, generating nearly $100 billion in revenue in 2011.

In 1962, Charles Koch began reading about Austrian economics, a staunchly free-market philosophy often embraced by libertarians. "I spent the next two years almost like a hermit, surrounded by books," he told the *Wall Street Journal* in 1997. He attended lectures at the Freedom School, a Colorado Springs institution led by prominent libertarian scholars. As Koch Industries expanded, he emerged as the libertarian movement's leading patron. The network of libertarian groups he bankrolled became known as the Kochtopus.

Charles Koch and Ed Crane met when Koch hosted a Roger MacBride campaign fundraiser at his Wichita home. Crane was impressed by Koch's commitment to libertarian principles. "He was more hard-core than I was," Crane says.

As the campaign wrapped up-with MacBride receiving 0.2 percent of the popular vote-Crane looked forward to moving back to California and resuming his career in finance. But Koch approached him with a question: "What would it take to keep you in the movement?"

During his time in Washington, Crane had been impressed by the think-tank establishment, especially the conservative American Enterprise Institute and the liberal Brookings Institution, both of which he saw as able to influence policy in meaningful ways.

"It would be nice to have a libertarian think tank," Crane told Koch. "But you don't want me to run it, because I am going back to California."

Koch offered to build a libertarian think tank in California if Crane would run it. Crane agreed.

To create the new think tank, Koch changed the name of a Kansas nonprofit he had formed in 1974-the Charles Koch Foundation-to the **Cato Institute**. The name referred to *Cato's Letters,* a collection of essays on political liberty that influenced the American Revolution.

In a highly unusual step, Koch structured Cato as a stock organization. Cato's shareholders were empowered to appoint a board of directors, which would oversee the institute's management. Kansas is among the few states that permit nonprofits to issue stock.

"Scuttlebutt around the Kochtopus offices in the late '70s and early '80s was that Charles had put it in place to protect his own interests: If he was funding this organization, he didn't want it saying or doing things he deplored-things that would embarrass him," Jeff Riggenbach, who joined Cato in 1978, said via e-mail. "He wanted to retain the ability to pull the plug."

Cato's five original shareholders were Koch, Crane, MacBride, libertarian economist Murray Rothbard, and George Pearson, a former employee of Koch's. Koch "liked the idea of being in control of things even though he is not recognized as being in control," says David Gordon, who worked at Cato in 1979 and 1980. "He picked the people as stockholders because he thought they would do what he wanted."

Crane didn't realize how peculiar this corporate structure was. He signed the shareholder agreement and paid $12 for a dozen shares of Cato stock.

Cato christened its San Francisco headquarters in 1977. Its mission was to insert libertarian ideas into the national discourse through academic research, a daily radio program, and a monthly magazine,*Inquiry*.

Crane was just 32 when he became Cato's CEO. His management style was criticized by some as tyrannical, and he became known in libertarian circles as Boss Crane. His allies were called the Crane Machine.

Early employees, however, say Koch was Cato's real monarch. He and Crane spoke nearly every day by phone. "Ed Crane would always call Wichita and run everything by Charles," Gordon says. "It was quite clear that Koch was in charge." Koch traveled to San Francisco every couple of months to meet with Crane and the staff. "Whatever Charles said went," says Ronald Hamowy, an early Cato employee.

But in communicating with Cato employees, Koch could be frustratingly passive-aggressive. When Riggenbach suggested recruiting '60s activist Abbie Hoffman for Cato's radio program, Koch seemed surprised but didn't say what he thought. "Ed had to tell me later how much Charles really hated the idea," Riggenbach says. "He had to explain to me further why I should have understood Charles's brief comments as a strict order to scotch any such plan."

While other libertarians believed it would take generations for their ideas to trigger broad reform, Koch was less patient, Riggenbach says: "He expected to see results from his investment in the popularization of ideas, and he expected to see them within his lifetime."

Crane and Koch became close friends. They traveled to the Soviet Union together in 1981, taking a train from Finland to St. Petersburg. They visited China in 1983, lodging at the same state guesthouse where President Nixon had stayed in 1972. Their political views were nearly identical. Says Charles Murray, an AEI scholar who has known Crane and Koch since the 1980s: "I don't think you could get a piece of paper between them."

Crane took a leave of absence from Cato to run the 1980 presidential campaign of Libertarian candidate Ed Clark. By selecting Charles Koch's brother David as the vice-presidential candidate, the campaign was able to gain access to David Koch's personal wealth without violating campaign-finance laws. In the end, Clark received more than 1 percent of the popular vote-to this day the best-ever showing for a Libertarian presidential candidate.

Meanwhile, Crane and Charles Koch struggled to keep Cato's staff united; internal feuds were common during Cato's early years. Shortly after the 1980 election, Cato shareholder Murray Rothbard blasted the Clark campaign-which Crane had managed-for watering down libertarian tax ideals in the hope of attracting voters. "They sold their souls-ours, unfortunately, along with it-for a mess of pottage," Rothbard wrote in a libertarian journal.

Rothbard was fired from Cato. He claimed that his shares of Cato stock, which were held in Charles Koch's Wichita office, were canceled. Rothbard accused Crane and Koch of breaking the law and violating libertarian principles. "This movement is too big for any set of power-hungry villains to control," Rothbard wrote.

(Rothbard is rumored to have written some of the racist passages in Ron Paul's newsletter that drew national attention during this year's Republican presidential primary. He died in 1995.)

Crane knew that most Americans still didn't take libertarians seriously, and he worried that Cato's ideas were being dismissed because the institute was based in San Francisco. In 1982, Cato moved into a Capitol Hill townhouse. The organization hosted receptions and sent scholars to conferences at AEI and Brookings. "We needed to interface with the Washington community to show we didn't have horns on our heads," Crane says.

Crane, however, had little regard for politicians. He once called a restaurant to reserve a round table for a dinner meeting with a senator and his staff. He believed round tables better accommodated group discussions. When he arrived at the restaurant and learned that the senator had moved the group to a booth, Crane left without saying a word, says John Tamny, a senior associate in Cato's development office.

"In Washington, politicians get treated extremely well by everyone," Tamny says, "but not by Ed."

Most Washington organizations try to shape legislation through lawmakers. Cato focuses on influencing the public. Voters, Cato hopes, will then force politicians to come around to its policy positions.

"Politicians surf public opinion," says Cato scholar Jim Harper. "They are not interested in the right answer; they are interested in the answer that gets them reelected." Crane told a colleague that the entrance to Cato's building faced away from the Capitol "so Congress can kiss my ass."

Taking the message directly to voters is a long-term strategy. "We realize we are all going to be dead before we succeed in this thing," Crane says. "But other people will carry the battle forward."

Among Crane's challenges was finding a way to wean Cato off Charles Koch's checkbook.

"Charles said frequently that if an organization he launched couldn't find other sources of revenue within a few years at most, that was a sign that it wasn't worthy of his own support-that he was apparently alone in seeing merit in what that organization was doing," Riggenbach says.

Over time, Crane was able to land new donors and widen Cato's funding base. "When he began to attract fundraising sources independent of the Kochs, Ed became more independent from the Kochs," says Jack Shafer, a Reuters columnist who was *Inquiry's*managing editor in the early 1980s.

Meanwhile, Charles Koch began pushing for Cato to adopt a management philosophy he had developed, Crane says. The approach-which Koch called "market-based management"-aims to improve performance by creating market forces within a company.

Koch was proud of market-based management, Crane says. For many years, he personally taught it to Koch Industries' executives in front of a blackboard. His 166-page book, *The Science of Success,* spells out the philosophy, and he even trademarked the phrase "market-based management."

Sometime in the mid 1980s, engineers from Koch Industries arrived at Cato to teach the staff market-based management. As the engineers clicked through a PowerPoint presentation, Cato staffers were puzzled by their recommendations. For example, Crane says, the engineers said they could improve performance by stopping every 15 minutes to write down everything they had done.

"We're all just looking at each other like, 'What the hell is this about?' " Crane says. "These guys were engineers, and you could tell that they didn't even understand what they were supposed to be teaching."

After the engineers left, Crane told Koch he wasn't adopting market-based management at Cato.

"I knew that would be your reaction," Koch replied, according to Crane.

Crane now thinks his rejection of market-based management may have offended Koch more than he realized at the time.

"Charles has always been fascinated with academics," Crane says. "He likes to hang out with them, he funds them, and it may well be that he wanted to be one of them and that he thinks his contribution to academia was market-based management."

In September 1990, Cato organized the first-ever conference on freedom in the Soviet Union. Held in Moscow, the conference required months of preparation, including meticulous negotiations with the US State Department and Soviet officials. Crane, Koch, and several Cato staffers made the trip.

The economic situation in Moscow was so desperate that a security detail had to guard a tray of cold cuts Cato ordered for lunch. The marquee event was an open forum in an auditorium that held 700. More than 1,000 Soviets showed up-"hanging literally from the rafters," Crane says. For Cato staffers, who devoted their lives to promoting freedom, it was a moving turnout.

Minutes before the program began, Koch pulled Crane aside and said, "I need to speak to these people."

The request frustrated Crane. After spending so much time working out the details of the event, he felt it was too late to change the lineup of speakers. "Charles, we have negotiated every 30 seconds here," Crane replied. "I can't do that." Koch never got to speak.

Although Koch had planned to stay in Moscow for two more days, he left early the next morning without saying goodbye.

Crane regrets his decision not to let Koch speak. "If I had been smarter, more mature, I would have said, 'Okay, Charles, we'll work something out-you can take my spot,' " Crane says.

Months later, Crane read in a libertarian newsletter that he was no longer Koch's top political adviser. The newsletter reported that Crane had been supplanted by Richard Fink, a former economics professor whom Crane had selected to run Citizens for a Sound Economy-a Koch-funded, grassroots organization-when it was formed in 1984, Crane says.

Crane was surprised and called Koch to find out what had happened. Koch refused to take the call, Crane says.

Crane describes Fink-who now runs Koch Industries' government-relations arm-as a slippery opportunist. He believes Fink praised market-based management to gain favor with Koch and squeeze Crane out.

"Fink, I think, went a long way to convince Charles that market-based management was one of the great breakthroughs in social-science history," Crane says.

By 1991, Koch had resigned from Cato's board of directors, slashed his donations to the think tank, and all but cut off communication with Crane.

"I have strong ideas, I want to see things go in a certain direction, and Crane has strong ideas," Koch told Doherty in *Radicals for Capitalism*. "I concluded, why argue with Ed? Rather than try to modify his strategy, just go do my own thing and wish him well."

Crane worried that Cato might suffer after losing its founder and key benefactor. But by 2011, Cato had 118 employees and a $39-million budget, and it now stands atop Washington's think-tank establishment alongside AEI, Brookings, the Heritage Foundation, and the Center for American Progress.

Cato staffers-including foreign-policy expert Christopher Preble and constitutional scholar Roger Pilon-made more than 1,100 media appearances in 2010. Political commentator Tucker Carlson and humorist P.J. O'Rourke are Cato fellows.

Inside Cato's glassy headquarters on Massachusetts Avenue, Crane-who earned $454,000 in 2011-is a larger-than-life figure.

"It's interesting to watch the staff at Cato events-some of them cower around Crane," a former Cato fellow says.

Crane, who is married, is an office flirt, according to two former female employees. "He's a big, overweight guy who enjoyed flirting with his attractive, 20-year-old female employees," says one, who adds that she never thought Crane crossed the line.

Some ex-employees say he behaves as if the think tank is his personal property. "It's the institute that Ed built, and he runs it his way-either you like it or you don't," says one. Staffers joke that Cato stands for "Crane and the others."

Despite Charles Koch's strained relationship with Crane, David Koch continued to serve on Cato's board and provide financial support. Unlike his brother, David was easygoing and affable, says onetime Cato scholar Peter Ferrara.

David Koch and Crane were friends. David told him on several occasions that he thought market-based management was overrated and that everyone at Koch Industries headquarters considered it nuts, Crane says.

Over time, Crane grew concerned about the shareholder agreement he had signed. Cato staffers insist that the Kochs' patronage never influenced their work. But Crane worried that the very existence of the agreement could undermine Cato's reputation for independence.

In 1993, Crane sent a letter to Charles Koch. "I'd like an opportunity to talk with you about the Cato stock situation," Crane wrote. "I have for a long time favored the dissolution of the corporation, giving clear legal control of the Institute to the Board of Directors."

Koch politely refused, noting that the agreement was essential to ensuring that Cato remained true to the vision it was founded upon, Crane says.

At a reception one evening in the mid-1990s, Crane tried to convince David Koch that scrapping the shareholder agreement was in Cato's best interest.

"Ed, I hear you, and in fact I agree with you," Koch said, according to Crane. "But I will never cross my brother."

Meanwhile, in the 1990s, the Koch-funded Institute for Humane Studies, in Arlington-which offers seminars and scholarships for students interested in libertarianism-underwent a change in direction that one former employee described as "the Shadow falling on Rivendell."

"[Charles] Koch, evidently beginning to despair at the prospects of achieving political goals in his lifetime, became obsessed with a quick fix and decided that IHS needed to have 'quantifiable results,' " onetime IHS professor Roderick T. Long wrote on his personal blog in 2008.

Long said IHS officials began feeding students' application essays into a computer program that counted how many times the applicants mentioned libertarian heroes such as Ayn Rand or Milton Friedman-regardless of what they actually wrote.

"Then the management began to do things like increasing the size of student seminars, packing them in, and giving the students a political questionnaire at the beginning of the week and another one at the end, to measure how much their political beliefs had shifted," Long said.

More recently, Americans for Prosperity-a David Koch-founded activist group with ties to the Tea Party-has worked to change public policy by getting Republicans elected. AFP earmarked $45 million for elections in 2010, the *Washington Post* reported.

Crane says Fink is behind Charles Koch's newfound willingness to align with Republicans for the sake of near-term results: "He's hired Fink to do this sort of stuff, and Fink is leading him down the wrong path."

In 2010, Jane Mayer, a staff writer for the *New Yorker,* began reporting an article on the Koch brothers. Ed Crane agreed to sit for an interview.

Mayer arrived at Crane's office with an audio recorder, which she turned on at the start of the interview. Although most of their conversation was on the record, Crane asked that his name not be associated with certain comments he made, Mayer says. This method of attribution is known as "on background."

Crane says he participated only because Mayer told him the article was about the libertarian influence on the Tea Party-not a profile of the Kochs. "It became very clear a couple of minutes into the interview that she wanted to do a hatchet job on the Kochs," he says. Crane claims he agreed to speak about the Kochs if his comments were kept off the record-meaning they could not be used in the story.

When Mayer asked about Charles Koch's book on market-based management, Crane told her he thought the book was garbage but Koch's subordinates had convinced him it was a masterpiece.

"I recognized that this was going to piss Charles off, which is why I said, 'It's off the record,' " Crane recalls. "But I wanted Jane to know that I wasn't a Koch sycophant, because I didn't want Cato that closely aligned to what Koch's doing." Mayer says he's confusing the terms "on background" and "off the record."

Several weeks later, a *New Yorker* fact-checker contacted Crane to confirm his comments. Crane claims he verified the comments but said he had been assured certain ones were off the record. He told the fact-checker to review the audio recording; the fact-checker said Mayer's device had malfunctioned.

Though she believed the comments in question were among those Crane had made on the record, Mayer removed Crane's name from the passage and attributed the comments to "a top **Cato Institute**official." At the time, Crane seemed comfortable with the change, Mayer says.

Mayer's story, published in August 2010, exposed the Kochs' underground support for the Tea Party. It included the following passage: "A top **Cato Institute** official told me that Charles 'thinks he's a genius. He's the emperor, and he's convinced he's wearing clothes.' "

Shortly after the article appeared, David Koch called Crane to ask if he was the Cato official quoted. Crane admitted he was.

"Charles is really upset," David said.

In December 2010, Charles Koch called the first meeting of Cato's shareholders since 1981. Cato now had four shareholders: Charles and David Koch, Ed Crane, and William Niskanen, Cato's aging chairman emeritus. The Kochs used their shares to appoint two new directors to Cato's board: Nancy

Pfotenhauer and Kevin Gentry.

Crane and Niskanen were stunned. Pfotenhauer was a former spokesperson for Republican John McCain's presidential campaign. She had supported the Iraq War and the Army's "don't ask, don't tell" policy-positions that run counter to libertarian ideals. Kevin Gentry was vice chairman of the Virginia Republican Party and a top executive at the Charles Koch Foundation.

"Whatever they are, they are not libertarians," says Bob Levy, Cato's board chairman.

Crane seethed over the appointments. At a dinner on March 31, 2011, he couldn't contain his anger. While Cato directors and scholars finished dinner, the new board members were asked to speak. The evening included a discussion of a Cato fundraising campaign, which would eventually rake in $47 million to expand the institute's Washington operations. Pfotenhauer asked about the long-term vision for Cato's policy staff.

Crane believed Fink had told Pfotenhauer to raise the issue in public to suggest that Crane was mismanaging donor funds. Crane stood up; his face was red with anger, Gentry says. "I just want to say something about these Koch people," Crane said. "Kevin Gentry sitting over there has never once-never once!-invited me to one of the Koch donor events that he organizes for Charles! Nor has he invited anyone from Cato!"

He turned to Pfotenhauer. "What would you know about policy at the **Cato Institute?**" Crane shouted.

Crane stormed out. Pfotenhauer stayed and accepted apologies from other directors.

At a subsequent board meeting, Crane refused to acknowledge Pfotenhauer or Gentry even though they were the only other directors in the room, Gentry says. (The rest of the board participated by phone.)

Gentry has asked other board members why they tolerate Crane's behavior. "The response is a shrug of the shoulders and a 'That's just Ed,' " Gentry says. "Some have even said that's part of his charm."

Says a former Cato employee: "So much of this dispute is about Ed's ego and his desire to maintain his power at Cato."

Neither Charles nor David Koch donated to Cato in 2010 or thereafter.

Niskanen's health faded in the fall of 2011. After undergoing heart surgery in September, he was recovering at home when he suffered a massive stroke. He died the next day, October 26, with his wife at his side.

Within days of the funeral, the Kochs made a play for Niskanen's shares, Crane says. They insisted that under the terms of the underlying agreement, Niskanen's stock must be offered to Cato's remaining three shareholders for purchase, giving the Kochs two-thirds control over Cato's board. Crane and Levy argued that Niskanen's widow, Kathryn Washburn, should inherit his shares.

In November, Levy agreed to meet David Koch and Richard Fink at Dulles Airport, in a conference room adjacent to a hangar where Koch's jet was parked.

Koch told Levy that Crane's treatment of board members-presumably Pfotenhauer and Gentry-was unacceptable and asked that Crane be fired within eight weeks.

Levy had long contemplated Cato's succession plan and even put out feelers for candidates should the 67-year-old Crane step down. But he considered eight weeks far too short a timetable.

Levy made an offer: If the Kochs agreed to dissolve the shareholder agreement, Levy would launch a search for Crane's successor and give the Kochs veto power over the selection. The Kochs later turned down the deal.

David Koch also said Cato should do more to turn "esoteric concepts" into "concrete deliverables." He suggested that Cato "serve as a source of intellectual ammunition" for the conservative activist group Americans for Prosperity, Levy says.

Koch's recollection of the conversation is more nuanced. He says he told Levy only that Cato should be supportive of organizations such as AFP. "I never asserted that Cato should be directed by, or at the whim of, any other organization, or that they should aspire to advocate the way AFP does," Koch said in a statement. The Kochs have pledged to maintain Cato's independence from the Republican Party should they take control.

Both sides agreed to postpone a previously scheduled December 1 shareholder meeting while trying to work out a solution. During negotiations, the Kochs proposed a standstill agreement-delaying official discussion of the shareholder agreement for one year-as well as a nonbinding third-party mediation. Levy rejected both offers.

Although the Kochs repeatedly asked for more time, Crane rescheduled the shareholder meeting for March 1. The Kochs say they were forced to file their suit in advance of the meeting rather than recognize Niskanen's widow as a shareholder. "They thought we would back down," Charles Koch said in a statement. "They thought wrong."

At the March 1 shareholder meeting-held just hours after the Kochs filed their lawsuit-the Kochs appointed four new directors to Cato's board, including Charles Koch; Republican lawyer Ted Olson, who represents Koch Industries; and former judge Andrew Napolitano, a libertarian Fox News commentator.

The appointments split Cato's board into two factions: nine directors aligning with Crane, seven supporting Koch. But at a March 22 board meeting, Levy moved to expand the board by adding four Crane-aligned directors. With its two-vote advantage over the Koch faction, Crane's supporters passed the motion.

The gambit enraged the Kochs. On April 9, they filed a second lawsuit demanding that the March 22 vote be invalidated. The Kochs called Levy's move a "board-packing scheme."

The battle isn't likely to end soon.

Levy says that even if the court rules in Cato's favor on the fate of Niskanen's shares, the think tank's management will continue to fight until it's free from Koch control. Meanwhile, the Kochs have accused Crane of organizing a "public smear campaign" in an effort to "rule or ruin" Cato.

But as Crane and the Kochs dig in, Cato's extended family is beginning to wonder if everyone hasn't lost sight of what's best for the institute.

"I'm appalled by the damage we're all doing to Koch interests, Cato interests, and the broader goals we share," Levy said in a March 23 e-mail to the Kochs. "Reasonable people should be able to resolve this situation."