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July 27, 1954

1. Since my last meeting with ANGLETON I have met twice with GROUNDHOG - July 12 and July 27.

2. The July 12 meeting was most unsatisfactory, principally because GROUNDHOG kept me waiting for some 35 minutes with the result that our luncheon time was limited to about 35 minutes altogether. In addition, he was distracted - and, in the light of later discussion - so preoccupied as to barely notice our own conversation. What I feared might be a rising suspicion about myself was, considering the results of the July 27 meeting, merely pre-occupation and nervousness as to his own interests.

3. In the July 12 meeting he paid practically no attention to the ZORINA and EMBER (1/) stories which I offered him, incidental to discussing my latest trip to Europe. There was, however, a delayed reaction to the EMBER story: he seemed to make an effort to concentrate on the matters at hand, and strongly suggested I lunch again with him soon, so that we could discuss the question further. It was left that I would call him later that week, which I did, and was invited for lunch on July 21. On the morning of that day his secretary called to check if the date was still on, and then called again later to state that an important client of his had just arrived in town, and, with apologies, cancelled the lunch, but conveyed a message from him that we could either dine that evening, if I would check with him later, or lunch on July 27. When I checked later on the dinner, he said he didn't know but what he might not be free until 9:30 or 10:00, so I suggested we leave it at lunch on the 27th, which seemed to suit him perfectly. (I assumed we would get nowhere if I was sandwiched in between some of his female operations.)

4. His only remarks of interest on July 12 were that he was definitely finished with CIA, that he was completely fed up, and that his only concern was to get out with a "whole skin". He stated that he was due to have a very important meeting with CIA representatives the following week, at which he proposed to say that he wanted out but with no accompanying efforts by CIA to ruin him, or his reputation, and that if they could part friends, all well and good. Otherwise, he would "fight".

1/ ZORINA: Fictional girl
EMBER: Reports.

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5. When I remarked that I had not seen Graham MARTIN in Paris, he expressed great disappointment in MARTIN. He said MARTIN had lost interest, was bitter, and had in effect turned against the State Department. When I rejoined that this should not surprise him, as this was a very common reaction on the part of some of the best State Department men when they received the all-too-frequently-standard State Department treatment - in this case the State Department had offered MARTIN a rating as a Class 2 Foreign Service Officer, when he felt himself entitled to that of a Class 1 Officer - GROUNDHOG replied that he fully understood that, but that MARTIN was now no longer even coming to his office, and if this was to be his performance he ought to make a clean break and get out.

6. Dull as this July 12 conversation may read, I would suggest that it reveals three important things about GROUNDHOG. First, he is an emotional type, and he plays all his operations in the same way he would tackle one of his boxing bouts: instinctive, defensive, wary but extremely apprehensive when the tide is against him, and still wary but optimistic, aggressive, ebullient if not boastful when the tide is in his favor.

7. Second, GROUNDHOG has previously made the point to me on several occasions that his work with CIA is really nothing but sheer altruism on his part; he claims that a study by his accountant showed that he spent 80% of his time on this work, for only 12% of his income, etc., etc. My own conclusion is that he badly needs this work - not only to support his private activities, particularly with PHILLIPS (see below) - but actually for the income he derives from it, as well as the support to his sense of self-importance. His manner, particularly on July 12, and the vehemence of his statements both contribute to this conclusion. Your records of your dealings with him around July 12 might serve as a check on this.

8. Third, it is noteworthy that GROUNDHOG has now, in various conversations with me disparaged two of his former associates, MARTIN and Frederik LYON. An inquiry on July 27 by me as to Francis DEAK produced a complete, and chilly, silence. This suggests that he is either incapable of long associations with persons he cannot dominate, or that his organization is in decay, or both.

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9. On arriving at his office July 27, I was greeted by signs of great activity. For the first time in some years I saw his old associate, Colonel O'BRIEN, present, and obviously at work. While I was awaiting GROUNDHOG, an urgent call was put in to Washington, D.C., to a colonel whose name I could not catch, but I think - although I am not certain of this - that the number was EX-3-6444. This was then suddenly cancelled at GROUNDHOG's instructions, although the call had come through. The activity was sufficiently marked so that GROUNDHOG immediately explained to me that it was connected with his winding up his connection with CIA. Notwithstanding this, GROUNDHOG was in what I took to be quite good spirits on this day.

10. On July 27 GROUNDHOG made the following statements of interest:

a. Immediately prior to my arrival Norman ARMOUR had been in his office. The subject of discussion was the future of GROUNDHOG's activities, now that he was being terminated by CIA (or vice versa). While I was unable to ascertain whose initiative was involved I feel fairly certain it was GROUNDHOG's. In any event, the outcome of the meeting with ARMOUR was that it was agreed that when Robert MURPHY takes over from Gen. Bedell SMITH as No. 2 in the State Department, an approach, supported by ARMOUR, will take place as follows: The State Department was forced, some years ago, to give up GROUNDHOG in accordance with the CIA monopoly on such activities. GROUNDHOG has now gone along with CIA for some time, and it is clear that, due to personality difficulties in the main, this is an unworkable arrangement. Will there be any objection, therefore, to the State Department once again taking GROUNDHOG and his organization under its wing?

b. GROUNDHOG was certain of MURPHY's support in this move, in addition to ARMOUR's. He also took the view that he would be supported by Charles SALTZMAN. He seemed to base this more on SALTZMAN's reputation, than on his personal relations with him. He did state, however, that he and SALTZMAN had at one time been on the same divisional staff together. He spoke highly of SALTZMAN, and stated his opinion that he was by nature, quite apart from his brilliance, "really too nice a guy" for the sort of infighting this business requires.

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c. Apart from the future prospects raised by his talk with ARMOUR, GROUNDHOG was optimistic as to the future on another count. Although he had previously stated to me that the current appointment of General Mark CLARK was merely a "whitewash" of CIA, he now stated that he understands CLARK and his group will not only examine CIA, but all other similar organizations as well. In addition, he also understands they will talk to people outside of CIA, concerning CIA. He therefore feels there is every prospect of his being given a chance to testify before CLARK's group. This appeared to please him immensely, since, he stated, he has 50 witnesses prepared to testify against CIA, and a list of 172 (repeat 172) errors committed by CIA.

d. He was as bitter as ever against General Bedell SMITH. He said that the State Department now has a rule that only the most urgent things may be sent by cable to Paris, all else going by surface. Interestingly enough, in this connection he absolved PUERIFOY of all responsibility for the disgraceful state of the administration of the State Department in past years, making the point that the situation antedated PUERIFOY, and continued after his departure to greener fields. This is significant only because it reminds me of his earlier relationship with PUERIFOY, and suggests he still hopes someday to gain something therefrom - if he is not doing so now.

e. He had no views to express on General CLARK personally, except that he repeated several times that he was supposed to go along as the technical expert and interpreter on CLARK's now well known junket, (which he said hardly qualified CLARK as an expert on CIA and its activities, contrary to the "press release put out by CIA" to this effect). This reminded him, however, that Julius HOLMES had eased him out of this assignment, although he added that it was only fair to state that his medical record had been looked into and the fact of his arthritic back brought up as an objection to his going along. (I asked about this, and he said he rarely has an attack, but when he has them he is absolutely immobilized.) He continued - in all modesty - that he was certain that if he had been on the trip the results would have been much better than they were. He stated that CLARK and HOLMES had made the wrong appeal to the conferees, and that he would have made the appeal, based on his exceptional understanding of the conferee's national character, to their realism.

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f. At one point I made an inquiry about Colonel Sosthenes BEHN and IT&T, (having made the error of mentioning IT&T as a possibility in my own future, and then, remembering his connections, realized I had to recoup). He stated that during the war he had found out that BEHN had access to food cans, and through them was keeping in touch with his people in occupied areas. He had, therefore, gone to BEHN in an effort to enlist him into his work. BEHN had refused, and GROUNDHOG had then said he would confront him with the proof. BEHN still demurred, but gave a luncheon in GROUNDHOG's honor. Subsequently, GROUNDHOG was summoned by General STRONG, who said that he had a commendation for him from the White House. It seems that in a conversation to the White House, BEHN had praised GROUNDHOG to the skies. The result, apart from the commendation, however, was that the White House thought, and General STRONG agreed, that GROUNDHOG should be removed from liaison with IT&T. GROUNDHOG told this story in sheer admiration of BEHN. He added that subsequently BEHN offered him a postwar job, but he gave no explanation of why it fell through.

(1) The foregoing story led to discussion of Robert VOGELER. GROUNDHOG said VOGELER was "a stupid man", and the fact was that he was engaged in industrial espionage - chiefly against the PHILLIPS interests. He didn't realize, said GROUNDHOG, that this was just as much a crime in the eyes of the Hungarian Government as any other variety. Furthermore, he said, VOGELER was offering terms to the Hungarian Government vastly more generous than PHILLIPS was willing to offer, so generous in fact that the State Department turned them down. (It was obvious at this point that GROUNDHOG had forgotten how he got access to the IT&T proposed contract. I have already told ANGLETON this story.) GROUNDHOG then said: "Technically, you could say I pulled the string on VOGELER." I kept quiet, and after a little reflection, he said: "I didn't, of course, but - ". I didn't pursue this line further.

(2) He went on, however, to inveigh against the tripe which VOGELER had subsequently published in the Saturday Evening Post - a viewpoint in which I could only concur. He said that as a sequel to VOGELER's articles he had gone to the editors of the Saturday Evening Post, on behalf of PHILLIPS, and demanded a retraction of certain of VOGELER's statements concerning PHILLIPS. The IT&T lawyers had

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replied with a refusal, whereupon, according to GROUNDHOG, he produced a photostat copy of the IT&T proposed contract with the Hungarian Government (see my story on this to ANGLETON!!) and had thereupon been given the retraction. (I personally don't recall any such retraction appearing in the Saturday Evening Post, but I am certain GROUNDHOG did misuse the IT&T contract to which he had been given access through his official activities.)

g. At the end of lunch I said that I assumed that his going out of business meant he would not be interested in the reports I had brought back from Europe. He said, "What reports?" When I reminded him of our July 12 conversation in which I had said that I had come across an old, and reliable, associate, who had a great deal of material, but insisted it not be given to CIA, he said that of course he was interested. He said the situation was such that, with reference to his conversation with ARMOUR, and the factor of General CLARK, he might well be back in business sometime in the future. Accordingly, I returned to his office in order to give him the reports. I gave them to him casually, merely remarking that if he was interested he could keep them, but if not would he please return them to me so that I could send them back to the owner. He looked at them, and then asked whether they were refugee material. I said they were, and reminded him that the source was a friend of a man who had worked for GROUNDHOG and myself, most satisfactorily, but who has subsequently left Europe - (I had told him all this on July 12) - and that this friend has since been at work on his own. He replied that he certainly must have been passing the reports somewhere during these years, to which I replied in the negative, pointing out that this man's operations had apparently only recently reached a point where returns were coming in. While I spoke warmly of this man as a person, I indicated indirectly, but unmistakably, that I myself had no interest in his work, was certainly not sponsoring it, and had only agreed out of friendship for the man to see if some outlet other than CIA existed.

(1) After glancing at the reports, GROUNDHOG said:
"I tell you what I'll do. I'll send these along to some of my friends and have them evaluated, but by one of the Western intelligence services, as I am cut off from Washington. That way we'll know whether the stuff is any good". With that, he dashed out of the office, saying, "Let's get these in the mill right away". He returned in a few minutes, closed the

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door, and said: "Here's the situation. If the stuff is any good, perhaps you can stall this guy along; if it's no good we don't want it anyway. This way we'll find out. The answer at the moment is: "No, I am not interested', but by, let's say January 1955, I may very well be."

(2) After a little desultory conversation, one telephone interruption to that evening's date - she didn't want to go to the theatre - and a long interruption from one of his staff men who it seems has a private detective's license, and in the course of which there was a great deal of talk about someone who had worked for the Goodyear Aviation Division, and was applying to GROUNDHOG for a job, a CIC man who had been in to see him - also apparently for a job, though I'm not sure of this - and much effort to reach Messrs. WAXMAN and BROWN on the telephone, following all of this, I said facetiously: "I trust you're not going to give those to Otto JOHN for evaluation". He laughed and said: "In 1952, we tipped off both CIA and the FBI that he was a Soviet Agent. We particularly informed the FBI on the occasion of his first scheduled visit, which didn't come off, that despite (sic!) his CIA sponsorship his real purpose was to engage in Soviet espionage."

h. As my visit to GROUNDHOG's office was drawing to a close, I said, as lightly as possible, but with an edge of bitterness, "Well, when you're testifying before General CLARK and come to the question of Frank WISNER, don't hesitate to let me know". His reply was instantaneous: "What do you know about him, about his Commie or liberal past?". (Author's note: It would seem that if these jokers carry the day, the American "liberal" is due for an uglier fate than his British counterpart, whose ostracism has been limited to stomaching the spectacle of his political party disappearing, but leaving undisturbed his personal status as a loyal and honorable, albeit archaic, eccentric. End of Author's note.) I replied that I knew nothing of that, but that although WISNER was a capable man, he lacked moral courage, and always took the view propounded by the last man in his office. I added that he had, of course, pulled a very raw deal on me personally. He lost interest at all this, but ignoring that, I continued to mutter something about: "Of course, this girl I saw in Paris is really burned up at him, and she worked for so long in his office she knows a great deal about him and his mistakes," and so on. Simultaneously, I was walking out of his office, and he grabbed me back into his office, shutting the door, and asked, with a great renewal of interest: "Who is this girl?"

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(1) I said I couldn't tell him her name, which irritated him no end, as, he said, certain newspapers are now prepared to go all out to attack CIA. I said I would tell him the story, and he would then appreciate that I couldn't reveal the girl's name. I then told him this girl had worked in WISNER's office when I was around there, that she had been involved with WISNER, that I had then become involved with her, not knowing about WISNER, WISNER had then found out about me, and my difficulties with him had then occurred. Meanwhile, she had been banished to a lousy job, and then when I came home from abroad, she had been sent to Paris, where she is now. I added that it had been nothing serious, but that we were still very good friends, and that quite apart from all that she was a very intelligent person who was horrified to see the errors being made by CIA daily in Paris.

(2) He became very sympathetic, and then asked if she would be willing to tell her story to a newspaperman. I expressed horror, and pointed out that quite apart from the fact that I didn't want anything to do with such things at the moment because of my own personal difficulties - which I have never explained to him - this girl was in a very difficult position because she had to have this job and had nowhere else to go. He said she need have no fear of any newspaperman he sent to her, and in any event newspapers had a better tradition of protecting sources than CIA or similar groups.

(3) he then apparently had a better thought: he stated that he was sure I would understand that he didn't want to two-time me with the girl, (!!!!!) but wouldn't it be a good idea if he talked to her himself? After all, he could probably get more out of her. After a little reflection I said this struck me as much better - it wouldn't scare her as a newspaperman would, and if I wrote her that an old friend of mine was coming to talk to her, who was very able and knowledgeable in these matters, she would, I felt sure, be willing to talk. I added that I would be willing to write and ask her, if he could assure me, and assure her as well, that if anything were to happen to her he would see that she got another job, and as good a one as she now has. He assured me of this, and seemed delighted with the arrangement. He said he would be going to Paris at the end of August or early September, and would want to see her then.

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i. CONCLUSION: We parted on the following arrangement:

(1) REPORTS: He will get in touch with me when he has some word on the evaluation of the reports I gave him.

(2) ZORINA: I will get in touch with GROUNDHOG when I receive a reply to the letter I am writing her asking her to see GROUNDHOG and talk frankly with him when he comes to Paris end of August or early September.

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You will notice from paras. 10 g and h that your plans are beginning to bear fruit. I trust that when ANGLETON returns we can have a conference of some sort, at which you will confide as much as you feel possible of your long-range effort in this thing, since it holds, I feel, magnificent possibilities of getting very sticky indeed. I have now put up two fictional characters, both of which have been grasped by GROUNDHOG - although it took two feedings, I'll admit - and the prospect is that we will have to deliver on one or the other, or both, in the foreseeable future.

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REPORTS:

1. On July 27 I gave GROUNDHOG the following reports:

- (a) Miscellaneous military information.
- (b) Appointments in the Ministries of Defense and Foreign Affairs.
- (c) Officials Past and Present of the Ministry of Information.
- (d) Press Agencies.

2. These four reports I selected from the nine you originally passed to me (the first two have to do with Bulgaria, the second two with Czechoslovakia). I have the other five reports in my possession.

3. I told GROUNDHOG I had typed these myself (I gave them to him in precisely the form they were passed to me) and I had additional material which I had not yet typed.

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