SPY CAPITALISM
ITEK AND THE CIA

JONATHAN E. LEWIS
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THE BATTLEGREEN INN

Could he save the company? In May 1962 it was a question that must have weighed heavily on Laurance Rockefeller’s mind.

It was the most dangerous year of the Cold War. Assassins from the Central Intelligence Agency were stalking Fidel Castro, communist insurgencies in Laos and Vietnam were gaining momentum, and the moment of near Armageddon, the Cuban missile crisis, was just months away. Yet Rockefeller, grandson of the Standard Oil founder, John D., and younger brother of Nelson, was about to make decisions critical to the security of the nation. He didn’t hold elected office or serve in a president’s cabinet. He was a businessman, a venture capitalist. And he made this contribution to America’s national security anonymously.

A venture capitalist is a special breed of investor. Not content with the returns produced by mere stocks or bonds, a venture capitalist seeks investments of a higher order. Greater returns can be attained only by taking bigger risks. Namely, calculated long shots. For the venture capitalist this can mean providing capital to the kind of small, start-up company that often can’t get a loan from a bank. But if the company succeeds, the payoff can be huge.

Laurance Rockefeller was a different kind of venture capitalist. He believed that there was a strong link between the quality of American technology and the credibility of U.S. national security. Jets, rockets, and nuclear bombs could make America safe. But only as long as the jets were faster, the rockets stronger, and the bombs more powerful than anything
the Soviet Union could build. Rockefeller wanted to achieve a high return on his investments, but his primary goal was to invest in technologies that would strengthen U.S. national security. As an heir to one of America’s great fortunes, he had sufficient means to pursue his vision, and the acumen to build a staff that could implement it. Rockefeller invested in jets, rockets, and nuclear research. And along the way he multiplied his millions. Suddenly, one of Rockefeller’s best-performing investments was on the verge of collapse. The company was Itek.

In response to the emergency, Rockefeller had just flown up from New York City in his private plane and landed at a small airport outside of Lexington, Massachusetts. A driver in an unmarked car belonging to the Itek Corporation took Rockefeller the short distance to a small Lexington motel. The Battlegreen Inn, as it was aptly called, bordered the historic field where almost two centuries earlier, the minutemen took their stand against the British in the effort to gain America’s freedom. That evening Laurance Rockefeller would take a stand of a different kind to preserve it. Rockefeller was scheduled to attend an emergency meeting of Itek’s board of directors. Although Rockefeller wasn’t on the board, he was Itek’s largest shareholder.¹

Founded in 1957 with seed money from Rockefeller, Itek was the kind of investment that venture capitalists dream about. In the first three months of the company’s life, its payroll swelled from a handful of executives to more than one hundred scientists, engineers, and technicians. By the end of the company’s first full year of operation, revenues and profits soared from zero into the millions. And when Itek decided to sell its stock to the public after less than two years in operation, investors were eager to buy their share of what the financial world considered a miracle company.²

Wall Street analysts, journalists, and investors alike believed that Itek was leading an information revolution that would sweep America into the future. The company’s crisp-sounding name was a phonetic contraction of the very words information technology. The investment community bought Itek’s story and they also bought the stock. Less than eighteen months after the initial offering, the price of a share of Itek’s stock had soared from $2 to more than $200 a share.

Itek’s tale was more than breathtaking; it was, in part, a cover story.
Wall Street tycoons and main street investors who owned stock from 1958 through 1962 had scarcely an idea about how the company made money. They didn’t know the true source of the company’s profits or the name of its biggest client.

Laurance Rockefeller knew.

Itek was the most sophisticated manufacturer of reconnaissance cameras in the world, and its products were the crown jewels in the most important CIA program in U.S. history—Project CORONA. CORONA was the code name for America’s first spy satellite program. Itek cameras, launched into orbit aboard Lockheed rockets and returned to earth in a General Electric capsule, took photographs of the Soviet Union from more than two hundred miles in space. Analysts at the CIA’s National Photo Interpretation Center used the photographs to locate Soviet missile sites and to develop overall assessments of Soviet military strength. Information obtained by Itek cameras was critical to U.S. national security. So was Itek.3

Now the company was in a state of crisis. The crisis had been brewing for months. After three years of consecutive record growth in earnings and revenues, the company reported a surprising loss for fiscal 1961. The stock price was down and a painful restructuring was on the drawing board. These were symptoms of troubles far greater than either the investment community or CIA officers at the time would ever know.

A key group of Itek scientists, engineers, and executives wanted the board of directors to fire Richard Leghorn, the company’s president. Leghorn was the visionary entrepreneur who had made Itek possible. He had developed the company’s original business plan and persuaded Rockefeller to invest in it.

The mutineers, as the scientists termed themselves, demanded a meeting with the board to state their case. Members of the Itek board quickly assembled to hear their story. The mutineers explained that Leghorn was hurting the company. And hurting Itek meant endangering national security. Leghorn, the mutineers insisted, had to go.

Under ordinary circumstances, the men on Rockefeller’s handpicked board of directors would keep the president and fire the mutineers. After all, the board was filled with men who had served in high levels of government and the military, or were members of old-money families.
conservative world, the sanctity of the corporate command structure was unquestioned.

The board faced a difficult problem. The mutineers comprised some of the top scientists and engineers in the country. If the situation at Itek deteriorated any further and affected their work—or worse, if any of them left the company—the single most important national security project in the country would be seriously jeopardized. Would the board back Leghorn or the mutineers? As Laurance Rockefeller arrived at the Battlegreen Inn, it was probably not yet clear in his own mind what course of action he would choose.

The Itek board of directors meeting began that night at about 8:00 P.M. Not long afterward, the mutineers marched in to present their case. The national importance of the decisions to be made that day in Lexington was unquestionable, yet no representative of the CIA, the Department of Defense, or the National Security Council was present. No government officials were aware of the meeting, and no security officials swept the room for listening devices despite the acutely sensitive nature of the meeting.

Albert Pratt, former assistant secretary of the navy and current partner with Paine Webber, was chair of the board’s executive committee and ran the meeting that night. Laurance Rockefeller listened quietly as scientists and engineers like Walter Levison, Dow Smith, and John Wolfe presented the case against the man who had founded and built Itek. Wolfe stood up and faced Rockefeller. Where had he been the past year? Why had he allowed the company to nearly disintegrate? Surely, this was not treatment to which a Rockefeller was accustomed, certainly not from an employee of a company that he controlled. As the meeting wore on, Leghorn’s supporters waited in the hallway for their turn to speak.

That evening, Frank Lindsay sat at home and considered his future. One of the few American spies to penetrate Hitler’s Third Reich, Lindsay was a risk taker. Now he was Itek’s executive vice president. He joined the company after leaving a job at the prestigious consulting firm McKinsey and Company. That evening he wondered whether this gamble was a mistake. Technically speaking, he was the number two man at the company. In actuality, he felt like an outcast. When he had left his job as a McKinsey consultant to join Itek, he had had high hopes for his
future. Now, almost a year later, he had yet to make his mark at the company. He had no operating responsibilities and spent most of his time on long-range planning documents. Leghorn had effectively shut him out, and Lindsay was thinking of resigning. The idea of leaving the corporate world and becoming a professor at his alma mater, Stanford, seemed attractive.

Yet Frank Lindsay was an unlikely professor. Although Lindsay was a soft-spoken, articulate man, above all else he was a man of action. Given his temperament, it seemed unlikely that Lindsay would spend the Cold War on the sidelines as a professor, or in a corporate staff position—precisely his two career options at that moment.

Late that same night, the telephone rang at Lindsay’s house. It was Albie Pratt.6

Why should we care what Pratt told Lindsay that night? After all, Itek is a forgotten name and the company itself was dismantled years ago.

But there was a time when Itek was one of the great glamour stocks on Wall Street. At its peak, Itek’s fame rivaled the notoriety, and the price-to-earnings ratio, of the top Internet stocks of the great NASDAQ bubble of the late 1990s. Its name was splashed across the front pages of The Wall Street Journal and Business Week. Its virtues were extolled in the likes of Barron’s and Forbes. Yet the significance of Itek’s story goes well beyond its value as a stock market parable for all ages.

In part Itek deserves to be remembered because of its historic contributions to U.S. national security. Without question, Itek’s camera technology was critical to the success of the CORONA spy satellite program. When Itek’s cameras began clicking in space during the summer and fall of 1960, the photographs they produced tore the Iron Curtain to shreds. The Kremlin’s ability to keep great military secrets was destroyed, and the myth that a missile gap existed was shattered. Pictures taken by Itek cameras helped Presidents Eisenhower, Kennedy, Johnson, and Nixon to better understand the nature of the Soviet threat, and to effectively structure America’s defense posture in response.

But just as Itek cameras helped secure America’s defense, they also paved the way to peace. Technology developed at the company allowed the CIA to monitor the Soviet Union’s intercontinental ballistic missile
forces. Thanks to Itek’s cameras, U.S. diplomats were confident that verifiable arms control agreements could be negotiated with the Soviet Union. When President Nixon signed the Strategic Arms Limitation Treaty (SALT) with Soviet Premier Leonid Brezhnev in 1972, the world became a less dangerous place. It would not have happened without Itek’s technology.

Itek’s birth in 1957 heralds the rise of the intelligence-industrial complex. In the history of the CIA, the period of the 1950s and early 1960s was a golden age of daring innovation led by the visionary Richard M. Bissell Jr. Manager of the U-2 program, architect of the SR-71 Blackbird, and artificer of CORONA, Bissell ripped government red tape to pieces and pulled the CIA from the era of Mata Hari into the space age. Along the way he built a pioneering partnership between business and the CIA that harnessed the ingenuity of the nation’s industrial base to achieve important intelligence objectives. Today, as the CIA again seeks to leverage the best ideas in the private sector, Bissell’s management approach remains fresh and relevant.

Unlike many other firms that became key CIA contractors, Itek was a start-up company. During this period Itek had to overcome a series of technical, financial, and managerial problems in order to grow and survive in a world of industrial giants. For the company’s executives, the pressure of being a contractor on the most important national security program of the time was magnified by the challenge of managing a new corporation.

In order to build manufacturing facilities and research laboratories, Itek needed capital. At first Laurance Rockefeller provided it. Itek’s story, written in large measure from his papers, offers a rare glimpse inside his trendsetting venture capital operations. Later the company turned to the American public for funds. But management could never tell the vast majority of its shareholders about the true nature of Itek’s business. During this critical period, which lasted from 1957 to 1965, management made many difficult decisions as it balanced the need to keep secrets, grow a company, and meet shareholders’ interests.

Told from documents never before available, Itek’s story provides an inside look at a company positioned at the crossroad where business and espionage intersect. As a result, its story helps us to understand the ques-
tions raised by the CIA’s partnership with business. In working behind a cloak of secrecy, for example, did management work more wisely, or more recklessly? Did company executives guard the best interests of shareholders, the CIA, the nation, or themselves? And when the interests of these constituencies diverged, was it possible to reconcile their differences?

Before these questions can be answered, at least from Itek’s perspective, it is important to place the company in the context of its own place and time. The men who founded and managed Itek were all veterans of World War II. Richard Leghorn, Itek’s president, flew dangerous reconnaissance missions over Normandy and brought back intelligence that General Eisenhower used to plan for D-Day. Franklin Lindsay, Itek’s executive vice president, was among the first American spies to penetrate the Third Reich. The lessons and ideological values men like Leghorn and Lindsay learned during the war shaped the way they looked at the postwar world and influenced how they managed the company as well.

Although World War II was the shared experience that bound Itek’s management team together, their operating environment was the early years of the Cold War. It was a time when the Soviet Union loomed large in the minds of all Americans and the very existence of the United States seemed threatened.

In a time of great danger, men who might ordinarily have led quiet lives chose to live with an uncommon purpose. Many of the executives and scientists who worked at Itek and Laurance Rockefeller’s venture capital operations were such men. They pursued private-sector careers with a sense of civic duty. Yet even in the best of times it was a difficult balance to achieve.

It was a goal that Franklin Lindsay tirelessly pursued. Long before he was a businessman, Lindsay was a commando. The story of his rise through America’s national security establishment in the years immediately after World War II helps to explain why the Soviet Union was such a treacherous enemy and why a company like Itek was necessary. For that story, we must go back in time to 1944, to a plane flying high above Nazi-occupied Europe.
May 14, 1944. Maj. Franklin Lindsay, aboard a British Halifax bomber, prepared to jump out of the plane into German-occupied Yugoslavia. Lindsay was a member of the elite Office of Strategic Services. Established in 1942 by Gen. William “Wild Bill” Donovan, the OSS was America’s wartime spy service. Lindsay’s mission was to join Tito’s partisans and fight the Germans from behind their own lines.

The plane descended to a low altitude for the final approach to the drop zone. The time to jump arrived. Lindsay leaped through the small opening in the floor of the plane and into a 120 mph wind. After a few seconds of free fall, the chute opened and Lindsay could see the Halifax flying back to base. “You damned fool,” he thought to himself, “now look what you’ve gone and done.” If the Germans captured Lindsay, he would probably be executed as a spy.¹

It didn’t have to be this way. Lindsay grew up in Pasadena, California, an only child. Before he was eleven years old, he turned his ankles while playing baseball. The damage was severe. He completely tore the attachment of the Achilles tendon to the heel in both legs. The next two years of his life were spent in a wheelchair. Unable to climb up the steps that led to his classroom, Lindsay was carried in each day by the school janitor. It was a humiliation he would not forget.

Unable to play baseball or sports of any kind with his friends, Lindsay devoted his energies to his studies. It was a habit that lasted long after
his legs healed. When he graduated from high school, Lindsay finished near the top of his class. His next stop was Stanford University.

At college Lindsay was drawn to engineering. He wanted to build, to shape the world around him, but in a practical way. At the same time, he was increasingly concerned about growing tensions in Europe. In the summer of 1938 he traveled to Germany for a firsthand look at Hitler’s Third Reich and was appalled by what he saw. After graduation he worked for a year at U.S. Steel as an industrial engineer, but decided to return to Stanford for business school. Then in 1940 France fell to the Germans. Lindsay left school and volunteered for the army; by 1941 he was sent to Washington to work in the U.S. Army Ordnance Department.

Lindsay soon found himself working to solve manufacturing problems for the army. Copper shortages were slowing the production of cartridge cases and small arms. Lindsay, a young second lieutenant, stepped into the breach, and from his office on the south side of Constitution Avenue he wrestled with the laws of supply and demand. Helping American copper producers more efficiently allocate their inventory to industry, Lindsay made sure the factories never had to slow their assembly lines due to a supply shortage again.

Lindsay was transferred overseas in late 1942. He was sent to Iran. By this time a German offensive had forced the Soviets to retreat all the way to the Caucasus. In order to launch an effective counteroffensive, the Red Army needed new supplies, and fast. If the Red Army didn’t hold the line, the Germans would break through into the Persian Gulf, gain control of vital oil fields, and obtain a commanding position in the region. Lindsay’s mission was to set up a truck assembly plant in Iran, train a local labor force, and then send truck convoys filled with supplies to the Soviet Union. Time was of the essence.

Lindsay’s workforce lacked education and technical skills of any kind. And with few army interpreters who spoke Persian, crude sign language was the only way for Lindsay and his sergeants to communicate with the workers. Yet somehow Lindsay’s factory was soon reaching its production targets.

After a string of initial successes, Lindsay became fed up with factory
life. At the beginning of the operation it was a small command, and Lindsay had independent authority. But as time went on the operation became more bureaucratic. He wanted out. A chance meeting with an officer from the U.S. Command in Cairo led to a transfer there. On several occasions he ran into officers in Cairo who were in the OSS. Cairo was the center for Allied military planning for the Balkans, and the OSS operatives were beginning to prepare for commando operations there. Lindsay was intrigued by their work and they were intrigued by his engineering knowledge, the kind of skills that might prove handy when a bridge needed to be destroyed. Soon he was a member of the OSS.4

When Lindsay joined he knew it would be dangerous. But it also offered him a chance to “break out” of the “mass anonymity” of the army. As Lindsay recalled years later in his memoirs, “I sensed in ways that could not be charted it would change my life after the war and it did.”5

As Lindsay floated toward the ground, he could see the fires marking the drop areas set up by the Partisans. He had succeeded in breaking out of the anonymous life of the army; he was now an elite commando.

Lindsay hit the ground and quickly took off his parachute. He saw flashlights in the distance. They might be Germans. Lindsay had little choice but to signal back with his flashlight and pray.

It was the Partisans. Within days, Lindsay had traveled with them to the border that separated German-occupied Yugoslavia from the Third Reich itself. If he crossed the border successfully, he would be one of the first Americans — perhaps the very first — to infiltrate the Reich since the start of the war. The crossing could be made only at night. When the sun began to set that evening, the Partisan leader outlined his plan. Thirty men would escort Lindsay to the border. There they would find a death zone of double barbed-wire fence, minefields, patrols, and watchtowers. After sunset, an advance party would cut a path through the fences and the mines, and local Partisans would scout the area for enemy patrols.6

At the outset of darkness Lindsay and the Partisans began their single-file advance to the German border. After a long walk, they could finally see the barbed wire illuminated by the white glow of moonlight. The leader of the Partisans stopped the column. He declared that each man was to follow the exact path of the man before him. A step in the wrong direction and a mine would be detonated, a body would explode, and
the Germans would kill the survivors. That night they crossed the frontier. But the sense of victory was fleeting. They soon made a chilling discovery. One of the men in the column had silently dropped out of sight.

The following day, Lindsay was shaving outside a farmhouse when his group was surprised by a German patrol. The Germans attacked the farmhouse with machine-gun and mortar fire. Lindsay ran back into the house. The Partisans were already gone. He had a bad feeling, but there was no time for fear. He simply had to “get the hell out of there.” He quickly located his gun and his pack. Then running out the door, he ran up a steep slope, with bullets hitting the grass all around him, and followed the Partisans into the forest. The Partisans had been penetrated. The man who had dropped out of the column the night before had alerted the Germans that an American spy was in their midst, and now they were coming after Lindsay.

As Lindsay and the Partisans spent the day in the forest, waiting for night before making their next move, a courier reached them with more bad news. A large force of German troops was preparing to encircle them. They had to make an immediate break out of the forest or face capture, or worse. After a dangerous night evading the Germans, they broke out of the forest and reached safety.7

Now Lindsay’s real mission could begin. His objective—to blow up German railway lines deep in the Third Reich. If he could accomplish his mission, Germany’s strategic ability to move troops quickly to and from the eastern and Italian fronts would be seriously compromised. Lindsay and the Partisans embarked on a series of daring attacks against the German rail system, and the Nazi war machine was dealt a damaging blow.8

Lindsay’s initial experience with the Partisans was exhilarating. Day after day he was alternately fighting, marching, fleeing, sleeping, eating, drinking, and mourning with his Partisan comrades. The bonds that developed between Lindsay and the guerrilla fighters were genuine. But they went only so far.

Over time Lindsay concluded that the Partisans were using him. As Lindsay fed his superiors a stream of positive reports on his commando raids with the Partisans, the Allied Command grew increasingly confident
that they were a capable fighting force deserving of increased support. The once-erratic pace of airdrops turned into a steady stream of supplies. Guns, explosives, ammunition, all reached the Partisan army in increased quantities, strengthening their firepower and their ability to fight.

But they didn’t. By the fall, Lindsay realized that the Partisans were saving the supplies in “mountain bunkers.” They were preparing for their next battle, after the Allies defeated the Nazis. Then the real Partisan campaign would begin, a campaign to create a Communist Yugoslavia led by Marshall Tito. Lindsay tried to get the Allied Command to turn off the supply spigot. Yet the same military bureaucracy that had been slow to respond to Lindsay’s requests for aid was equally sluggish in stopping the shipments.

Lindsay’s preconceptions about the Partisans had been completely shattered. Before he made his fateful jump to join them, Lindsay had believed that he was teaming up with a guerrilla army fighting for the liberation of their country. Now he saw the Partisans for what they really were: “a nationalist Communist political movement.” They used their training camps as “centers of political indoctrination” and to enforce “police control” of the civilians. In order to spread their Communist ideology, almost all the major Partisan units had their own printing presses, which were more closely guarded than their few artillery pieces. And as the Germans withdrew, the Partisans ruthlessly eliminated all potential challenges to their leadership.9

By the time Lindsay left Yugoslavia, he had received a complete education on Communist tactics and strategy. Lindsay’s expertise made him a valuable man. Before he returned to the United States in late 1945, Lindsay made an appearance at the Council of Foreign Ministers meeting in London that fall. Robert Joyce, head of the OSS mission in Switzerland, arranged for Lindsay to serve as an adviser to the U.S. delegation. The purpose of the meeting was to continue the work begun at Yalta—the creation of a postwar international order. Yugoslavia was likely to be a continued flashpoint, and Lindsay’s knowledge and growing reputation earned him a place at the conference.10

Lindsay’s role at the conference was limited, but through his participation, his contacts and reputation continued to grow. By early 1946, after leaving the OSS, he briefly flirted with the idea of getting a doctorate
in economics at Harvard. Instead, he soon found himself working for the famed Wall Street speculator—and presidential adviser—Bernard Baruch.

Barely two weeks after Winston Churchill’s famous Iron Curtain speech, President Truman handed Baruch one of the great political footballs of the century—trying to figure out a plan to control the spread of atomic weapons. Baruch, now the U.S. representative at the United Nations Atomic Energy Commission, was widely respected by the American public. And, he had the ability to communicate complex ideas in plain language that the public could understand. If anyone could credibly explain to the nation the vital importance of crafting a policy on the international control of atomic energy, it was Baruch.

Baruch quickly built a staff to support his efforts. In addition to Ferdinand Eberstadt, John Hancock, and Fred Searls, he hired Franklin Lindsay. Negotiations with the Russians would be critical to Baruch’s success, and Lindsay had already built a reputation as an expert on Communist tactics.¹¹

Much of the work on developing America’s atomic energy policy had already been done. A group headed by Dean Acheson, the undersecretary of state, and David Lilienthal, head of the Tennessee Valley Authority, had finished a report on the subject just days before Baruch’s appointment. The report recommended that a new international agency, the Atomic Development Authority, be created to “exercise world control over atomic energy.” All the world’s uranium mines and processing plants would be owned by the agency. As a sign of good faith, America would turn over to it the only atomic bomb factories on earth.¹²

It was an idealistic plan. Though Baruch adopted many of the proposals in the Acheson-Lilienthal report, he made an important revision. The original plan contained no provision to stop a nation from violating the agreement. Such an omission was optimistic at best. In a dramatic radio address Baruch explained, “We must provide the mechanism to assure that atomic energy is used for peaceful purposes. To that end, we must provide immediate, swift, and sure punishment of those who violate” the agreement. The old speculator’s proposal, outlined to the American people in stark and simple terms, quickly became known as the Baruch Plan.¹³

America applauded Baruch’s speech, but Andrei Gromyko, speaking