

# CIA STIFFED MERLIN ON HIS SPY SALARY

Bob S – the guy in charge of the Merlin operation – appears to have made a false claim under oath at the Jeffrey Sterling trial.

| Year | Annual Payment |
|------|----------------|
| 1994 | \$12,745.85    |
| 1995 | \$112,000.00   |
| 1996 | \$100,500.00   |
| 1997 | \$88,750.00    |
| 1998 | \$48,750.00    |
| 1999 | \$71,000.00    |
| 2000 | \$66,000.00    |

To be fair, I think he told a lot of fibs – shading his description of a program that was an operational disaster as something less laughable, even as walking the court through documents that (upon a close read) make it clear how laughable the program was. And I suspect – though cannot yet prove – that he engaged in far more serious deceit while testifying against Jeffrey Sterling under oath.

But according to CIA's own records, Bob S was not telling the truth when he claimed, repeatedly, "our record keeping was better than" Merlin's about his complaint, in early 1999, that he hadn't been paid his full salary the previous year was incorrect. He was not being fair to Merlin when he claimed, when Merlin complained again in early 2000 – just weeks before Merlin would travel to Vienna to hand the Iranians a newspaper-wrapped nuclear blueprint – that was "getting cocky" when he demanded he get paid his salary.

To be sure, Merlin also appears to have bilked the CIA over the years, charging them for things like his long distance phone line and a \$200 modem, presumably as a way to increase his take from the Agency.

But the CIA knew Merlin was working with them for the money. “[M]’s operational motivation for this activity is almost purely financial., and his desire to continue earning income from [CIA] something that [M] was very frank and honest about during his meeting with C/O and CPD officers,” his then-handler Laurie D wrote in a cable (Exhibit 5) pitching him for the operation in January 1997.

In spite of the importance of money to Merlin’s motivation, they do appear to have botched their record keeping, every bit as much as Merlin. And it was an issue that – even according to Bob S – poisoned the working relationship between Sterling and Merlin. But it also appears to have made Merlin much less willing to do what CIA wanted him to do.

On February 24, 1999 (Exhibit 21), Sterling and Merlin met for 3 hours. During the meeting, Sterling paid Merlin “one-third of his ’98 salary (USD 20,000.00)” but then reminded Merlin that he could only be reimbursed for things tied to his work with the CIA and expressed confusion that Merlin was billing the CIA for two phone lines when he should only be billing for the one tied to Internet access (by this point, Hotmail). “From that moment on,” Sterling told Merlin, “[M] would only be reimbursed for the phone line dedicated for use by [M] in furtherance of the project.”

Merlin responded by noting he had been making the same amount (so, presumably \$60,000, though Langley disputed that in his testimony) for two years, and “some adjustment may be in order.” Merlin suggested that a raise would do away with his need to charge the CIA for petty expenses like the phone line. While an entire paragraph of this discussion is redacted, in response, Sterling and the New York office recommended he get at least a \$250/month raise, and asked Langley to consider Merlin’s request for life insurance, given that he was contemplating meeting Iran, which raised some risk.

On March 16, 1999, Sterling explained (Exhibit 22) that Merlin's new agreement "will include an increase of USD 1000.00 in his monthly salary. [Sterling] said that with such a sizable raise, there would be some changes with regard to the reimbursements that [M] has been receiving. [Sterling] explained that [M] would not longer be reimbursed for phone expenses related to his use of the Internet for the project." And Merlin was on his own for life insurance. Again, almost a paragraph of this financial discussion is redacted, but that should have raised Merlin's salary to either \$72,000 (if the \$60,000 Sterling used) or \$67,000 (using the disputed amount) once he signed his new agreement.

On April 12, 1999 (Exhibit 23) – less than two months after handing over "one-third of his '98 salary (USD 20,000.00)," Sterling "had to inform [M] that the balance of his 1998 salary is USD 55,000.00 as opposed to 60,000.00." So Merlin did what any underappreciated worker might do. "[M] threatened to quit since the money discrepancies seem to crop up every year. [Sterling] immediately challenged [M] on his statement asking [M] if he was ready to quit based on a mere USD 5,000.00 (especially in light of the total amount of his salary). [Sterling] requested a point blank answer from [M] on what his actions will be. [M] calmed down and said that he is weary of the same pay discrepancies occurring year after year, but said he will not quit the project."

Sterling went on to suggest he, as the case officer, might not have been entirely certain what was going on. "[Sterling] told [M] that the reason for the discrepancy will be found, and that it is not beyond the realm of possibility that [M] has already been paid for one month out of '98 that would make his '98 total USD 55,000.00. [M] then signed a receipt for USD 35,000.00. To date, [Sterling] has paid [M] USD 55,000.00 representing his 1998 salary."

Most of the following paragraph is redacted, though it speaks "also" of a "M/2's" status

update – perhaps a reference to Merlin’s wife, who was also a CIA asset.

On May 5, 1999, Sterling seemed to confirm that Merlin had been correct (Sterling appears to have used the wrong date in paragraph 2). (Exhibit 24) “[Sterling] paid [M] USD 5,000.00 as the balance of his 1998 salary (USD 60,000.00). [Sterling] believes that the previous confusion with regard to the amount of [M]’s 1998 salary was based on the fact that his [agreement] spans a Feb – Jan timeframe which is somewhat different from the normal fiscal year timeframe of Jan – Dec.”

There’s a big jump in cables before the next meetings described, in part because the government didn’t introduce the July to October ones into evidence, in part because Merlin went AWOL for the month leading up to a November 4, 1999 meeting. From what we see of cables between November and January, though, money issues don’t arise again until January 10, 2000, at one of what appears to be the first meetings in a while where Sterling meets with Merlin without Bob S as well. As Sterling notes in the summary of the meeting (Exhibit 35), “Despite the progress made and [M]’s apparent readiness, issues related to [M]’s salary [redacted] have placed doubt as to whether [M] is willing to continue with the project.” Here’s what Sterling had to tell Merlin just weeks before he was supposed to deliver a nuclear blueprint to Iran in Vienna:

[Sterling] took pains to explain to [M] in a reasonable fashion that the current payment scheme was causing problems and that a new structure had to be introduced. [Sterling] also explained that [M] would be receiving a [“additional information regarding his 1999 salary” replaces 3-4 redacted lines]. [M] had no difficulty that his future salary would be paid to him as earned [one line redacted] [Sterling then told [M] that as a result of the measures being taken to correct his

salary situation, review of his salary history indicated that he had been overpaid by USD 5,000.00 in Feb '98. And, as a result, his '99 salary would have to be reduced by 5,000.00. [Sterling] had 60,000.00 for [M] representing Feb -Nov '99 (6,000 per month). Though [M] earned 66,000 for Dec '99, this amount was reduced by 5,000.00 per HQS information that [M] was overpaid by 5,000.00 in Feb '98. [Sterling] chose not to bring the remaining 1,000.00 in anticipation that [M] would not understand the reduction in his salary amount. During the conversation, [Sterling] tried to explain that the remaining amount (either USD 1,000.00 or 6,000.00) would be paid at the next meeting once it is clearly determined that [M] had in fact been overpaid by 5,000.00.

[M became incensed and said that [Sterling's] information was not correct. [M] said that the money he received in Feb '98 was for a Dec '97 payment that he had not received and therefore had not been overpaid in 1998 as [CIA] contends. [M] said that he has waited too long for his finances to be corrected and that he did not wish to proceed with project any longer. [M] then proceeded to blame [Sterling] for the salary problems. However, [Sterling] quickly reminded [M] that the difficulties experienced with his finances were a result of activities prior to '99, i.e. before [Sterling] was involved.

After some more back-and-forth, Merlin left the meeting. Sterling called him the following day. And while Merlin was calmer, he still said that "he will not proceed with the project unless and until he receives [additional information about his salary] and USD 66,000.00 that he believes

he is due, or a promise from us that these items are coming to him." In the cable, Sterling and his manager suggested that Bob S travel to NY to explain and resolve it.

Two days later, Bob S wrote back to Sterling (Exhibit 36), apologizing that Sterling had to do the dirty work, but showing little sympathy for Merlin.

HQS regrets that [Sterling] was a victim of the murdered messenger syndrome after bringing (not very) bad news to [M]. Any confusion about [M]'s salary is largely his own fault because he wanted to be paid different parts of his salary in different years. That said, he may be right about the early 1998 payments, and he is evidently quite emotional beneath the stolid surface and not capable of sorting it all out rationally. He has had a lucrative relationship with us since 1994 and is acting in an immature fashion. Nevertheless, we need his services now and [Mr. S] will seek to placate him. We propose paying him the disputed salary. We will carefully consider an appropriate operational bonus upon the successful completion of his Vienna mission.

The next cable, describing a February 14 , 2000 meeting with Merlin (but written by Bob S *back* to NY), revealed that Merlin remained pissy about the salary issues, actually walking out of the meeting at which Bob S was supposed to placate him. Bob S doesn't provide much detail on what happened, describing Merlin's "histrionics" as having to do with "minor proposed changes in his [agmt]," judging that "none of [M]'s desires concerning his [agmt] are show stoppers (cash payment, [redacted] a small disputed sum)," and stating he would bring the previous year's agreement and work off that to a follow-up.

Bob S' account of that follow-up visit (which

Sterling did not attend; Exhibit 38; this time the cable Bob S writes the cable from NY to Langley) indicates "we could meet him halfway on when and how he is paid," though the roughly 4-5 line description of what that means is redacted. Bob S "paid him \$66,000 for his 1999 earnings and provided \$5000 as a travel advance."

Which is what happened immediately before Merlin got on a plane to Vienna and failed to follow most instructions about how he was supposed to hand over a nuclear blueprint to Vienna.

Now, I lay this out not just because it shows CIA's dysfunction again. All the more when you compare the numbers submitted as a stipulation at trial (see above), which make it hard to understand how Merlin is not absolutely correct that the CIA stiffed him in 1998. Even if his salary was supposed to be just \$55,000 and even accounting for the weird accounting he apparently requested, he received less than \$49,000 in a year when 11 months at a \$55,000 rate would have been \$50,416. And at least from the narrative we have, Sterling made all the payments to Merlin that transpired in 1999, and the money that Bob S ultimately paid Merlin would might work out to be \$71,000, but that would not seem to account for his \$1,000 raise. It's possible they changed all that in the redacted bits (or, as CIA seems to like to do, retroactively). But both the confused actions of Sterling and Bob S and the actual numbers compared to the stated numbers in the cables suggests, at best, that CIA's accounting system is just as screwy as Merlin's could have been, if not worse. (Note, the first several years of Merlin's finances with the CIA also don't appear to match the testimony of his first case officer, Stephen B, who said they had a dispute over whether Merlin would work one year for \$150kK or two for \$300,000, the latter of which is what the CIA wanted.)

So there was no reason for Bob S to claim that Merlin was in the wrong. At the very least, CIA's records were so fucked up, neither a case

officer or a program manager could figure this out over months and years. And it at least appears Merlin is in the right (but then, what court can he appeal to?).

At one level, I attribute this to just more Bob S spin – along with his inability to hide his disdain for others and his real need to blame others for the clusterfuck that became the Merlin program.

But it's important to identify because it raises one possible motive for the Merlins to want this story to come out (remember, at first they weren't all that bugged by the book, until they realized Merlin looked bad in it). But it also puts another perspective year-and-a-half leading up to the beginning of Sterling's disastrous end with the CIA. They were treating his job as case officer to fix the financial screw-ups made years earlier. Bob S sent him out to do that alone, and only after came in to rain down cash on Merlin.

It was probably just garden variety CIA (even, generic bureaucracy) screw-ups behind the scenario. But nevertheless, it likely had real consequences both for Merlin's willingness to do his job as ordered and Sterling's feelings about the trustworthiness of the Agency.