Cato Institute and Shareholders Reach Agreement in Principle

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The Cato Institute and its shareholders have reached an agreement in principle that would resolve pending lawsuits filed by Charles Koch and David Koch against Cato, its CEO, and several of its directors.

Under terms of the agreement, Cato will no longer be a stockholder corporation and John Allison (the former CEO of BB&T) will be replacing Ed Crane, who will be retiring as Cato's CEO. That represents a compromise by which both sides will achieve key objectives. 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. 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.

Earlier this year, Charles Koch and David Koch filed two separate lawsuits seeking interpretation and enforcement of Cato's shareholders' agreement. Prior to October 2011, Cato was owned by four shareholders — Crane, Charles Koch, David Koch, and William Niskanen. After Niskanen's death in October 2011, the Kochs maintained that the shareholders' agreement left Cato with three remaining shareholders (the Kochs and Crane). Crane and Niskanen's widow, Kathryn Washburn, challenged the shareholders' agreement and maintained that Ms. Washburn was the rightful owner of Niskanen's shares.

The parties will seek a stay of the court proceedings related to that dispute after formal settlement documents have been prepared and signed. Terms of the settlement include:

- The Cato Institute will be governed by members rather than shareholders. The members will be the directors of the Institute and will elect their own successors.

Initially, the Board will include 12 long-term Cato directors, including David Koch. They will be joined by three other Koch designees and Allison, who has the option to nominate one or two additional directors. Charles Koch, Crane, and Washburn will not be on the Board.

- Crane, who co-founded the Institute with Charles Koch and served as its CEO for 35 years, will retire within six months. He will be succeeded by Allison, an expert on political philosophy and public policy and a revered libertarian, admired and respected by the Kochs and the Cato Board.

- Crane will work with Allison during the transition period and then serve as a consultant on fundraising and other matters.

On announcing the agreement in principle, Cato chairman Bob Levy said: "This is the end of an era at Cato. From the Institute's inception, Ed Crane has played an indispensable role — co-founding, managing and shaping it into one of the nation's leading research organizations."

Crane extended his gratitude to Cato's employees, directors, and donors for their ongoing support. He welcomed Allison, whom he described as "a great champion of liberty and an outstanding choice to build on Cato's success as the foremost non-partisan, non-aligned, independent source of libertarian perspectives on public policy."

Allison said he was "happy to assist in resolving the pending litigation and related issues," and affirmed that his goal is "to sustain Cato's efforts at moving the country toward a freer and more prosperous society."

Charles Koch applauded the agreement. "I have every confidence that John's leadership will enable Cato to reach new levels of effectiveness. The alarming increase in the size and scope of government is undermining freedom, opportunity and prosperity for all. Effective action is required to limit government to its proper role."

For more information, visit http://www.cato.org/SaveCato

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